

Policy Recommendation for Japan Reconstruction

Agriculture as a Leading-Edge Industry

**Industrial Revolution Beginning in Rural Areas
through the Reform of Agricultural Lands in the 21st Century**

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Is agriculture an impediment to Japan? While other developed countries have attained high value added production, high rate of self-sufficiency and good track records in environmental preservation, the agricultural sector in Japan has totally collapsed. It would be possible to revive the growth potential of agriculture in Japan by withdrawing the conventional policies such as “relief” and “revenue transfer.”

The Japan's success formula after World War II is now defunct. Japan has amassed huge wealth by manufacturing and exporting superb products at low costs with high concentrations of human resources, raw materials and money on large cities while distributing them to local governments by means of public works and subsidies. By leveraging these efforts, the government's policies successfully expanded employment opportunities in local districts and constructed an affluent consumer society. The equability in results helped to stabilize and enrich society further. But now, with fiscal bankruptcy and the advancement of the People's Republic of China, this era of prosperity is likely to come to an end.

Though recent relocation of manufacturing bases in China and the rest of Asia has greatly improved the revenues of large companies, it also has rapidly changed the structure of the international balance of payments. Though Japan's trade surplus now stands at ¥10 trillion, it now has become the world's largest importer of agricultural, forestry and fishery products, with a trade deficit in these products equivalent to ¥7 trillion. If the trade deficit for tourism (now ¥3 trillion, not included in the trade balance) is added, the total deficit amounts to ¥10 trillion, equaling the entire trade surplus. The foreign currencies earned from manufacturing have now been spent on food and overseas travel. Auto making and other manufacturing industries are likely to accelerate the advancement into foreign countries centering on China. As a result, the trade surplus will diminish as a whole, the yen will weaken as a consequence, the weakened currency will drive up the costs of food imports and overseas travel and their volume will reach a ceiling. Japan's dependence on food imports which progressed for more than 30 years is certain to reach a large turning point. At the same time, the employment in manufacturing industries in local areas will decrease.

Despite these scenarios, the Koizumi Cabinet still intends to continue concentrating its economic policies on the Tokyo metropolitan area, curtailing expenditures on local areas, and disposing regional banks without reforming the financial system centering on

banks. If the concentration on large cities with higher costs is accelerated, more contradictions will arise and the burdens on consumers, enterprises, and treasury accounts will only grow. Accordingly, no moves have been made to implement true structural reform to promote the self-sufficiency and autonomy of local governments, to transform the industrial structure, or to eliminate the concurrent trends of rural depopulation and excessive population densities in the large cities of Japan.

Everybody should recognize that Japan has entered an era when the agricultural sector must be self sustained and local governments must gain new vitality and autonomy. Japanese agricultural is waning due to its failure to convert itself into advanced industry. Fortunately, the Japanese agricultural industry is not yet bereft of potential. The Japanese people face the risk of food crises due to limited food imports and concerns over food safety. Conversely, these situations can be deemed as superb opportunities for the large growth of agriculture as an industry.

Rather than simply imposing restrictions on food imports, the agricultural industry should fundamentally be reformed so that consumers in both Japan and overseas can freely select foods. Food safety must be enhanced from the consumer perspective. In order to ensure true benefits for Japan, irrational trade and industry policies should be overhauled. At the same time, policies that ostensibly protect the agricultural industry while actually undermining its strength must be fundamentally changed, and policies to ensure the prosperity of farmers and rural districts in tandem with consumers must be adopted. Through efforts of these types, Japan should create and develop a rich agricultural business with the high self-sufficiency rate seen in other countries and even export capability. By leveraging the natural environment with the changing aspects richest in the world, Japanese people could be induced to move back into rural areas and foreign people could be induced to travel to Japan. As these changes would renew the people's respect and regard for the nature, environment, history, culture, and town views, the beauty of the national land from days gone by could be regained in a new form.

A wide variety of lifestyle-related industries such as food, housing, distribution, medicine, healthcare, and entertainment for the aged, tourism, sports, and the natural environment could grow and develop in rural districts in tandem with agriculture. Such areas would be certain to lead Japan as a frontier in the 21st century. The synergetic linkage between metropolitan areas and rural areas could generate a richer society for

individuals. An “Industrial Revolution Beginning in Rural Areas” would be a requisite for creating a rich and prosperous Japan in the 21st century.

The “reform of agricultural lands in the 21st century” is required with a set of initiatives that fundamentally amend the Agricultural Land Act and Town Planning and Zoning Act. The acts have for many years impeded the agricultural development and creation of a beautiful land, after accomplished the original purpose. The initiatives undertaken by the people are essential to implement these challenges. Respect for nature and the environment is deeply rooted in the minds of Japanese people—alleged to be an agricultural people—and the practices of both metropolitan and rural communities have contributed to the sustainable operation of a recyclable society. These are at a level that would be consistent with the demands of the globe in the 21st century. These ‘Japanese essences’ were certainly engrained in the ethos of the Japanese people who attained the miracle prosperity after World War II. But now these essences are likely to rapidly diminish. The beautiful lands that attracted European and American people after the mid 19th century (end of Edo era) have now been destroyed at the hands of the Japanese people. In addition to the world trends such as technologies and economic efficiency, the Japanese people will have to draw from the wisdom of their ancestors and their own genetic assets to create rural lands whose essences make up Japan’s heritage within the framework of the democratic information-oriented society of the 21st century.

Limitation of dependence on imports of foods

The concern of the national people over food safety has been building up more and more. Some cows born and cultivated in Japan contracted BSE (bovine spongiform encephalopathy) or mad cow disease after consuming contaminated feed imported from overseas. The diseases were also recently found in American cows, the source of one-third of all beef consumed in Japan. Residual agricultural chemicals far in excess of the Japanese standards were found in vegetables produced in China. Imports of *fugu* (globefish) preserved in formalin and marine products cultured with excessive chemicals were recently banned. Moreover, some food manufacturing and processing companies were forced to dissolve as they attempted to conceal data and fraudulently use subsidies at the expense of the national people.

On a caloric basis, Japanese people depend on 60% of their food from overseas sources. By the same measure, Japanese imports of marine and fishery products account for 40%

of the world's production. Japan is the world's largest importer of foods.

Despite these facts, the system to ensure food safety in Japan is very fragile, poor and distorted. Though about 1.6 million application forms for food imports, double the figure 10 years ago, are now filed per year, the supervisors responsible for inspecting the hygienic conditions of foods at quarantine sections of the Ministry of Health, Labour and Welfare number only 300 or less nationwide. With such a poor system, 90% of food imports are distributed all over Japan without being inspected. In contrast, there are now 10,000 inspectors inspecting rice grades under the jurisdiction of the Ministry of Agriculture, Forestry and Fisheries. This comes even after the abolishment of the Food Control Law.

Cooling and freezing facilities are not fully installed at airports, and those at marine ports are often outdated or defective. Why is it that the vegetables stored on the ground without refrigeration do not go rotten? Because they have been preserved with excessive chemicals. Agricultural chemicals and other chemicals prohibited from use inside Japan are widely used for produce and fishery foods imported into the country. In terms of industrial products or financial instruments, principles prohibiting the discrimination against any product irrespective of the nationality of the providers have been set forth and widely accepted. However, it seems that in terms of foods, the domestic producers are the principal entity subject to the regulation of food safety. Across the border of jurisdiction of competent ministries and agencies, an optimal budget must be allocated for, and the first priority must be placed on, food safety. The administration should be reformed so that these issues are attained.

