

The impact of trade liberalization on producing regions in an importing country and a successful region: The case of Japanese orange industry and Mikkabi-town, 1970s – 1980s

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Abstract

While the advance of globalization is significant today, market-opening is often viewed pessimistically from a perspective of a huge impact on local economies in an importing country. In Japan, a critical voice is raised to Trans-Pacific Strategic Economic Partnership Agreement (TPP) from the agricultural sector, which is especially uncompetitive and placed in difficult situation in local regions.

However, the influence of market-opening is not necessarily insurmountable. From a historic perspective, some producing regions survived in a liberalized competitive market. As the illustration, this research discusses Japanese orange industry and the successful producing region, Mikkabi-town, in liberalization of the orange market in Japan.

While trade of orange was liberalized in Japan in 1991, producing regions had been afraid of liberalization for decades owing to the precedent of lemon-producing regions devastated by the trade liberalization in 1964. When Japanese orange market became in a state of excess-supply during 1970s and 1980s, a sense of economic crisis

in producing regions brought about intense quality-competition for survival. Under the circumstances, these regions considered the trade liberalization as the worsening of the crisis, and they were dead set against it. At the end, as liberalization of the orange market was determined in 1988, many producers withdrew from the industry.

By contrast, some regions like Mikkabi-town well survived and rather grew despite of the liberalization. Mikkabi region made a strong effort to grope for competitive position during 1970s and 1980s. In the process, Mikkabi eventually launched drastic self-reorganization in pursuit of high-quality oranges. However, this effort did not mean that Mikkabi was addicted to only domestic situation. Mikkabi wove international quality standards into self-reorganization. Although the liberalization remained a potential threat during the period, Mikkabi internalized a potential threat in self-reorganization. In fact, Mikkabi was nearly unaffected by the actual liberalization, and achieved further growth even after the liberalization.

The historical experience of Japanese orange industry indicates that producing regions may be able to well survive, depending on regions' response. Drastic self-reorganization involved with internal threats can be an opportunity for an importing country to mitigate the impacts of the actual liberalization and obtain competitiveness in the liberalized market.

Keywords: trade liberalization, importing country, producing region, self-reorganization

1. Introduction

Today, globalization has advanced tremendously. But the opening up of markets is actually often viewed pessimistically from the perspective of the huge impact it has on the local economies in importing countries. Even if we use recent Japan as an example, some in the agricultural sector have criticized the impact of the Trans-Pacific Strategic Economic Partnership Agreement (TPP) for putting this sector in an especially difficult situation.

However, the impact of liberalization is not necessarily insurmountable (or impossible to absorb). Historically, some producing regions have survived and coexisted with liberalization. To illustrate this point, this research discusses the producing region of Mikkabi-town that has been particularly successful within the “Japanese orange”¹ industry, despite being exposed over a long period to the threat of the liberalization of oranges, which was finally carried out in 1991. Not just in Japanese orange producing regions, but also research into Japanese orange producing regions (for example, Asano 1984; 1987), a trend toward strongly criticizing the policy of promoting liberalization has become deep rooted, as it is assumed to cause the decline of producing regions. On the other hand, within the context of this predominant

¹ While its official name is the Satsuma Mandarin or the Citrus unshu, in this paper this type of orange is written as the Japanese orange. In addition, the Japanese orange has the following characteristics.

(a) After the Second World War, exports remained at only about 2% to 3% of the total harvest due to the strong yen.

(b) Compared to other countries, demand for processed goods (for instance, orange juice) has not expanded in Japan.

For these reasons, this research specifically examines the domestic market for unprocessed oranges.

opinion, Mikkabi has been a shining example of a success story. Mikkabi's producers and producing-region organization² responded positively to overcome the impact of liberalization and Mikkabi has continued to achieve further growth even after liberalization.

Many agricultural producing regions have criticized liberalization and the Japanese orange industry has been one of these critics. But from within this industry, how was Mikkabi able to create a situation in which it had the confidence to resist liberalization? And how was it able to achieve growth despite liberalization? The problem set in this paper was to clarify this path that Mikkabi created for itself in order to illustrate one possible path to survival for producing regions in importing countries facing liberalization. For this Mikkabi example, *Kumiai-dayori* which is the magazine of the producing-region organization, was used as the material for the analysis.

