

[Field Research]

A Study on the Strategy of Japan as an Advanced Country in International Grain Distribution Markets

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Abstract

Purpose - The object of this paper is to ascertain how Japan has become a powerful trader in the international grain market. A case in point is the world's third largest U.S. major grain trader, Gaviolon, merged with general trading company Marubeni in 2012. What are Japan's strategies and their implications?

Research design, data, and methodology - The study analyzed Japanese Ministry of Agriculture, Forestry, and Fisheries data, and data from daily and weekly papers. The paper employed various data and research methodologies.

Results - The Lee Myeong-Bak government tried for three years to create a company similar to Cargill, but the project eventually failed. On the other hand, Japan has emerged as a leader in the international grain distribution market for the past 50 years, with the cooperation of government and private companies.

Conclusion - The findings of this study show that Korea, China, India, and other countries' international major grain companies now compete to be powerful, major grain traders. South Korea could be the leader of the international grain market through the development of a more careful and long-term strategy.

Keywords: International Grain Market. Grain Major. Grain Distribution, Japan.

JEL Classifications: D30, P33, Q13, Q18.

1. Introduction

1.1. The Background Need and Purpose of the Study

In Japan, the Overseas Agricultural Development Foundation was established in 1969 under the cooperation of the Federation of Economic Organization, the Ministry of Agriculture, Forestry and Fisheries, and the Ministry of Foreign Affairs of Japan. After changing its name to the current Overseas Agricultural Development Association in 1974, it began agricultural cooperation with the developing countries in Southeast Asia, and is performing a leading role in Japan's overseas agricultural development as years go by. The Overseas Agricultural Development Association performs various roles, and the core role of among them is to help trading companies such as Marubeni, Mitsui & Co., Ltd, and Mitsubishi by providing a variety of information needed to procure food from abroad.

The trading companies of Japan are scrambling for grain in international grain markets on the other hand to the extent of worrying about overheating. However, determining that the business value of the food and grain procurement business is good, they are competitively performing the investment of a large amount that astonishes the world and are making considerable profits.

Meanwhile, the Lee Myung-bak administration planned to establish the Cargillof Korea in 2011; however, it is regressing by being quietly liquidated after three years. The aT Grain Company in which Samsung, STX, and Hanjin respectively had a 15% stake while the Korea Agro-Fisheries & Food Trade Corporation had a 55% stake was established in Chicago in 2011, but there was no sale for three years. It was a grain import & distribution company established with the capital of 2.5 million US dollars (approximately 2.6 billion won), but it applied for liquidation to the US court in September 2013, which was completed after that. The attempt for procuring overseas grain by a public enterprise with a weak sense of responsibility and purpose has come to nothing.

The problem was that the government authorities with a weak sense of responsibility lead the project, which was propelled by

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force against the will of private participating companies that stickled about participating in the project taking a dim view of the project. The government's budget of 75 billion won was put into the project for two and a half years, but this large amount of money was thrown away. Tens of billions of won out of the allocated budget were not used at all, but the company went through the liquidation procedure by the decision of aT that had the leadership in the project.

Although the Ministry of Agriculture, Food and Rural Affairs said that it would re-promote an international grain distribution company, there is a lot of skepticism about its prospect. It went through the liquidation procedure while it did not achieve the performance of taking 2.15 million tons of grain annually at all. It put the desire ahead without preparation and wasted the tax-payer's precious money and time. This was the project where the Lee Myung-bak administration tried to enable direct dealing rather than through major grain traders such as Cargill by promoting as the measures according to the rapidly increased international grain prices in 2008. It boasted that it would increase the self-sufficiency ratio of grain from 27% in 2010 to 55% in 2015.

The self-sufficiency ratio of grain is obtained by adding the quantity that can be stably secured from above to the domestic production amount. It was the Lee Myung-bak administration's explanation that the ability to secure required grain stably from abroad in case of emergency as well as domestic production is an important factor for food security in Korea, a food importing country. However, there have been controversies including criticism that the self-sufficiency ratio of grain is a figment in the academic circles.