Contrary to the case in most other developed countries, Japan's self sufficiency rate for food has declined sharply over the past 30 years. In response to the ban on US soybean exports in 1973, most of the world's other developed countries improved their self-sufficiency rates and food security in general. As a result, their agricultural sectors have grown to levels appropriate for the industries of developed countries. According to statistics on the self-sufficiency rates of foods in 1970 (the ratio of aggregated calories provided by domestic foods to the total calories supplied through imports¹), Japan had a food self-sufficiency of 60%, a rate comparable to those of Germany (68%), the UK (46%), and Switzerland (46%). By 2001, however, the rates rose in Germany (99%), the UK

¹ However, if a country exports foods, it can have a 100% self-sufficiency rate and import foods at the same time.

(61%), and Switzerland (55%), but sharply dropped in Japan (40%).

The US and EU countries have implemented measures to strengthen the agriculture as an industry and provide stronger supports and incentives for farmers who have shown strong interests in agricultural activities. What happened to Japan? The agricultural policies have emphasized on civil and construction works wholly unrelated to competitive power and subsidy administration. Amidst this situation, the Japanese government has hardly appropriated sufficient subsidies for the protection and fosterage of agricultural production within the scope permitted by the WTO. As a consequence, the import of foods has expanded quickly and easily. The government announced that the targeted self sufficiency rate of foods for fiscal year 2010 is 45%. With more thoroughgoing amendment of the existing administrative policies, however, a food self-sufficiency rate of 70% could be attained in about 15 years, judging from the achievements in individual European countries.

Globally, the agricultural industry has fully grown into a developed-country-based industry. As such, the resources of business and society—marketing, research and development, management, physical distribution, natural environment preservation and tie-up with medical business—should be applied to it. Furthermore, taking into account the important roles of the agricultural sector in satisfying the demand for food self sufficiency, preservation of natural environment and soils, ensuring of health and security of national people, succession to culture and tradition, the European countries and the US has been providing sufficient supports and subsidies for attaining the prosperity and strength of farmers and agricultural industry. Even Italy has succeeded in transforming rural and agricultural districts into skillfully branded sightseeing spots.

Agriculture is in fact one of the most advanced industries of today's world. Japan will have to develop a social, political and administrative framework to obtain new autonomy, protection, and fosterage of agriculture if the nation is to remain a leader in the advanced industries of the world. While the current cabinet has been deliberating agricultural issues, the policies hammered out as the result of its deliberation will run the risk of further undermining agriculture if they incline towards excessive intervention and total protection of the weak. Policies suitable for agriculture in Japan with various and vast consumption markets must be established under the recognition that agriculture will have vast potential for growth if Japan manages to leverage the

technologies, human resources, and organization that enabled the nation to grow into the second largest economic power in the world.

For such positions of Japan in the world, the negotiations on a global scene concerning foods have also been poor. Though the Law Concerning Traceability of Cows (special measures law concerning the control and dissemination of information for the identification of individual cows) demands the history of individual cows in depth, it does not apply to imported cows and beef. This is totally contradictory to the EU measures that prohibit the import of US beef on the basis of its poor traceability.

While more and more attention has been directed to the importance of intellectual property, Japan has not prohibited the import of vegetables cultivated in China and other foreign countries copying the high value added of vegetables reared in Japan without permission. The Japanese trade and commercial negotiations centering on foods are far less aggressive than its trade and commercial negotiations in manufacturing industries. A strong decision to protect the national interest must be made and a system for that purpose must be created.

The manufacturing industry has successfully developed as it has strived to win Japanese consumers, allegedly the most demanding and selective in the world, and it has leveraged the most advanced technologies and know-how to apply a highly transparent regulatory framework for non-discrimination against overseas entities and internationally accepted trade rules. The following general rules should be established and applied for the agricultural industry: food safety should be enhanced; the sovereignty of consumers should be established; enterprises should fairly fulfill their promise to consumers; and free and fair advancement and competition should be ensured. Such policies in agriculture, forestry and fisheries now diverge widely from those on economy and industry and must be converged and integrated with the latter in order to ensure the long-term success of the agricultural sector. On the back of it, Japan should pursue the important functions of agriculture, such as ensuring food safety, preserving the natural environment and national lands, and enhancing food self sufficiency from the perspective of food security.

Agriculture not developed as an industry

On average, agriculture in Japan has not developed as an industry. Average arable land

area for farmers in Japan is 1.8 hectares, while that for paddy farmers stands at 1.5 hectares. The cultivation methods are different from those used in other countries and the plots are far smaller (one-ninth of the size of an average plot in the US, one-twentieth of the size in Germany, and one thirty-eighth of the size in the UK). About 130 straw bags of rice (one bag weighs 60 kg) are produced from a paddy field with an area of 1.5 hectares. The price per straw bag, for example, for voluntary distribution rice, unpolished rice and non-glutinous rice is about ¥14,000. Simple calculation indicates the total revenue generated from rice production stands at about ¥1.8 million per 1.5 hectares. Deducting the cost for agricultural chemicals, manure, and tools and equipment, the income from agricultural activities per paddy farm total several hundred thousand yen at most. This is too small a consideration for one year of farm labor and investment.

To generate annual income of ¥10 million or more from agricultural activities, arable lands of 15 hectares or more must be cultivated (as seen in the reclaimed area in Hachiro-gata Bay). But large-scale production through the integration of agricultural lands and refinement or diversification of the management of agricultural activities have been done only on an exceptional basis. Amidst this situation, it will be difficult to develop agriculture into a substantial sector.

Looking at current demographic composition, the people engaged in agriculture aged over 65 account for 55%, and further aging is advancing. On the other hand, farmers who have successors stand at only 5.6%. Though the current population for agricultural engagement stands at 3.75 million, the ratio of those who engage in agriculture after graduating from junior or senior high school is below 1%. The population for agricultural engagement is certain to diminish going forward.

The core problems surrounding agriculture in Japan lies with land and politics. The agricultural policies after World War II began with the opening of agricultural lands not cultivated by landlords to tenant farmers. Many micro framers were born, and the Agricultural Land Act mandating the opening of agricultural lands to tenancy farmers was enforced in 1952. The purpose of the Act was to expand agricultural lands and maintain and enhance agricultural productivity on an independent farmer basis. The holding and use of the agricultural lands were restricted to independent farmers and institutions centering on agricultural activities. The transfer of title of agricultural lands to entities other than farmers was strictly prohibited, and the use of agricultural

lands for purposes other than agriculture was also strictly prohibited. With respect to the transfer of title of agricultural lands, agricultural committees made up mostly of landed farmers had the right to permit such transfer.

The change of the system from the inheritance of agricultural lands to the eldest son to even inheritance among children decreased the sizes of the agricultural plots held. Many farmers who inherited small farms disposed them and used the proceeds to send their children to higher education. Such children moved into metropolitan areas and ended up supporting Japan's high economic growth in companies.

The Japanese village traditions before World War II had long histories of land holdings by landlords and inheritance by the eldest sons. The reform of agricultural lands to tenancy farmers and even inheritance among children broke down the restraints on individual family members for the purpose of protecting the genealogies of the families, and the control over renters by landlords. However, under the system before World War II under which land inheritance was not taxed, the agricultural lands and the cultivation were perpetually maintained centering on the family system. Though the opening of agricultural lands and even inheritance strongly propelled the fractionization of agricultural lands, the Agricultural Land Act did not permit the existence of joint stock companies, ever-lasting principal entities of businesses in modern industrial society, or partnerships for the execution of business (close to association prescribed in the Civil and Commercial Codes). In fact, it did not even permit the form of trust. There was a mechanism for democratization of agricultural activities, but no facilities or equipment for halting the fractionization of agricultural lands or promoting the further micro management of agricultural activities and developing them into an industry. This chain of cause and effect may largely explain why agriculture in Japan has been waning.