2. Two crises faced by Japanese orange producing regions: intensification of domestic competition and liberalization

As shown in Figure 1, the Japanese orange industry has experienced dramatic ups and downs since the end of the Second World War. Against the background of the active demand in the postwar period and the support of the agricultural administration, the Japanese orange industry grew remarkably in the 1950s and 1960s, but during the

² There are two organizations in Mikkabi; an agricultural cooperative that plays the role of guiding producers in their production, and a shipment cooperative that plays a role for shipments and sales. These two organizations closely cooperate to the extent they can be considered together, and so in this paper, the term "producing-region organization" is used to refer to both organizations

1970s and 1980s, it fell into a situation of over-supply and began to shrink. Due to the reduction in sale prices because of this over-supply, the profitability of producing Japanese oranges also declined significantly. As a result, a sense of economic crisis increased considerably within Japanese orange producing regions and competition between them intensified as they fought for survival. Also, a characteristic of the Japanese orange industry is that it exports practically no produce and that there is also only partial demand within Japan for processed goods. So basically, all of the Japanese orange producing regions have aimed to secure a position in the domestic market by producing and selling unprocessed Japanese oranges, which has served to intensify the competition between these regions.

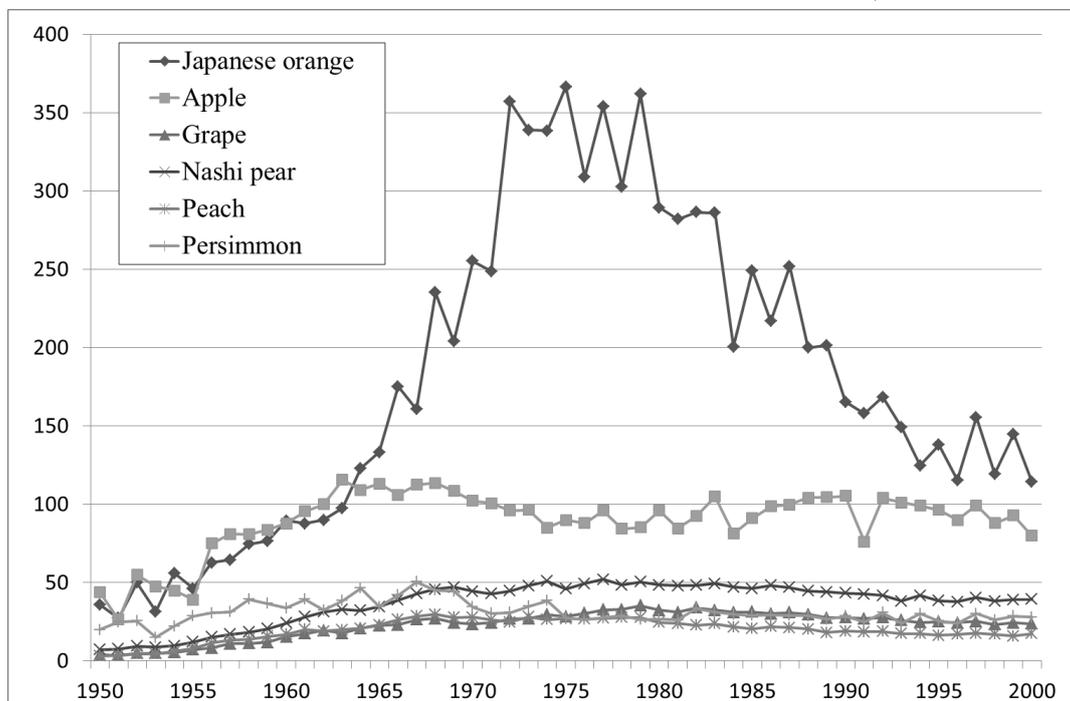
In the 1970s and 1980s, the producing regions were confronted with another crisis; the advance of liberalization. The Japanese fruits market up until the 1960s was predominantly self-supplied by domestic producers. But from the 1970s, liberalization was advanced for various items (please refer to Table 1) and the percentage of the fruit market that was self-supplied relative to the total supply declined (please refer to Figure 2). Within this advance of the liberalization of fruits, Japanese orange producing regions also felt threatened by the potential liberalization of oranges, a competing product. The Japanese orange producing regions were well aware of the fate that befell Japan's lemon producing regions, which were devastated following the liberalization of the citrus lemon in 1964. So they continued to feel a strong sense of crisis about a similarly destructive impact that the liberalization of oranges might have on them. Within the advance of the liberalization of imported fruits, imports of oranges

began to increase somewhat from around the second half of the 1970s, and the producing regions throughout the country came together to mount a fierce political opposition to this development, with the objective of completing blocking their liberalization.