The aT Grain Company mentioned that, beginning from ten thousand tons in 2011, it would procure 2.15 million tons of grain in 2015; however, not a grain was added after acquiring one thousand tons of soybeans in 2011. Several plans to secure reserve facilities including ten units of elevators were drawn up; however, they foundered exposing various problems only as a result of local territoriality, lack of information, and lack of pre-and-post preparation. This project exposed only the problems of the government-led project of interest and was recorded as a failure.

1.2. The Need and Purpose of the Study

The self-sufficiency of food of both Korea and Japan is around 40% as of 2014, which is very vulnerable in terms of food security, but there is a big difference in food security strategies between the two countries. Both countries are trying to procure food from the international markets as it has commonly become difficult to secure food domestically. However, there are largely differing results of the securement of oversea food between the two countries. Japan is emerging as a leader of international grain distribution markets to such an extent that Marubeni, a Japanese trading company, rose as the world's third largest grain trader in 2012. Other trading companies in-

cluding Mitsubishi and Sumitomo are also constantly trying to become a leader of international grain distribution markets. On the other hand, Korea's overseas food policy goes back and forth and is rather regressing without achieving a significant performance. However, the innovative clever schemes or the government authorities' will to promote policy and the renewal of general trading companies or firms' efforts are not shown explicitly. Even though the movement to procure food directly from the international grain distribution markets is being promoted again by some government departments, it has not reached the working stage yet. In these circumstances, this study aims to derive the implications that can be given to Korea by investigating the strategies of Japan that has emerged as a leader of the international grain procurement markets.

2. Theoretical Backgrounds

2.1. Security

The food security and securement of overseas food was explained as the concepts of traditional security and non-traditional security through "The Overseas Agricultural Development as the Measures for Ensuring Korea's Food Security". Recently, the international academic circles provides a definition that an era where the importance of a country's security is changing from traditional military or diplomatic security to non-traditional security such as food, environment and resources has come (visit www.rsis-ntsasia.org, the website of the Consortium of Non-traditional Security Studies in Asia). There have been continuously warnings that if national security is approached only with the conventional concepts of traditional security in the military or diplomatic level, security crisis by food security or climate change cannot be properly recognized and coped with (Kang, 2010).

National security has traditionally been accepted as the same concept as military also in the academic circles, because a military threat became the key factor in maintaining national security. It is a traditional logic of security to increase military strength for national survival as wars or external military threats threat all components of a nation such as its territory, sovereignty, people's lives and property. Arnold Wolfers was the only scholar who tried to define the security concept in earnest until the 1980s. He identified it: "Security, in an objective sense, measures the absence of threats to acquired values, in a subjective sense, the absence of fear that such values will be attacked". This has been a typical definition of security for a long period of time.

However, in the 1980s, various security concepts such as common security, comprehensive security, and cooperative security appeared. The concept of common security has its significance in that it emphasized the efforts to resolve issues in the global level rather than national level while calling for mutual cooperation between countries about non-traditional (non-military)

issues such as economy, resources, environment, population, and technology. The security concept is expanding to the new human-centered security concept coping with the non-military threats to human's safe life.

The importance of non-traditional security was emphasized through "The Problems of Non-traditional Discourse: Focusing on the Conflict of Energy-Food Security in the Legislative Process of the Bio-energy Act of Mexico" (International Political Studies Vol. 12 No. 2), Introducing the conflicts surrounding the priority of energy security and food security that have been made in the developing countries, they emphasized the importance of food security. Besides, studies on non-traditional security are rapidly spreading, and of the Consortium of Non-traditional Security Studies in Asia also appeared (Kim, 2010).

2.2. Food Security between Korea and Japan

The cause of the problem was argued and Korea's counter-measures were evaluated through "The Overseas Agricultural Development as a Plan to Ensure Korea's Food Security". It is an evaluation study conducted by an international student on Korea's agriculture. Kang Che-chek, a foreigner, showed the causes of Korea's crisis of food security that have been arranged by dividing into economic aspect, political aspect and environmental aspect (lack of farmland, lack of water, and global warming). Kang Che-chek thought that food security could be ensured through the means such as the maintenance of domestic production, reserve system, trade liberalization, and overseas agricultural development. In particular, overseas agricultural development was noted as an important element (Kang, 2008).