After World War II, the utmost challenge for Japan was to increase the rice harvest to protect the national people from starvation. The food control system, a system in which the government purchased all the rice and distributed it equally, was enforced as a solution. With the emphasis placed on efficiency, the type of rice was designated and converged by the government. Unlike the era before World War II, the cultivation and harvest of various types of rice were not permitted. To compensate farmers for submitting to this control, the government bought rice from farmers at higher-than-market prices (producers' price) and paid for the difference out of its treasury accounts.

In order to promote the convergence of nationwide production, distribution, and sales with enhanced efficiency, agricultural cooperatives of farmers were developed across the nation and rice yields sharply rose. These cooperatives were centralized organizations run and operated by the Ministry of Agriculture, Forestry and Fisheries on a top-down basis. Meanwhile, through a decision-making system with one voting right per member, the cooperatives grew into a gigantic political organization with the power to sway government policy to their advantage. Over time they catered more to the interests of individual farmers, particularly independent farmers, mainly by lobbying for increases in rice producers' prices, disposal of agricultural lands, and the setting of restrictions against agricultural imports. The cooperatives were representative members of an interest-representation-based democracy.

Concurrently, during the era of high growth, rural populations rapidly moved into the cities and converted agricultural lands surrounding the cities into residential areas. Farmer incomes increased as they received proceeds from the sales of agricultural lands. However, as the government was concerned over the decrease in the agricultural lands, it designated agricultural areas restricted from urban development under the Town Planning and Zoning Act and enacted and enforced the Law Concerning the Development of Areas for Promotion of Agriculture. However, both legislations were riddled with loopholes. With a view to generating a large income from the sales of agricultural lands for residential purpose, many farmers pressured politicians to allow them to sell their agricultural lands. Amidst these inconsistent developments, the use of lands in suburban areas and agricultural lands fell into disorder. Even now, all over Japan we suddenly spot ruined vistas and industrial waste dumps alongside agricultural and rice paddy fields.

Township in metropolitan areas proceeded chaotically because agricultural lands could not be officially transformed into town development lands in city planning. Due to these distorted aspects, a system that strictly restricted the sale, purchase, and use of agricultural lands (and transformation of agricultural lands for other purposes) was established.

When the measures to reduce the area of paddy fields were implemented in 1970, Japanese agriculture reached a turning point. The policy to distribute rice to every corner of Japan was fulfilled with the increased rice harvests. Eventually the nation

had such a surplus of rice, the farmers were ordered to halt cultivation (to reduce the area of paddy fields). This was when the farms started seeking subsidies such as incentives for reducing paddy field areas. On the other hand, farmers who opposed such reductions voluntarily started distributing their rice, and the staple food system gradually lost its meaning. As a result, the Food Control Law was finally abolished in 1995.

In addition, the cultivation and harvest of rice matching consumers' needs started. However, as the farmers continued seeking incentives for the reductions in the paddy field areas, they did not transform the idle paddy fields into farmland for other crops. The adverse cycle of drops in rice prices with excessive production capability and compensation with treasury accounts continued for over 30 years. The end of the policy for reducing the areas of paddy fields was eventually announced last year. Through a political mechanism never seen in other countries, agriculture has waned. As a result, farming villages, rural areas, and the natural environment are now at the verge of collapse.

Higher income when quit farming

80% or more of farmers depend on non-farming income. The average income of quasi-exclusive farmers (60% of all farmers) stands at ¥8.63 million per year, yet the income attributable to agricultural activities stands at only ¥930,000 out of this amount. Thus, the income dependence on agriculture is only 11% among this group. Against this, the average annual income of exclusive farmers is ¥7.49 million, even lower than that of quasi-exclusive farmers. How has this situation come to be?

Technical conditions under which large scale agriculture could be conducted with mechanization were attained after the era of high economic growth. A certain size is necessary to meet various needs such as organic cultivation, diversified harvesting, preservation of the environment and the pursuit of food safety. However, large-scale farming did not develop. No intensification of agricultural lands through the sales took place, no large scaling or efficient farming took place, and the income per household of farmers did not increase. Instead, mechanization promoted further micro farming with other works interlocked, and farmers strived to reduce the time they spent on agriculture. Subsequent to the high economic growth, farmers could engage in non-agricultural vocations with higher income, including work for companies, public

authorities, agricultural cooperatives, financial institutions, and civil and construction companies undertaking public works. Subsidies were also a large source of side income.

In this way, the path to complement the capped income from agricultural activities was paved for farmers while they engaged in agricultural activities. This was a serious selection for the lives of farmers. However, this diminished the interest in exclusively engaging in agricultural activities, ultimately resulting in a waning of agriculture in Japan.

The sales of agricultural lands brought further large temporary income to farmers. Though the Agricultural Land Act in principle prohibits the sale of agricultural lands for purposes other than farming, lands could be expropriated for public works as an exception. In line with the high economic growth and expansion of treasury accounts, the acquisition price of agricultural lands by administration continued to rise irrespective of productivity, and this situation brought a large temporary income to farmers. On the other hand, the purchases and sales of agricultural lands for the purpose of agriculture were limited to independent farmers, and many independent farmers were micro farmers who had no margin for expanding their scale. Moreover, the prices of agricultural products fell further than general prices, the productivity of agricultural lands was hardly enhanced, and hikes in the prices of agricultural lands were limited.

Some farmers chose not to release agricultural lands right away. For them, it was more reasonable from an economic perspective to wait for their land to be expropriated for annual public works. This brought in more money than an outright sale. Had they chosen the other alternative of renting the land, they would have worried unduly about when the land would be returned.

This trend was more outstanding in 1980s when Japan became a major economic power and public works expanded. The movement of population became sluggish and the income from the transformation of agricultural lands for residential area decreased. As a result, the land expropriation for public works became a large source of income. Property taxes and inheritance taxes imposed on farmers were laxer than the national norm. Amidst these situations, rational activities of farmers were to secure income from other interlocked works, hold onto their agricultural land and receive subsidies, and wait for the land to be expropriated for public works. The fiscal expenditures on public

works continued to expand under pressure from the farmers. Agriculture came to resemble a land holding industry and the purposes of the Agricultural Land Act aiming at agricultural development and expanded agricultural lands run by independent farmers were ultimately not attained.

Arable land areas have consistently been decreasing as the waiver of cultivation. Total areas under cultivation were halved to 4.52 million hectares in 2001 from 8.13 million hectares in 1960. And the area of arable lands was reduced by 25% to 4.79 million hectares from 6.07 million hectares over the same period. With continued decreases in those who engage in agriculture, double cropping has been rapidly diminishing and agricultural lands have not been fully utilized. Furthermore, 30% of paddy fields have not been under cultivation because of the paddy field reduction policy. The absence of sufficient use of agricultural lands in Japan with small land area can be viewed as a large cause for the waning of Japanese agriculture.

Huge potential of Japanese agriculture

If the Japanese agriculture evolves into a fundamentally independent industry attaining a value chain domestically, it will embody a large potential of growth.