In this way, in the 1970s and 1980s, the Japanese orange producing regions were not only confronted with the issue of the intensification of domestic competition due to over-supply, they also faced the threat of liberalization that further aggravated their situation, so they conducted their businesses with intense feelings of crisis and tension. It was considered that if oranges were liberalized during this period of increasingly widespread competition between the domestic producing regions that were fighting for their survival, then their situation would become extremely serious. But despite the opposition from the producers, in 1988 the Japanese government resolved to liberalize the import of oranges from 1991. At the same time, as a domestic project to prepare for the liberalization of imports, the Japanese government decided to provide economic support for producers' withdrawal from the production of Japanese oranges. Many producers took advantage of this project to withdraw from their production when faced with the untenable position they had been placed in by the two crises described above, and Japanese orange producing regions declined (please refer to Figure 3).

Figure 1: Trends in the volume of fruit produced in Japan

(Unit: 10,000 tons)



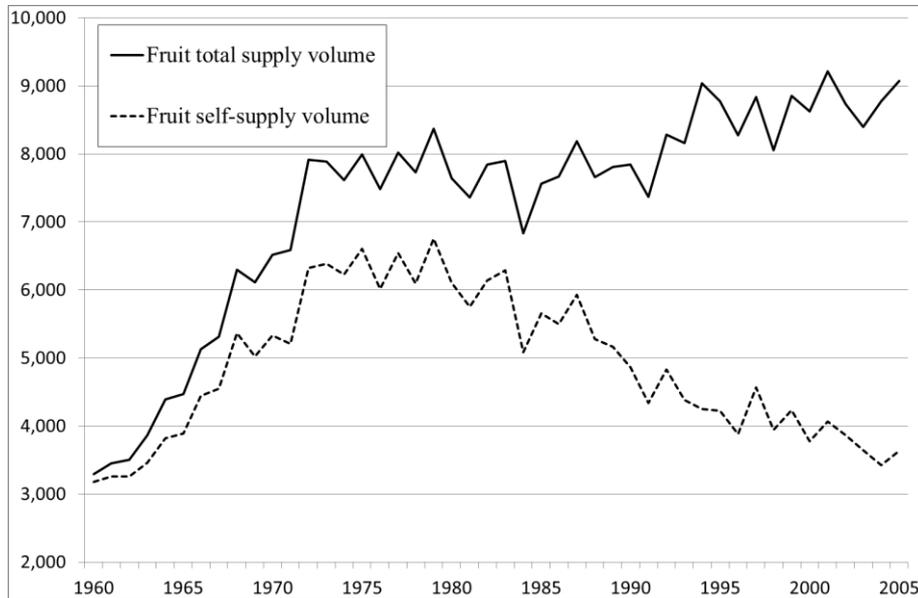
(Source) prepared from the *Statistics of the Production and Shipment of Fruits and Nuts* published in each of the years

Table1: Trends in the liberalization of fruit in Japan

	Item
1963	Liberalization of banana imports
1964	Liberalization of lemon imports
1971	Liberalization of grape, apple, and grapefruit imports
1977	Liberalization of American-produced cherries
1978	Expansion of the quota for imports of oranges
1979	Expansion of the quota for imports of orange juice
1986	Liberalization of imports of grapefruit juice
1989	Liberalization of Tomato ketchup and tomato juice, reduction of the tariffs on grapefruit and lemons
1990	Liberalization of the imports of apples, grapes, and pineapple juice
1991	Liberalization of the import of oranges
1992	Liberalization of the import of orange juice