Kang Che-chek pointed out that Korea's overseas agricultural development has its limit in that its start was by the government in the 1960s. The overseas agricultural development was changed to the way led by the private sector in the 1980s. It tried to enter into Russia, China and Southeast Asia for securing food security. However, lack of the precise strategies and long-term vision was exposed. Korea's overseas agricultural development or entry into the grain markets was made as an ad hoc measure or an extemporaneous way not in respect of securing food security if the grain prices soared up. Such measures were repeatedly given up once the phenomenon of soaring grain prices evens out.

Light was cast on Japan's food security policy through "The Status of Japan's Food Security Policy". Japan has clearly presented the broad principle for establishing its food security system in the Basic Food, Agricultural, and Rural Act. This means combining import and reserve properly while basically improving agricultural productivity in Japan. Manuals to ensure food security have been prepared to cope with the unforeseen contingencies. Japan is getting prepared by carefully distinguishing between domestic and overseas food procurement plans.

In reality, Korea and Japan have many similarities in agriculture in many ways. They are also in a similar situation in terms of food security that is recently drawing attention.

Therefore, there is a need to carefully look at the food security plan taken by the Japanese government and companies and reflect its advantages in Korea's food security policy. In particular, while Japan is preparing the food security manuals that can be used for emergencies such as the outbreak of international disputes, it is a problem that the Korean government still has no specific policy that has been prepared for emergency (Kim, 2012).

Japan stipulated that companies play a leading role while the government plays an assisting role through "The Trends and Its Implication of Japan's Food Security Policy". According to the Ministry of Agriculture, Forestry and Fisheries, Japan's self-reliance ratio of grain is high enough to be comparable to self-sufficiency. Japan is a country whose food security is stable beyond a comparison with Korea. Therefore, it is necessary for our government and people to be cautious and benchmark the food security policy being conducted by the Japanese government and companies that are in a better situation than us.

The Japanese government has set the stable supply of food safe to eat to its people stably at any time as the most basic goal of the country. To ensure this, the Ministry of Agriculture, Forestry and Fisheries of Japan is using a large portion of its website to promote the information on food self-sufficiency ratio and plans for improvement of self-sufficiency ratio. The "Basic Food, Agricultural and Rural Plan" is posted at the position of the top priority in the main page of their website to provide adequate information. However, the website of the Ministry of Agriculture, Food and Rural Affairs of Korea is idle. It presents a contract as there is no information about food self-sufficiency in its website despite of low food self-sufficiency and food-self-reliance. It is pointed out that there is in fact no food security policy. In addition, it is difficult to find reliable data about food self-sufficiency (Lee, 2013).

The importance of food security that is being internationally focused through "A Study on the Measures for Ensuring Food Security for the Nation Security of Korea" by studying the measures for ensuring food security (Kim, 2010). Through "A Study on the Development of the Content for the Activation of Overseas Agriculture", it was pointed out that there are difficulties with the production or import of Korea's agricultural products due to lack of information on the agricultural environment, system, laws and investment of the relevant countries targeted for entry and the frequent legislative changes and changes in the investment environment of the countries targeted for investment. It pointed out that the government's role is not entirely satisfactory. It is time that the development of the content for the activation of overseas agriculture such as the general information on the countries targeted for entry and sharing of the government's support policy related to overseas agricultural development should be needed (Kim, 2011).

Studies on the issue of food security and the changes in international grain distribution markets are also being continuously conducted in Japan. The global food markets and demand and the situation of demand supply in terms of micro- and macro

economics were analyzed and the importance of food security and Japan's policy direction were proposed through "The Policy Process of Japan's Contemporary Agriculture". Honma argued that the switch-over from "We will keep it now" agriculture to "aggressive" agriculture is needed. He took a view of the changing history of agricultural policies according to the changes in economic structure of each Asian country such as Korea and Taiwan as well as Japan, saying that Japan's agriculture and agricultural policy faced a major turning point by the globalization caused by the progress of WTO negotiations or FTA. He analyzed the process of switch-over such as the Basic Agricultural Act, the Agricultural Land Act, and the Food Management Act in terms of the postwar economic development history.