First, Japan is a vast market from the perspective of foods. Consumers have shown various appetites and have strong purchasing power. The annual sales of rice in Japan have a value of only ¥2 trillion. However, the sales of industries pertinent to foods stand at ¥52 trillion, far exceeding the sales of automobile industries. No people show keener interests in foods than the Japanese. The Japanese prefer both conventional and traditional foods, and they place great importance on quality, safety, health, and price. No other country prepares and supplies such a broad variety of foods from around the world. The venues that provide foods commercially are extremely diverse: department stores, convenience stores, supermarkets, fast food restaurants, stalls, restaurants, Japanese food restaurants, hotels, inns, and others. The demand for foods in households is minutely diversified. Moreover, food preferences in households home rapidly swing back and forth between novel foods and traditional Japanese foods. Many TV programs focusing on foods and eating tour have been produced and broadcasted.

The diversification and large size of food markets mean that there are large opportunities for a wide variety of foods to be supplied, and geographically, Japan is a

basically a favorable country for agriculture with a rich variety in weather and land configurations. There were 160 kinds or more of rice before the beginning of Meiji era, and the effects thereof were diversified. A greater variety of vegetables was harvested. If we succeed in restoring and developing traditional agricultural products in order to converge the types of agricultural products under a substantial Renaissance program, new needs for regression to traditions, birthplaces, and health will be created. Unlike industrial products, the Japanese people show a strong appetite for domestically produced crops and are keenly concerned over freshness. Domestic production should primarily be advantageous. Their worries about the safety of imported agricultural products has been amassing more than ever. They will never select foods on the basis of a low price if quality is in anyway sacrificed. The potential for domestic agriculture is large.

Second, non-agricultural food industries have the most advanced and latest technologies, human resources and organizations. But they have not fully been utilized in agriculture. It would be difficult for individual farmers to address management elements such as the development of new agricultural crops and products, the assurance of safety and traceability, production control technologies, client marketing, sales promotion, communications with clients, funding, transportation, IT technologies, and studies on the effects on health and medical practices. Division of labour in the business is essential. Agricultural cooperatives should be in a position to provide them, but unfortunately they cannot address diversified individual demands as their business model developed based on the concept of large production volumes (limited variety) established during the regulated economic era. Going forward, agricultural cooperatives themselves will require such resources. As the failure to provide these elements to agricultural production has resulted in a failure to expand the size of agriculture, agriculture has been left far behind other industries. Manufacturing industry, services industry and research institutions have sufficient technologies, human resources, and organizations to satisfy the demands of agriculture. If such elements are introduced to the service areas connecting producers and consumer, the potential underlying capability of the Japanese agriculture will be utilized efficiently.

Third, social infrastructure for satisfying individual and diversifying needs for foods has been developed and provided. As information exchange and transactions with use of door-to-door courier services, freezing technologies and IT technologies have been developed and available, the products of small volume and rich variety can be directly

delivered to consumers at every corner in Japan without dependence on a large volume collection and sales centering on Tokyo. The means to convey the diversifying needs of consumers to producers has been realized. If the value chain in terms of agriculture is attained, it can be utilized sufficiently.

Fourth, people have been directing more attention to nature, the environment, and eco-recyclable society. Appetites and interests in soil, green, agriculture, villages, mountains, rural areas and nature have been amassing beyond economic activities, especially among people living in metropolitan areas. Experiences with village life, civil farming gardens, second houses, interchanges among villages, and grass cutting crusade, and education by the experience of farming have been expanding and deepening. People strive to satisfy sophisticated demands such as self realization and the discovery of the true quality of life with more enthusiasm than they pursue economic interest. They find satisfaction in moving their bodies and will even pay money for the experience in lieu of receiving wages for labor. If a society that supports these activities and provides opportunities to experience them is created and a framework is established for creating nature, environment and beautiful communities, a wide variety of industries in rural areas for those same purposes will be produced. Aspects such as consumption, travel accommodations, tourism, sports, residences, experiences, health, caring, education, services and general attractiveness in rural areas will be enhanced, attracting people and organizations away from the cities.

Japan has sufficient conditions for the development of agriculture. When agriculture grows to be an agricultural business and attains an industrial value chain and all rural areas surrounding agricultural areas grow and attract the residents of nearby cities, agricultural and rural areas will transform to the frontier in the 21st century.

Creation of agricultural business

If the agricultural business is defined as the industry relating to agriculture, its definition expands very widely and can be largely divided into three areas: production, sales to end consumers, and services necessary therefor. With respect to the sales to the end consumers, agriculture has many facets. Forms of sales range from raw materials, processed foods to cooked foods, and others. Providers are also diversifying, such as retail distributors, internet selling agents, restaurants, catering industries, suppliers and collaborators working with the original producers, and hospitals. However,

agricultural production is to limited independent farmers and agricultural corporations for which principal members are independent farmers pursuant to the Agricultural Land Act. The hurdles are very high for those other than independent farmers who wish to advance in the area of agricultural production. While the agricultural cooperatives that are now permitted by law to monopolize the services to producers account for an overwhelming market share, they have not been able to sufficiently respond to Japan's diversifying needs. The monopolies in both production and services have impeded newcomers into these areas, causing agriculture to wane.

The important principles for the development of the agricultural business are to reform the agriculture into consumer-oriented industry and thereby strengthen agriculture. To shape agriculture from a simple food producing industry to agricultural business, the intentions and wills of those engaged in agriculture must further be cherished, and newcomers who can develop various needs must be received. Within a highly developed framework where consumers, producers, and service providers exist and prosper in harmony, the agricultural business would be certain to develop to a large growth industry.

Besides increasing income and employment in the agricultural business, such reforms would spur the development of various industrial areas that can be viewed as rural area industries, thereby leading to the establishment of a growth mechanism beginning with the rural districts. For these purposes, various measures should be implemented. The key tasks will be to fundamentally amend the regulations concerning the agricultural lands and other lands represented by the Agricultural Land Act (these regulations do not meet the current situations), and to create a mechanism whereby a new agricultural business can be implemented.

On the other hand, people everywhere, in the city and country alike, wish more than ever to spend their lives in beautiful environments. With new utilization of agricultural lands and other lands fulfilled, these wishes will be satisfied and people will commonly believe that that rural areas are ideal places to live.

Basics of the new agricultural business lie with the concept for fulfilling what should naturally be. That is, they are to satisfy various needs and cultivate new needs. More than just consumers should be involved in these basics. Producers, sellers, and distributors must also implement various activities to satisfy the respective needs. The

needs of consumers are indefinite. They may be satisfied by factors such as modest prices, deliciousness, freshness, beauty, colors, shape, health, safety, prestige, or memories of one's homeland, but these aspects alone are not sufficient. Other elements are certain to be required.

The branding of foods has evolved very much, and when the branding is successful its reward is great. Recent successes in branding have been achieved with commodities such as rice, meat, vegetables, fruits, processed foods, and even *sake* (brewed alcoholic beverage) and *shochu* (distilled alcoholic beverage). More and more attention has been directed to the safety and healthfulness of foods, and the demand for 'functional foods' with medical benefits is reaching unprecedented levels. Rice with less protein for those with kidney diseases is a medical instrument rather than a food. To respond to various needs, added value must be established in the value chain, in the stages of understanding and developing customers' needs, as well as research, production control, sales and marketing, distribution and transportation.

Large scale is not always necessary, but importance is placed on the response to the diversification of needs. This is where agriculture stands apart from industries where only a few large companies can survive, such as the automobile industry. Many people have already commenced their activities with a view to creating new agricultural businesses in many local places. It is now important to add momentum to this trend.