Figure 2: Trends in the volumes of the total supply of fruits and the self-supply of fruits in Japan (1960 to 2005)

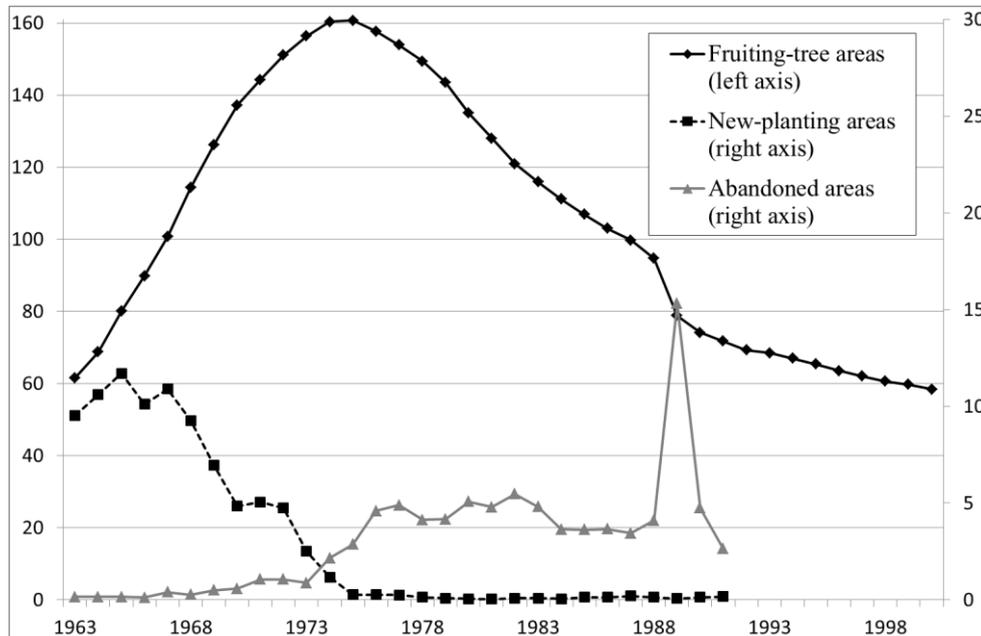
(Unit: 1,000 tons)



(Source) prepared from *Table on Food Demand and Supply*

Figure 3: Trends in sizes of fruiting-tree areas, new-planting areas, and abandoned areas in Japanese orange producing regions

(Unit: left axis: 1,000ha, right axis: 1,000ha)



(Source) prepared from *Statistics on Areas of Cultivated and Planted Land* published in each of the years

3. Liberalization and Mikkabi's self-reorganization

But within this crisis, Mikkabi not only survived, it actually prospered. So how did Mikkabi respond during a period characterized by a sense of crisis in domestic conditions, caused by the intensification of competition due to excess-supply, and a sense of crisis in international conditions, caused by the pending liberalization? Also, how did it overcome the difficult conditions in the 1970s and 1980s that resulted in the withdrawal of many producing regions and go on achieve growth in the 1990s even after liberalization? We will consider these questions below.

3-1. International standard for taste and Focusing on varieties

Based on the quality-based competition resulting from the domestic excess-supply, the orange producing regions aimed to create brands for their products and the intensification of competition to achieve the highest quality could be seen. On the other hand, Mikkabi was also conscious of the threat posed by liberalization. Even though liberalization was ultimately only a potential crisis at this time, it was a threat that had to be considered, because the steady way it was advancing meant that before long, it was going to become an actual threat. Mikkabi was aware that this situation represented a crisis for the domestic producing regions³.

While on the one hand considering domestic competition, a subject of

³ Takahashi, Kazuma. 'Appaku nosei o hanekaese' *Kumiai dayori* Aug. 1978: 2.

discussion in Mikkabi also came to be what direction to take and what structure to build in order to deal with the threat posed by liberalization. Initially, from the viewpoint that it had to become internationally competitive within an environment of liberalized trade, Mikkabi focused on how to rationalize its business operations, such as by expanding their scale. It considered that it had to rationalize its operations to enable it to rival the cost competitiveness of overseas producers⁴.