Advising "It is important to ensure a deep pipe internationally for food supply" through "TPP and Food Security: the Phenomenon of Global Rice Supply and Potential", he said that it is feasible to increase the productivity of the developing countries by the Japanese technology transfer, and the relevant countries produce more than consumed. These countries need the export markets for remaining food, the need for the establishment of food distribution channel though the deep pipe with these countries by actively importing food from them was proposed. During the international grain prices soaring in 2008, the Japanese government decided to increase food self-sufficiency from current 40% to 50%; however, the Japanese people raised a question if that would be enough to ensure food security.

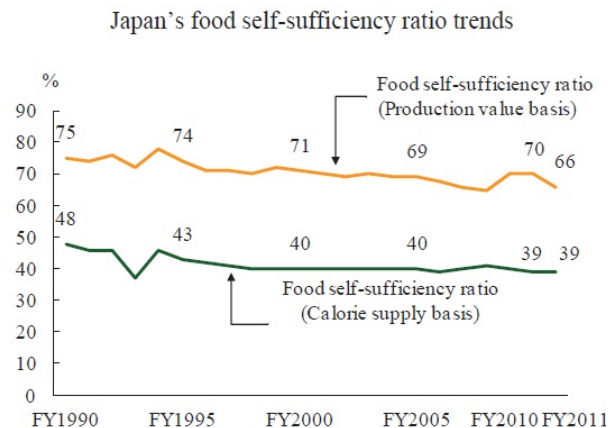
Through "The Basic Thinking Method for Food Security", food security was defined: "Food security is the food security of the national level. Producing basic food domestically to supply stable food to the people is the basic function of the modern state". At the same time, it was said that the integrity with food security from a global viewpoint as well as Japan's need and viewpoint themselves should be considered for food security. It was emphasized that they are separate issues. In other words, the fact that there are two sides (individual countries and international society) to the arguing about food security should be considered.

3. Japan's Food Security Policy and the Overseas Agricultural Development Association

3.1. Japan's Low Food Self-Sufficiency Ratio

With the intensified price fluctuations in world grain markets, the importance of food security has emerged as a very important factor to the countries except some countries whose self-sufficiency exceeds 100% such as the United States, Brazil, and Australia. Even the countries whose self-sufficiency exceeds 100% are making efforts to maintain the base for food production by paying various subsidies. Food security is receiving

attention as the core of non-traditional security together with climate change. Japan, a major food importing country, is making national efforts to increase food self-sufficiency. However, according to the Ministry of Agriculture, Forestry and Fisheries of Japan, the food self-sufficiency of Japan was only 38% (based on calories) in 2012. It is the same level as that in 2011, being still below the Japanese government's goal of 40%. Japan's food sufficiency has been around 30% for three years in a row, putting the Japanese government in a trouble. It is the exceptionally low food-sufficiency for a developed country (Fig. 1).



<Figure 1> Change in Japan's food self-sufficiency

The Japanese government predicts that the basis of the world grain market's supply would be difficult in the long run. Accordingly, the Ministry of Agriculture, Forestry and Fisheries of Japan is recognizing that it is indispensable to increase food self-sufficiency as much as possible in implementing the agricultural policy. Thus, it is trying to make the best use of food resources including rice fields and paddy and upland fields domestically. Even though Japan's grain self-reliance is high owing to the food secured by Japanese trading companies, the Japanese government is trying to increase its food self-sufficiency including the prohibition of grain export in order to get prepared for any emergencies. In Japan, the Japanese government and companies have put efforts for nearly fifty years, thus making a lot of good results in overseas agricultural investment including Marubeni's acquisition of Gavilon, a major grain trader, in 2012. It is the dramatic contrast to the situation of Korea with weak awareness about food security.