To activate agricultural business requires the involvement of various individuals and organizations to identify the various needs in the production and service areas. Advancements in sales, distribution, cooking, food, healthcare, research and development, production management, and biotechnology are all essential. Industries working in these endeavors will collaborate with producers in various ways. Producers should also adopt forms of production that match the realities of scale and profit and loss distribution. Transactions may be practiced in various forms, including consignment production, franchise methods, partnerships with consumer groups, direct production, and so on. Forms more diversified than conventional agricultural, i.e., production by independent farmers and purchase by agricultural cooperatives in lump sum volumes are certain to be adopted.

Collaboration with consumers involves more than just the basic relationships between producers and consumers. These relationships can even be viewed as partnerships for

the purpose of directing safety, truly organic methods of cultivation, and enhanced medical and health effects suitable for individuals. If collaborations are established that enable people in metropolitan areas to rely on and enjoy the experience of farming by children, long stay tourism, civil farming gardens, and houses with farming gardens after retirement, partnerships may be created in terms of many aspects of life beyond the aspect of agricultural production. Furthermore, with the promotion of general science for foods, foods most suitable for individuals that enable people in long-living societies to live healthy lives will clearly be found and defined, and foods useful in maintaining health and fulfilling medical purposes will expand. People with diseases are of course much better off medicinally efficacious foods that they like than they would be taking medicines. Taking these prospects into account, the agricultural business will go further forward.

Current farmers may benefit as a whole from the advancements of newcomers into the agricultural business. As they find out needs of consumers in depth and the efficiency of production, distribution and sales is enhanced, producers with strong intentions can expect lower costs and increased sales. Part-time farmers have totally depended on agricultural cooperatives for their so-called one-stop shopping for farming equipment and agricultural chemicals, seeds, financing, crop development, sales, and distribution.

However, as agricultural cooperatives have developed on the back of the Food Control System, they are very weak in understanding the needs of consumers and reflecting them into individual productions and the fees they charge are expensive. With the new value chain in the agricultural business established, more newcomers are expected in the agricultural business, and farmers may benefit from the appearance of service providers who are more convenient, less expensive, and kinder to them.

More importantly, the system by which farmers more easily organize an entity such as a joint stock company should be created, and further access to financing should be provided. If the establishment of investment trust is further deregulated through the amendments to financial legislations such as the Investment Trust Law, the management of smaller funds can be possible and more investments in agricultural business can be made in the form of investment trust or investment associations. With investment tools designed to realize their purposes including community support, partnership with consumers, environmental preservation, safety, and nature conservation, various initiatives can be undertaken in agriculture. In addition, financial

institutions centering on agriculture, forestry and fisheries, regional financial institutions and postal savings should support such initiatives for diversifying funding.

The activation of the agricultural business can bring about great advantages to agricultural cooperatives. Amidst the market for agriculture expanding nationwide, agricultural cooperatives with nationwide channels may enjoy great benefits for growing their businesses. Those advancing into the agricultural business are projected to be customers or partners of agricultural cooperatives. They can also serve agricultural cooperatives as entities for loan extensions or investments. In line with the development of the market for agricultural business, if the management of agricultural businesses diversifies and decentralizes, nationwide channels can be more activated and utilized. The development of an export market is also a critical issue. Moreover, as newcomers in the agricultural business are surely looking for those with knowledge and experience in their business, personnel at agricultural cooperatives benefit from more choices and opportunities in their careers. Some venture companies rooted in rural areas are likely to list their stocks within a few years. The era when individuals can attain great rewards commensurate with their efforts in the agricultural business will certainly come.

As the agricultural business grows and expands as a whole, competent personnel are required. Local leaders of agriculture first grow to entrepreneurs and cultivate human resources. The total management of agricultural business in addition to production should be taught at educational institutions. The framework for such purpose must urgently be generated. Eventually, an educational framework based on a complete understanding of every aspect of the agricultural business (including environments, the creation of communities and the partnerships with consumers) must be established. As universities and local leaders develop human resources, the expansion of the agricultural business will activate local economies in tandem with related businesses. Various enterprises will provide education as a material element of management. The key lies with the creation of an era where those who are not brought up in a family of farmers can engage in the agricultural business.

Third path followed through franchise

The adoption of franchise business in the agricultural business may result in a third path to a great prosperity in agricultural management in addition to individual

managements and joint stock-company-based managements. In terms of foods, franchise businesses represented by convenience stores, fast foods restaurants, chain restaurants, and bakery chains have greatly developed over the past two decades. Franchise business is contingent on contracts or arrangements. In many cases, proprietary or one-man shops refurbished their premises, concluded franchise contracts, and participated in franchise chains. The franchise business treats both consumers and producers/service providers as customers of franchiser.

The sophisticated operations impossible to perform at proprietary shops have been centralized and efficiently carried out at the franchise headquarters, including investigation into needs, product development, PR, advertising, the development of more product variety, procurement and distribution, introduction of accounting systems, and educational training. With these mechanisms, attractive products and services are provided to consumers. For the consideration of such services by the headquarters, franchisees pay a part of their revenue as royalties. With the franchise system, conventional proprietary shops can provide products that match consumer needs, continue to exist with their sites and buildings leveraged, and generate higher revenue with increased sales. Franchise enterprises generate income linked to sales with far less investment and fewer personnel compared with directly managed shops.

Of course, there are many failures and problems such as excessive work, contravention of contracts, and misleadingly rosy invitations from the franchise headquarters. However, with stiff competition among peers of franchise businesses and enhanced disclosure of information and improved legislative and administrative frameworks for protection of rights of participants, bad performing franchise businesses are forced to be removed from the market. The rationale for such growth of franchise business may be attributable to the close interlocking of the needs of consumers, franchisees, and franchise companies and the establishment of relationships for mutual prosperity.

Most of Japan's farmers are part-time farmers of micro farms who lack in management resources yet wish to continue farming. In this respect, they resemble conventional proprietary small shops. Despite large-scale exclusive farming, management with a full understanding of consumer needs is still difficult and still incurs large costs and risks. The introduction of a franchise system may allay the fears among farmers that joint stock companies threaten their survival. Indeed, such an introduction may indicate a path of mutual prosperity for the farmers to follow.

The largest difference from the franchised convenience store management is that part-time farmers accounting for the majority of farmers are not exclusive operators of agriculture (unlike convenience store managers). However, in fact, many part-time farmers already entrust most of their operations with agricultural cooperatives. The more options for outsourcing the farmers have, the more advantages they will receive. Franchise businesses strive to satisfy the needs of producers. If they do not, few farmers would participate in the franchises.

With minimum input of labor through product development and production control technologies, high-quality agricultural products with reasonable price are produced. Or agricultural production would be entrusted to companies that provide competent manpower services. Amidst such diversifying operations, agricultural business is certain to develop into an industry with which people are more familiar. Those who newly graduating from universities or quitting the life of white-collar workers may join the agricultural business as a contracted employee. It will solve the problem of the lack of human resources in agriculture.

Reform of agricultural lands and community creation in the 21st century

In light of the factors mentioned above, the agricultural business embodies great potential with the advancement into the agricultural business by newcomers. Yet a great impediment to the development of agricultural business by newcomers has been caused by the regulations prescribed in the Agricultural Land Act prohibiting the ownership and use of agricultural land by entities other than independent farmers. With the regulated ownership and use of agricultural lands, the most important production vehicle, the development of new businesses will be extremely difficult. We should promote the independence of new agricultural business while putting much value on non-economic elements of farming and farming villages such as their histories, cultures, traditions and nature will not be disparaged or overlooked. As long as corporations (including franchise businesses) prudently undertake agricultural business, the ownership and use of agricultural lands are carefully but steadily admitted.