But it seemed that gradually it came to realize that it needed to consider a new focus for this problem due to the differences in production in Japan and overseas. For example, in the orange industry in America, each enterprise tended to conduct large-scale management on properties of tens of hectares. But in contrast, in general Japanese producers conducted small-scale management of properties of no more than one or two hectares. As a result, it was thought that these differences in the scale of land under cultivation limited the extent to which Japanese producers could compete against overseas producers by rationalizing their businesses. In addition, the yen was continuing to strengthen at that time, so they considered it unlikely that they would be able to rival the cost competitiveness of overseas producers. So securing the domestic market, in which the importance of high quality produce had increased due to the excess-supply from domestic producing regions, also became the focal point for dealing with the threat of liberalization.

⁴ 'Watashi wa ko ikiru' *Kumiai dayori* Oct. 1971: 2-3. Ishibashi, Kenji. 'Keiei kaizen no hosaku' *Kumiai dayori* Oct. 1971: 5.

“Consumers will not buy even imported oranges if they don’t match their preferences. We have nothing to fear from imported fruits. We have resolved in advance to produce products that can resist external pressures. There is no other path to take than producing Japanese oranges that consumers want to buy.”⁵

At that time, within the competition between domestic producing regions, the spotlight was being placed on producing high quality Japanese oranges; specifically, on (a) the homogenization of the quality of shipments (as in general, agricultural produce tends to lack uniformity), and (b) the production of Japanese oranges with high sugar content to address the taste issue. In general, the responses seen were methods for improving homogeneity for each transaction lot by the strictly separate classification of Japanese oranges with high sugar content produced by some skillful producers and those of other Japanese oranges. These responses resulted in the overheating of competition between the producing regions.

From the perspective of addressing the issue of liberalization, the response investigated by Mikkabi was (b), the issue of taste, and as a specific approach to improving quality, its discussions came to be centered on producing a good-tasting Japanese orange that would be internationally competitive. In this case, based on organizational magazine at that time, the specific international standard for sugar content for a good-tasting Japanese orange was understood to be 12 degrees Brix or

⁵ ‘Korekara no mikan noka wa’ *Kumiai dayori* Aug. 1984: 9.

above. So Mikkabi decided that in the future, it could not produce Japanese oranges below this international level⁶.

Within this focus on taste not only for domestic competition, but also to deal with liberalization, Mikkabi had started to achieve success in the domestic market up to the mid-1970s when it introduced and began producing the Aoshima variety, which was a Japanese orange with a particularly high sugar content. Mikkabi had introduced the Aoshima variety as far back as 1959, but it had remained simply one variety among the many that were produced within the region. But in 1972, based on a proposal from a wholesale company, Mikkabi began to ship boxes containing only the Aoshima, unlike the usual policy of mixing it with other varieties, which has become the turning point. The Aoshima had a stably high sugar content that on average exceeds the 12 degree Brix standard and it began being sold at a high price in the domestic market⁷. Mikkabi also began to pay increasing attention to this variety upon considering not only its excellent market performance, but also in terms of its future policy as a producing region and also for the businesses of each individual producer.

At the point of the middle of the 1970s, within the atmosphere of crisis produced by the two issues of competition between domestic producing regions and the threat of liberalization, Mikkabi was able to stably produced Aoshima at the level recognized as being the international standard and moreover, the variety continued to achieve excellent results in the domestic market. Then, in addition to this situation, a

⁶ Oishi, Yoshihisa. 'Umai mikan o tsukure.' *Kumiai dayori* June. 1971: 2-3.

⁷ 'Mikan kakaku wa izen teimei.' *Kumiai dayori* Mar. 1973: 8. '54nensan mikan no hansei to kongo no doko o saguru.' *Kumiai dayori* May. 1980: 3-7.

new development was seen from the second half of the 1970s that brought about a radical change in Mikkabi's approach. We will consider this below.