According to the Ministry of Agriculture, Forestry and Fisheries of Japan, the consumption of rice per capita in Japan was 57.9kg in 2012, recording the lowest level ever. As the production of rice was enough beyond the level of self-sufficiency, the Japanese government has implemented the policy to reduce the production of rice since the late 1960s. Meanwhile, the imports of the main grain such as beans, corns, etc. are increasing. With the declaration of participation in the Trans-Pacific Partnership (TPP), Japan is reviewing the switch-over of the goal of its agricultural policy from the improvement for the self-sufficiency of food calories to the ex-

pansion of productivity. It is promoting great switch-over of the rice policy in fifty years including the decision on the complete abolition of the rice production control policy, known as the “gentan” policy.

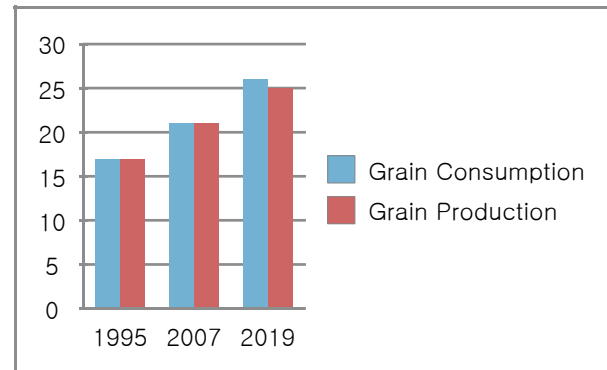
Such grain and food policies are contained in the “Basic Food, Agricultural and Rural Plan”, and the new 5-year measures are supposed to be confirmed and announce soon. Japan is putting the expansion of food productivity in the center of the policy by securing good quality farmland and fostering young professional farmers. Japan’s decision to switch its rice policy, which is the core of the food policy, in fifty years has the aspect of actively coping with the changes in the international situation such as the emergence of a new multinational trade environment called the TPP that is promoted by twelve countries including the United States and Korea. It also has the aspect of reflecting some critical comments from the academic circles and civic organizations that Japan’s international competition decreases due to excessive agricultural subsidies.

3.2. The Close Relationship between the Japanese Government and Private Companies

The Japanese government promotes the increase of domestic agricultural production as its basic plan for food security which is the core of non-traditional security. The maintenance of the basis of domestic food production is the top priority. In addition to this, it is operating the food policy by stipulating a proper combination of the reserve and import of food. Together with this, various food security manuals prepared and operated to get prepared for emergencies. It has such elaborate defensive measures to ensure food security. The “Food, Agricultural and Rural Plans” containing main policies for ten years to come have been established to put such Food, Agricultural and Rural Act into practice, and are amended as necessary by reflecting the changed circumstances every five years. The most recent basic plan was drawn up in 2010, but the basic proposal is expected to re-drawn up in four years in 2014 with the great swift-over of the policy for rice, which is the staple, in fifty years.

The basic plan predicts domestic and foreign circumstances, preparing diversified long-term scenarios to cope with the imbalance of global food supply. In addition, efforts to strengthen the ability to analyze the changes in the food supply of world grain markets are being made (Fig. 2). In other words, the information related to grain markets collected by the government departments with the Ministry of Agriculture, Forestry and Fisheries, and the Ministry of Foreign Affairs of Japan as the center are collected and the factors of the change in domestic short-term supply are analyzed to prepare the prospect of long-term supply. At the same time, markets are monitored in cooperation with other countries and the function of fair price formation is promoted to ensure the procurement of food at stable prices. In particular, the efforts to improve the problem that Japan’s import of food is relying on a small number of countries

and regions, that is to say, the high dependency of more than 60% of its imports of agricultural products on six countries and regions, have been made, resulting in a successful outcome. The international cooperation for seeking the stability of international grain distribution markets is also constantly being promoted.



<Figure 2> Global food supply and demand in 2019

According to the Food, Agricultural, and Rural White Paper of 2012, a small number of countries and regions on which Japan is depending for food import seem to include the United States (24.7%), China (12.2%), Australia (7.1%), Canada (6.9%), Thailand (6.5%), and others (37.6%). The strategy implemented by the Japanese government or companies in international grain markets is very prudent. The Japanese government does not come to the front in the overseas agricultural investment sector. Instead, it adopts the way of indirectly supporting the companies that invest in overseas agriculture. It adopts the way where the government and the related authorities provide information on the target countries when private companies carry out investment such as production, collection, transport, and export. It even designates the agricultural products to be produced from overseas farmland and the region in order to achieve the diversification and stabilization of the import of agricultural products. The Ministry of Agriculture, Forestry and Fisheries and the Ministry of Foreign Affairs of Japan are carefully implementing policies in a way of preparing the “Guidelines on the Promotion of Overseas Investment for Food Security”.