This is viewed as the “Reform of Agricultural Lands in the 21st century.” Yet, sufficient consideration must be extended to the neutrality of the tax system lest the taxation

inordinately favor corporations over individuals. Of course, as agriculture is harmonized and develops in a community, the adjustment of the use of water and agricultural lands with other producers is necessary. The abuse of their positions by corporations must be regulated. Simple holdings of and speculative investments in lands must be precluded. The purpose is to utilize unused lands.

The purpose of the Agricultural Land Act prescribing the expansion of agricultural production through the expansion of arable lands by independent farmers has not been fulfilled. Many independent farms are micro in scale and have retired from independent agricultural production by interlocking. As a result, the area of arable lands has been decreasing nationwide. In addition, with the reduction of paddy fields, the utilization of agricultural lands has been further decreased. Furthermore, those who engage in agriculture have been aging, and despite great business potential, it would be impracticable to develop agriculture as an industry.

If agricultural lands are owned or utilized by newcomers with management resources, funds and human resources, their productivity will increase. As they intend to harvest high value added crops, they will not concentrate their resources solely on rice yields, hence they will not trigger a deflation of rice prices. The economic value of agricultural lands will be enhanced, and situations where farmers forego cultivation due to the waiver of invaluable agricultural lands will likely decrease. The use of agricultural lands will be perceived in many ways, for example, as term-rent or contract-based cultivation, and the sales of the lands, options for land use, and economic benefits for farmers will all increase. In this area, financial institutions for agriculture and forestry or locally based financial institutions will provide funds and information and develop the businesses of introducing competent agricultural operators. Within these frameworks, smooth connections will be forged between communities, individuals and operators.

If these things happen, the concept of agricultural lands will have to be redefined. If agricultural lands were to be randomly transformed to lands for town street creation, the acquisition of lands for speculative investment would certainly increase, and agriculture would be devastated. The development of agricultural business must be implemented in tandem with the stable use of lands for agricultural production. This is essential for the enhanced rate of self sufficiency. Forestry and agricultural lands located in mountains must be preserved on a long-term basis from the perspective of

natural environment preservation rather than agricultural production itself.

On the other hand, by taking advantage of loopholes of city planning and agricultural land planning as competent administrations have been vertically divided, the agricultural lands have been unevenly transformed to lands for other purposes in suburban areas. The in-principle prohibition of transformation of agricultural lands to lands for other purposes and the lack of sufficient city planning and zoning have precluded the creation of functional cities and towns as planned after World War II. Denen-chofu and Ashiya, two premium residential areas, are suburban developments from before World War II.

The Reform of Agricultural Lands in the 21st century scheme is certain to provide opportunities for creating beautiful villages and small towns, so-called compact cities, situated alongside rural areas as seen in Germany. For this purpose, a mechanism under which single land use plans (including town streets, agricultural lands and forests) can be delegated to local people instead of the central government must be attained. With stronger authority to the governors of local governments, more and more local people must be allowed to participate in the determination of the land use guidelines and the land use plan by area, and the information disclosure related thereto must be enhanced. The land use plan varies with the characteristics of the lands (lands with high agricultural productivity, mountainous lands, suburban lands, etc.). Some areas are now limited to agriculture, and when the inhabitants of cities reach a clear consensus, the permission to create grass fields and agricultural lands in cities will also be possible.

Up to now, the decisions on agricultural lands have been made at the Agricultural Committee. The principles embraced by the Committee are to ensure the benefits of independent farmers. However, it is true that the Committee has been a hotbed for non-transparent political decisions and has facilitated some disorder and random development of agricultural lands. With respect to the decisions on the future use of agricultural lands, in addition to the highly transparent consensus on the decision, the intentions of individual farmers must fundamentally be respected. Together with the development and improvement of legislation, it is critical to indicate the development patterns by area by realizing agricultural business in terms of special districts with regulations amended and attaining the reform of agricultural lands in the 21st century and harmonized land use plan ahead of other areas. When we build towns more

beautiful than those in the rural areas of Tokyo, Japan will shun the distorted concept of absolute private ownership that came to prevail after World War II—a concept construed by many as license to destroy public assets such as scenery and the environment. Thus, the value of scenery and town streets, which are social public assets and whose value will effect on our assets, will be restored in private properties.

More emphasis on agricultural business from civil engineering and construction-based business

Currently, more than half of the ¥3.1 trillion budgets for agriculture are appropriated to civil engineering and construction works for roads and dams. Much of the remainder has also been used for structural changes with a view to triggering such civil engineering and construction works. This certainly has been a hotbed for corruption among local general contractors and local governments and administrations. Lands are expropriated at higher prices than those for agricultural lands and the household economies of farmers depend on proceeds from the expropriation of agricultural lands. Naturally, the usage of agricultural lands has decreased and agriculture has been waning. As most of agricultural structural reform works have completed, the budget for agriculture has been used for other purposes such as civil works. Despite these facts, subsidies for agricultural production and measures for expanding agriculture have been taken lightly.

Fundamental reform is essential. The effect of policies should be strictly evaluated, both internally and externally, so that sufficient budget is appropriated for agriculture (not for civil engineering or construction works), so that the productivity of agriculture and regions is enhanced, and so that priorities in this century focus on ensuring the safety of agricultural products, organic culture practiced with little or no agricultural chemicals, and the preservation of village located mountains, nature and environment. As agricultural cooperatives are unlimited liability organizations, they have incurred excessive debts. The servicing of such excessive debts should be tackled from the perspective of industrial rehabilitation. In such situation, the important point is that the government does not decide who 'the winner.' is The government should function to improve all of agriculture in Japan and strengthen its international competitiveness with the principal decision-making delegated to consumers. The government undertakes initiatives for the development of foundations for education of human resources, IT investments, provision of transportation system or infrastructure, and

promotion of collaboration and partnership with consumers. However, a mechanism must be established whereby their efforts pay off in the assessments of consumers. On the back of it, with respect to only the cases where the environment or scenery is not preserved with the market mechanism, relevant policies are enacted and operated for such purposes.

Some politicians and administrators have recognized the importance of larger-scale agriculture and professionalism in agricultural operations, but their recognition has ended in vain. With regulations such as the Agricultural Land Act and fiscal expenditures, agriculture has been changed to a land holding business. No resolutions will be attained without directing attention to the relationships between lands and politics. Policies forcing farmers to quit from agriculture are not effective, either. Unless policies that solve problems inherent to part-time farmers (the majority of farmers in Japan) are enacted, they will not be attained from the political perspective. Of course there are many farmers who are exclusively engaged in agriculture and have developed their operations. However, by reinforcing policies applicable only to farmers producing agricultural products, agriculture in Japan will not be autonomously operated with appropriate leveraging of its potential.

The crucial points to agricultural reform are: firstly, whether the business model that has brought about the success in the service industries (by placing importance on both consumers and producers as their customers) is adopted in the agricultural business; and secondly, whether new agricultural businesses highly satisfactory to consumers, farmers, and agricultural cooperatives can be suitably created through the application of diversified human and management resources in bio technologies, production management, marketing, financing and sales. Unless we direct sufficient attention to the subsidies the government is now considering extending for the facilitation of agricultural professionalism, such policies may erode the wills and intentions of farmers. Independent and autonomous industries grow and develop through the zoning of their advantageous areas in their fields with fair competition in the market. Excessive intervention by the government, that is, intervention whereby the government actually designates 'the winners,' should be avoided. Instead of designating professional farmers with subsidies extended according to the production results or production volume as per identical area, the competition principles and protection and fostering are certain to be attained without any distortion.

