Teacher's Notes

Market Impact of an Embargo

The impact of the final determination of this case will be great no matter what the ultimate solution is. There are definite political and economic consequences. This section is meant as a further analysis of the impact of an embargo and how it would affect not only the United States but Japan as well.

United States

The previous estimates of the economic impact of the medfly on California agriculture considered the financial damage incurred through the infestation, the costs of controlling the pest, and the expenses of the quarantine system. As Siebert and Pradhan point out, another crucial question remains to be answered, however. What happens if export markets are eliminated or decreased as a result of embargoes on California agriculture? As it stands now, much of the state's exports are sent to Asia, an estimated $429 million market.

The country of principal importance in the Pacific Rim area is Japan. Once closed to imports, US agricultural exports have recently achieved tremendous success in reaching the Japanese market. Many experts believe that as the economic powerhouse of the region, Japan exerts a great deal of influence there. If Japan were to place an embargo on fruit suspected of being contaminated by the medfly, then so would the other countries in the area. If this market were lost, the impact on the agricultural sector of California's economy would be costly.

In the short run, the effect would be a decrease in the sector's net revenue. This loss, coupled with estimated increases in costs for the producers, would range from $1.057 billion to $1.440 billion according to Siebert and Pradhan. The long-term impact would likely be a smaller agricultural sector, either in size of farms or numbers of growers. There would most likely be tremendous losses in acres harvested, assets, and sales. An estimated 14,189 jobs would be lost. Ultimately, consumers would suffer. The impact of determining the medfly to be a resident would probably result in higher prices, decreased quality, and fewer choices.

Japan

The problem would be serious not only for the United States but for Japan as well. As a country with limited productive land, Japan would have to search for alternative providers that are not necessarily readily available. The problem would be intensified if it failed to source out other foreign producers to provide the embargoed goods for its domestic market.

While imports only account for approximately 5% of the Japanese produce market, the U.S. accounts for almost half of that share. It is true that with the increasing competition from Southeast Asian countries, Japan could most likely fill any void in its fresh-produce imports should it impose an embargo. The critical element to consider, however, is whether these countries could provide like-product substitutes for embargoed U.S. goods or whether Japan would simply have to import alternative products.

The answer is a combination of the two. Japan could import significant amounts of vegetables from other Asian countries, particularly China, Taiwan, and Thailand. However, there are other products, such as citrus fruit, that would be difficult for these countries to supply. A prime example is the importing of grapefruit. Japan has no domestic grapefruit production and, therefore, is forced to import 100% of its supply. The U.S. supplies more than 90% of Japan's imported grapefruit. Should Japan place an embargo on citrus fruit from the U.S. as a result of the medfly, it would have to search for alternative suppliers of this very important component of its fresh-produce import market. This is a market share that the majority of Asian countries are not prepared to supply.

Japanese Perspective

This section is based on a telephone interview conducted on January 29, 1998 with the Plant Trade Division of the Ministry of Agriculture and APHIS of the U.S. Agricultural Trade Office (ATO) in Tokyo. The purpose of this section is to provide the present circumstances of the medfly issue in Japan in order to stimulate students' analytical thinking.

The representative from the Plant Trade Division within the Ministry of Agriculture, Forestry, and Fishery (MAFF) basically avoided answering questions regarding MAFF's stance on the medfly controversy and the possibility of an embargo as its ultimate solution. During the phone interview, the MAFF representative simply stated that the transporting of the medfly into Japan is prohibited, and whether or not Japan stops importing products from areas where medfly-outbreaks occur depends completely on the U.S.'s handling of the situation. MAFF, however, evaded further questions regarding the ways in which Japanese actions depend on the U.S, and specifically avoided discussing how the chosen methods of eradication of the pest or the severity of an outbreak would affect Japanese decision-making.

The representative's unwillingness to answer the questions illustrates the complexity of the issue of the medfly as well as that of trade relations between Japan and the U.S. It is reasonable to believe that whatever actions MAFF takes as a result of the medfly reports from the U.S. will be contingent on such factors as the eradication method utilized and the economic circumstances in Japan at the time of the medfly outbreak.

APHIS at the U.S. Agricultural Trade Office (ATO) in Tokyo, on the other hand, had a rather straightforward opinion regarding the delicate Japanese position and explained it more frankly to us. According to APHIS, the medfly problem is not a new fear for the Japanese at all, but it would become so with confirmation that the medfly is a permanent resident. The ATO representative believes that there is very little chance that both the USDA and MAFF will accept the theory of permanent residency due to their economic co-interests. There is a definite economic co-dependence between Japan and the U.S., which drives its trade relationship. Therefore, rigid measures like an embargo would not be an applicable or feasible instrument for Japan in the case of a medfly outbreak in the U.S.