The fact that there is always a possibility of facing a criticism that Japan’s overseas agricultural investment is neo-colonialism is also considered. Thus, the Japanese government emphasizes responsible agricultural investment. It is a strategy that considered the criticism of the international media and research institutions that large-scale agricultural investment by the companies of some food importing countries negatively affects the agricultural development of the producing countries. To avoid such international condemnation, the Japanese government is taking discreet and stylish overseas agricultural investment strategy (Kim, 2012, “The Status of Japan’s Food Security Policy”). The Overseas Agricultural Development Association that will be separately introduced below is an example of performing such a

policy. The Japanese government is emphasizing that “the agriculture of the target country for investment should be in a form that sustainable progress is made and both of investing country and invested country are benefited” as the principle of action for the promotion of overseas agriculture. It is aiming to emphasize the contribution to ensuring the food security for mankind through the increase of total global production as well as ensuring stable food supply through overseas agricultural investment. It is also carefully making preparations for the growing controversy about neo-colonialism.

3.3. The Overseas Agricultural Development Association, the Pivot of Japan’s Food Security

The institution that has been operated to be a leader of international grain markets by collecting and analyzing the information on international markets and providing the results to Japanese companies in Japan’s entry into overseas grain markets. In 1969, Japan established the Overseas Agricultural Development Foundation, the predecessor of the Overseas Agricultural Development Association, to strengthen the agricultural development cooperation with underdeveloped countries mainly in Southeast Asia. It was a structure combined the power of the government and the people. The Keidanren (Japan Business Federation), the Ministry of Agriculture, Forestry and Fisheries, and the Ministry of Foreign Affairs of Japan joined together to establish a foundation to help private companies that promote overseas agricultural development such as general trading companies from behind through the development of various policies. As Japan has made efforts for overseas food development since before that, it has made long-term investment for nearly fifty years.

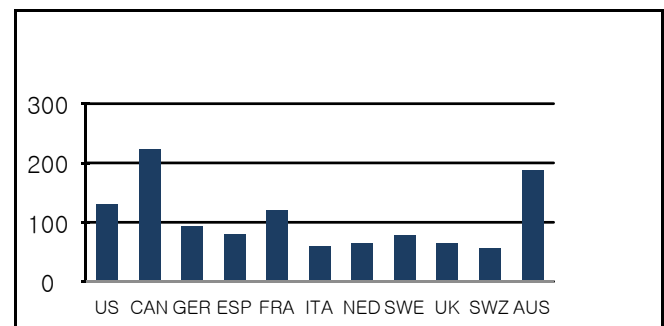
In particular, it had general trading companies such as Marubeni participate in the Association to let them know about overseas strategies. The Association took charge of collecting and providing the information on overseas agricultural markets. In particular, since its incorporation in 2008, its support for private companies has been further strengthened. The Association mainly provides advice for private companies and makes plans for overseas agricultural development. It supports the private companies that entered international grain markets in terms of technology and management, make the presence of Japan known to international grain markets, and analyzes the flow of grain markets. It also takes the role of dispatching the professionals from the government and the private sector for overseas agricultural development and performed the role of thoroughly examining and verifying the feasibility for the commercialization of overseas agriculture. It is making efforts to foster the personnel for overseas agricultural development, especially young talents.

The Association, on its web site, presented its main business scopes: a) the advice for private companies; b) dispatch of professionals; c) investigation and research; d) training by its training institute; e) the holding of seminars and lectures; f) the col-

lection and provision of information; g) the support for the projects of the China Agricultural Committee; h) the projects of the Tropical Wildlife Animal Countermeasure Committee; g) the projects of the Oil Crop Development Planning Committee; and h) development of Japan’s rural areas and fostering and securement of specialized agricultural talents.