Era of Japanese agriculture in harmony with agriculture in Asia

Interregional and bilateral economic agreements such as EU or FTA (free trade agreement) have more binding power on trade and commerce than they did before. Yet Japan has concluded FTA only with Singapore and is considerably lagging behind the world trend. In particular, the issue is serious in the relationship with Asian countries. China has already entered into FTAs with many ASEAN countries—countries that used to form the anti-China' union. China has even been proceeding in negotiations with India, a country that it had military clash. If the current situations continue, Japan is certain to lag farther behind China.

The largest impediments preventing Japan from entering into the FTAs with Asian countries are Japan's agriculture protection policies. The negotiations for FTAs would largely progress if the restrictions on imported agricultural products were set at a level consistent with those on domestic agricultural products, if subsidies were appropriately extended from the perspective of environmental protection, and if the understanding of consumer demand in Japan was deepened through the innovation of the agricultural business, and if foreign consumers were attracted to the quality, safety and brand value of the Japanese agricultural products. Economic security would also be ensured if these conditions were met. When the Japanese agricultural business gains a larger market share on the Japanese gigantic market with more complicated and higher demand levels, it will gain an enhanced competitive edge in the world market, including the rapidly expanding consumer markets in China. In Shanghai, Japanese agricultural products are highly popular as premium foods. Japan envisages the potential to become an exporter of agricultural products and foods.

Industrial revolution beginning in rural areas

With its swelling fiscal budget and challenges in the manufacturing industries, that is, competitive challenges from China, Japan now faces a situation reminiscent of the US hardships in the 1980s. A comparison of the Japan's current strategies with the strategies by which the US overcame its crisis and reclaimed its positions as the world's No. 1 economic power have a great meaning. Large companies in the US at that time restructured their operation. Production was shifted to overseas bases with lower costs, while high value added areas such as R&D and marketing were left in the US. The results were the successful attainment of horizontal global distribution of operations

and the generation of large revenue. In line with such developments, prices on equity and financial markets were on the rising curve for a period of 20 years. This resembles the current situation in Japan, where listed companies gained record high income through restructuring and the shift of manufacturing bases overseas, and where the equity market eventually returned to a rally.

Another phenomenon also took place in the US at that time. Domestic economies diversified to local areas and regional autonomy increased. Major companies relocated their headquarters from metropolitan areas such as New York and Chicago to local cities, and new ventures emerged in the areas of IT, finance and service. With the Interstate (toll free highways) constructed from 1956 (for diversification to local areas), the business environment greatly improved for local areas thanks to the effects of deregulation, lower costs, and tax reductions (Reganomics). As a result, businesses in local areas had access to information, communications, aviation, automobile transportation, and traffic system which stood comparison with those in the big cities.

Diversification of businesses and economies to local areas progressed at an unprecedented speed, and the trend was accelerated by the end of the Cold War at the end of 1980s. Highly competent personnel engaged in military industries launched businesses in new areas of IT and service industries centered in local districts such as Silicon Valley in states such as California, South Carolina, Texas, and Colorado. It was quite natural for manufacturing and financial industries to relocate their headquarters to local areas. The economy became more service-oriented. Now 90% or more of Fortune 500 enterprises are headquartered in areas other than New York.

The advantages were not limited to costs. Relocated companies could perceive and contrive new technologies and business models, as if their new rural surroundings and shorter commuting times enhanced their creative ingenuity. In tandem with overlapping increase in corporate revenue, employment of individuals and personal income, the federal tax revenue rapidly grew and eventually fiscal rehabilitation was attained in the Clinton Administration 20 years later. The gravity of politics changed. Amidst the federal fiscal deficit and the curtailed authority of the federal government, individual states were forced to decouple from the federal government and to cultivate their own capabilities. The course from successful governor to the office of the president has been established.

No such tide of diversification to local areas and autonomy of local governments has taken place in Japan. Instead, the policies touted by the Koizumi Cabinet have been expanding the gap between metropolitan areas and local areas and accelerating the concentration in metropolitan areas, fating Japan's competitiveness to weaken considerably. The privatization of highway public corporations will result in the collection of the world's most expensive tolls forever. This is certain to fix the gap faced by local areas in transportation cost and convenience as local people have only automobiles as their means of movement. If disposal of bad loans in local areas is accelerated without plural lines of the financial system and diversification of the financial system to local areas through venture capital and securitization facilities, local companies would be affected significantly because, unlike major enterprises, they can access only banks for their funding. The gap in terms of financing capability would even expand. On top of this, if inadequate curtailment of postal services from the perspective of bail-out of banks is implemented, local life and financial infrastructure will be much more fragile than that in metropolitan areas.

Under these scenarios, a society with high-cost traffic, transportation, finance, and land and the twin problems of overcrowded cities and under-populated rural areas will be certain to continue. Finding jobs and recruitments in local areas will become even more difficult, and no new industries will be likely to emerge. In addition, the government intends to maintain political control with the authority for fiscal expenditure at the core of the power. As the Koizumi Cabinet is unlikely to implement true administrative reform or decentralization, tax increases and higher burdens on the shoulders of the national people are virtual certainties if the present policies are sustained. The path travels in the opposite direction of Reaganomics, the economic prescription that mitigated the national burden and delegation of authority in the US by returning to the national people what belonged to them. The current situations will be fatal to Japan, as China is now striving to deprive Japan of its status as a manufacturing giant. Measures touted as "reform" have been bringing about a vicious cycle of economic fragility, financial crisis, and burden increase.

Ideas from totally different angles, even from the reverse side, are necessary. First, the gap between metropolitan and local areas is narrowed by reducing the burdens on the shoulders of local governments and people. With the toll free highways nationwide, the freer flow of people and goods would be achieved. This would be a great advantage to the agricultural business and rural industries in local areas with people who have only

automobiles as their means of movement. Income and tax revenue are expected to grow largely. They could greatly contribute to the fiscal rehabilitation of central and local governments. If ¥2 trillion of the ¥9 trillion funding sources for roads is allocated to the budget sources for the construction of new roads, the debts of the highway public corporations would be repaid and toll free highways could be achieved. Now, with super low interest rate, is the best time possible for such a measure.

However, under the privatization plan proposed by the Koizumi Cabinet, toll free highways will never actually be attained. If interest rates rise in the future, the current debt of ¥40 trillion will expand to several times that amount. By achieving the toll free highways, the government should delegate the authority and responsibilities for the construction of roads and transfer the budget resources for roads wholly to local governments. Plans for regional areas integrating enhanced road and transportation systems could be implemented. With surplus in budget through the curtailment of the portion generating nothing, the use of revenue sources for general purposes by local governments should be permitted. If they are allowed to use them for the welfare and education purposes, enhanced efficiency of treasury accounts and appropriation of budget sources for roads to general purposes that have not been achieved by the central administration with vertical division of their roles could begin with local districts. The Ministry of Land, Infrastructure and Transport should evolve from a bureau that executes businesses entangled with the interests of various parties to one that holds responsibility for supervising execution by local governments, information disclosure, and nationwide planning, thereby achieving segregation between the functions of execution and supervision. The governance of the entire public sector will be largely enhanced. Furthermore, with a mechanism wherein the funds of ¥350 trillion in postal savings flow to small and medium-sized enterprises through the securitization, the funding would be far easier in local areas than ever before.