3-2. Changes in the domestic environment and self-reorganization in Mikkabi

On the other hand, if we turn our attention to developments in domestic competition, within the growing sense of crisis due to the intensification of the competition between domestic Japanese orange producers, a new development was taking shape in the retail division, of the rapid growth and rise to prominence of volume retailers at the expense of small retailers that had played the main role in the division up to that point. Based on this development and with the goal of becoming more competitive in the domestic market, Mikkabi worked to strengthen its measures for these volume retailers. It developed a new approach, of instead of its competitiveness as a producing region being derived from small lots of high quality Japanese oranges for existing retailers, it would strengthen its competitiveness in the volume retail market that was growing at a remarkable rate. In other words, it had to achieve large lots of high quality produce.

In this situation, the core of Mikkabi's policy as a producing region became unifying its varieties into a single variety. At that time, its shipments were mixtures of in excess of 20 varieties, each with a different level of quality. But by unifying these varieties into a single high-quality variety, Mikkabi aimed to realize large lots that were also high quality. Its choice for this single variety was the Aoshima, which was

already producing excellent results in the existing market. Against the backdrop of the variety of business conditions among the producers in excess of 1,000 in the producing regions, inevitably a range of varieties were being produced. In order to leverage this situation toward becoming more competitive in the volume retail market, Mikkabi aimed to unify its region into producing a single, competitive variety. In the context of the intensification of competition in the domestic market and the changes in the retail division, Mikkabi carried out a self-reorganization in order to switch to the Aoshima, with the goal of achieving sweeping reforms of its nature as a producing region.

However, it was not the case that this self-reorganization was carried out only against the backdrop of the competition between domestic producing regions. It was also carried out to help prepare for the actualization of the potential threat posed by liberalization. At that time, the producing regions across the country developed a political opposition to the liberalization of orange imports, and the government also informed the producers it was moving in their direction. However, Mikkabi considered that this approach was destructively pushing them toward having no future. Therefore, it considered that, “While it is important to focus on winning the competition among the domestic producing regions, we must also consider how the wave of liberalization should be dealt with by taking an international perspective today⁸.” The Japanese orange, which up until that time had only been subject to competition among domestic producing regions, would have to rival imported fruits in international competition. In this environment, Mikkabi ultimately considered that it had to create and position its

⁸ Shimizu, Osamu. ‘Isoge yuryo keito e no koshin.’ *Kumiai dayori* Apr. 1978: 5.

own competitiveness in market sales. So within this environment, even in its response to liberalization, it decided to adopt a policy that had variety as the core aspect; namely, “In order to win and survive, at an early stage we decided to switch to a variety with superior quality and to make the position of Mikkabi unshakeable⁹.”

Mikkabi’s subsequent switch to the Aoshima was helped by the success that the variety had already achieved in the existing market, the activities the producing-region organization carried out to persuade its producers within the region, and the support it provided for their switch, and as can be seen in Figure 4, shipments of Aoshima grew rapidly. Although Mikkabi spent more than 10 years on self-reorganization, the Japanese government finally decided to liberalize orange imports in 1988, by which time Mikkabi had reached the stage where its reorganization was practically complete.

Following this decision to liberalize orange imports, other producing regions, which had not implemented sufficient measures to prepare for liberalization by this time, had no choice but to withdraw from production, and their withdrawal was carried out through a government project. On the other hand, Mikkabi was already at a level where, as described below, it was confident it could compete even after liberalization. Further, the liberalization decision spurred it to take its own decision to make even more sweeping structural reforms. Specifically, in order to be a winner in an environment characterized by the liberalization of orange imports and competition between producing regions, in 1989, as part of its sweeping reforms, it decided that it

⁹ ‘Antei seisan to kosei aru sanchi zukuri.’ *Kumiai dayori* Aug. 1978: 9.

would not ship varieties other than that it specified for itself as a producing region, and thoroughly implemented its policy of competing only through the Aoshima¹⁰.

“With liberalization set to happen next year, it is already too late to talk about what policy to implement in response. But the truth is that the other producing regions are currently desperately hurried about what will happen if they don’t come up with some kind of response. At Mikkabi, since the second half of the 1970s we have been working to switch to a single variety, as even at that time we were aware of the need to respond to liberalization. So we are not panicking¹¹.”