Local districts and agriculture lagging behind the trend would serve as a new frontier. This is because the creation of agricultural business and the “Reform of Agricultural Lands in the 21st Century” scheme will lead to development of new businesses, regions, and lifestyles. Agricultural business attracts a wide range of industries and life. As cost is inexpensive, the environment for IT, communications, traffic, and transportation will be improved and the regions where planned town making is implemented will be created based on the consensus of individual regions. Thus, a wide range of areas including consumption, education, research, hospitals, caring, health, residences, real

estate, tourism and so on will develop as rural industries. The activities of NPOs and volunteers will be more activated. If the infrastructure for financing and transportation is available inexpensively and equitably, the agricultural business, rural industries and entire regions utilizing such infrastructure can easily grow and develop.

When a big tide of leaving metropolitan areas for rural districts takes place, an industrial revolution begins in rural areas and a new form of the nation in the 21st century where people truly feel satisfaction can be established.

The current situations impose great risks on both farmers and the entire nation.

Risks of farmers

Collapse of the mechanism for maintaining income for both part-time and exclusive farmers

- Decrease in opportunities for sidelines due to economic depression
- Decrease in opportunities for the sales of agricultural lands due to decreased public works
- Decrease in subsidies with tightened treasury accounts
- Inflow of cheaper agricultural products from China and other countries
- Trend of free trade as seen in FTAs

Difficulty in freely selecting the path ahead

- Aging
- Lack of successors
- Difficulty in funding



Risks exposed to the entire nation

Increased food security risks

- When falling under twin deficits, it will be difficult to secure enough food.

Deteriorating environment due to the concentration in metropolitan areas

- Lack of good residential areas

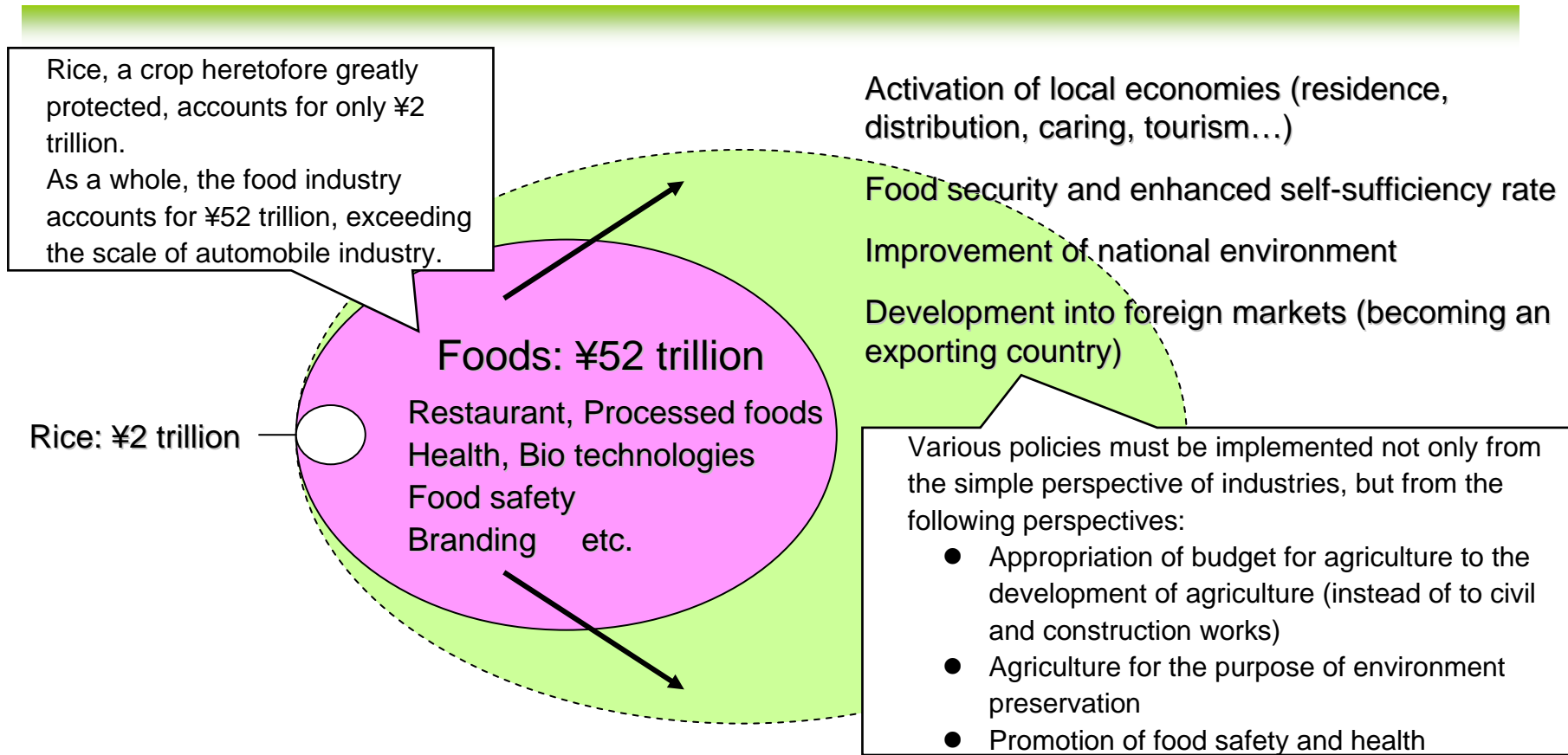
Further deterioration of local fiscal conditions

- Devastation and failure of regional economies due to “hollowing out of agriculture”
- Decrease in tourism resources due to the devastation of the natural environment



By developing agriculture into a growth industry, the opportunities for jobs and businesses will increase in agricultural villages. Agricultural villages must become attractive place for life and living.

An Industry revolution that begins in rural areas will activate both agricultural villages and metropolitan areas.



Creation of a new agricultural business highly satisfactory to consumers as well as existing farmers!

- Integrating into agriculture a customer-first-based business model cultivated in manufacturing and service industries
- Utilization of various human resources and organizations, including research and development, marketing, financing and sales

A third possibility of franchise

What is franchise?

Franchise business in the area of foods has already greatly grown over the past 20 years.

- Convenience stores, fast foods, chain restaurants, and bakeries

Mechanism where proprietary shops enter into contracts with franchise headquarters, participate in franchise chain, and in turn receive business know-how and brands.

- Members can expect increases in sales or enhanced business efficiency while maintaining ownership.
- Headquarters receive a certain amount of royalties.

Franchise in terms of agriculture

Part-time farmers (the majority of farmers in Japan) are micro in scale and lack sufficient resources.

- They wish to continue farming and maintain agricultural lands.
- To depend on agricultural cooperatives alone is threatening them.

Franchise cultivates the path for harmonized existence and prosperity for farmers who are concerned over the advancement into agriculture by joint stock companies.

- With the introduction of new management and operation system, franchise provides a mechanism by which part-time farmers continue farming.
- If agriculture grows to be an industry with which people are more familiar through the production management technologies at which Japan excels, more young people will seek jobs in agriculture.

Franchise as the partner for the management reform of agricultural cooperatives.

- Targets for tie-up, loan extension and investments
- Self reliance and decentralization of individual agricultural cooperatives