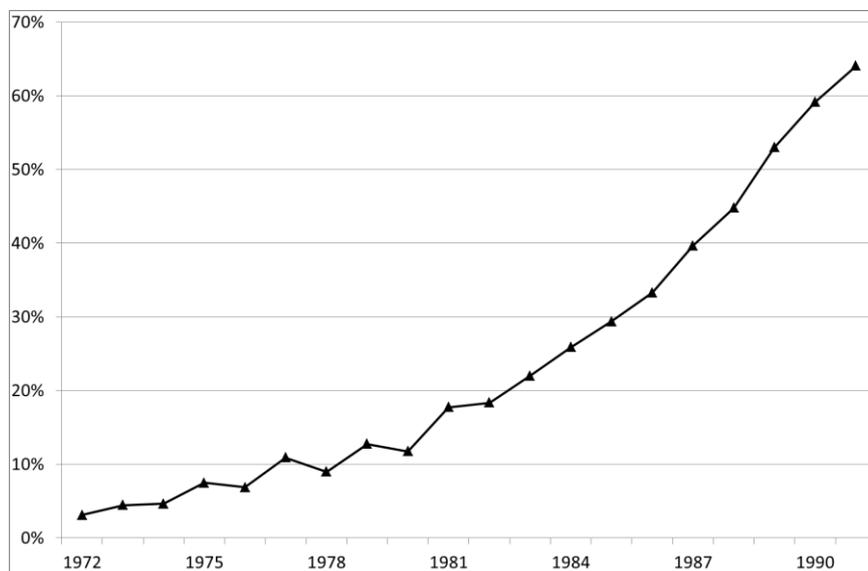
In harsh environment, the producers in the other producing regions were withdrawing from Japanese orange production prior to the crisis and these regions declined. But Mikkabi actively formed a position for itself in the market and grew practically unaffected even after liberalization in the backdrop to this series of self-reorganization measures. In the domestic market also, Mikkabi achieved its initial objective of responding to the needs of volume retailers and successfully created an important position for itself within the competition in the domestic market. Further, having progressed preparations so that it could deal with this liberalization, Mikkabi, developed its business without experiencing too many problems from the impact of

¹⁰ ‘Futsu unsyu toriatsukai heisei 7nensan made to kettei.’ *Kumiai dayori* Aug. 1989: 12.

¹¹ ‘Jiyuka jidai o mukaeta Mikkabi mikan no ikinokori sakusen.’ *Kumiai dayori* Sep. 1990: 5.

trade liberalization. Other producing regions were seen to adopt approaches for international standards as individual businesses or as small groups, but the strength of Mikkabi as a producing region was that, through self-reorganization, it was able to realize this approach for the region as a whole.

Figure 4: The trend in the Aoshima shipments as a percentage of total shipments from Mikkabi



(Source) prepared from *Mikkabi-cho kankitsu-shukka kumiai ed.* (2009)

4. Conclusion

This research focused on the Japanese orange industry and orange liberalization, and particularly analyzed the success of Mikkabi. Within the intensification of competition between domestic producing regions, Mikkabi created a competitive edge for itself by concentrating on the volume retailers that had newly achieved growth; specifically, it succeeded domestically by focusing on the production

and shipment of high-quality oranges in large lots. However, this does not mean that Mikkabi was caught up only in its domestic situation at that time. In addition, as it aimed to produce a high-quality product and after having focused on a single variety that exceeded international quality standards, it also followed a path of continual self-reorganization. On this point, even though liberalization remained only a potential threat at that time, Mikkabi internalized its response to this potential threat through a process of self-reorganization. Therefore, by the time the Japanese government decided to liberalize oranges, Mikkabi had already ceased to consider their liberalization a threat, even though this decision greatly shook the other producing regions. In actuality, Mikkabi was practically unaffected by this liberalization and instead, it subsequently continued to grow thanks to the competitive edge that it had constructed for itself during this period.

If we look at the historical experience of the Japanese orange industry, it can be said that liberalization and producing regions can coexist, although it depends on how the producing regions respond to it. The example of Mikkabi indicates one path that producing regions might take to respond to liberalization. Specifically, it was able to mitigate the direct impact of liberalization by internalizing the response to a threat before it occurred within a far reaching self-reorganization process that it carried out to respond to an increasingly serious domestic crisis. By adopting this kind of approach, producing regions in importing countries may be able to continue to achieve growth even after liberalization, as Mikkabi was able to do.

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