3.4. The Fast-growing Global Demand for Food and the Struggle for Food

With the noticeably continuing economic growth of the emerging countries, the global population which is over seven billion people now is expected to exceed eight billion in 2025. The global demand for grain and food is also naturally expected to increase rapidly. With the rapid increase of the demand for food, there is increased possibility of the frequent occurrence of unpredictable food crises. Therefore, the struggles of the countries in the world to secure food are becoming fierce. Most of the countries that record relatively stable food self-sufficiency of more than 100% or 50% are developed countries (Fig. 3).



<Figure 3> Food self-sufficiency in the world's major industrialized countries

As explained earlier, Japan’s struggle for food is led by general trading companies such as Marubeni, Mitsui, Mitsubishi, and Itochu. Japanese trading companies are realizing a huge amount of profits by competitively investing in grain and resources, putting Japan on the leading position in international grain distribution markets. Japanese companies are competing for the grain business as it is being recognized as a lucrative business.

Japan’s coping with the international struggle for food has great implications for Korea whose situation is similar. The Japanese government took a lead in establishing the organization and supported private companies by collecting the information on the trends of international grain markets and developing policies. Such concentration effects are appearing in earnest nowadays after fifty years. The role of competitive human resources is also evaluated to be important. Professional traders of general trading companies are highly active in the international grain distribution markets where competition is fierce. The Japanese government and trading companies are cooperating to get thoroughly prepared for food resource nationalism that can

be reoccurred at any time. Japan has also prepared the early warning system to closely cope with the changes in trends of international grain markets.

4. Japan's Remarkable Achievements in International Grain Distribution Markets

4.1. General Trading Companies' Competitive Struggle for Food

The Japanese government and companies' efforts of nearly fifty years came to fruition, and Japan has emerged as a leader of international grain markets by supporting and cooperating with the general trading companies including Marubeni Corporation that has emerged as the third largest grain trader. Marubeni, that is headquartered in Tokyo, Japan, acquired Gaviion, the third largest giant company in the United States that handles grain and fertilizers, astonishing the world. In July 2013, the final acquisition procedure was completed. According to the Nihon Keizai Shimbun, in November 2013, the chairman of Marubeni, Asada Deruo, confidently declared that, Marubeni would jump up to be the first grain handling company in the world before Cargill in three years.

Achieving the annual grain handling quantity of sixty million tons at once in 2012, Marubeni became the third largest grain trader in the world. From the fact that the difference is only fifteen million tons as compared to seventy-five million tons of Cargill, the first largest grain trader in the world, it is realistic that the chairman Asada's comment does not seem to be a falsehood. The annual grain handling quantity of ADM (Archer Daniels Midland), the second largest grain trader, is seventy million tons, also showing no big difference. The annual grain handling quantity of Bunge, the fourth largest grain trader, is fifty-five million tons while that of Louis Dreyfus, the fifth largest grain trader, is thirty-five million tons, which is far behind. As seen from above, Marubeni has emerged as the third largest grain trader in the world at once by acquiring Gaviion, a giant grain trader, from a single handling quantity of 25 million tons.

<Table1> Status of the world's top five major grains (2013.3 Current)

| Ranking/ Company Name | Headquarters | Chwigeupry ang grains (in t) | Net profit |
|------------------------------|--------------------|------------------------------------|--|
| 1. Cargill | Minnesota, US | 7,500 | 1,122 billion yen |
| 2. ADM | Illinois, US | 7,000 | 1,173 billion yen |
| 3. Marubeni+Ron Garvey | Tokyo, Japan | 6,000 | 1,721 billion yen +200 billion yen |
| 4. Bunge | New York, US | 5,500 | - |
| 5. Louis-Toray Paz | Connecticut, US | 3,500 | - |

Source: International Weekly Diamond (2013).

At the time of the acquisition of Gaviion, Marubeni invested 290 billion yen (the exchange rate at that time: 96 yen per US dollar / currently: 101 yen), and was even evaluated to be gambling by risking the future of the company. The huge amount of investment exceeding Marubeni's annual net profit was evaluated to be even reckless. Although Marubeni says that it is a strategy for surviving in the competitive global struggle for grain that is becoming fiercer, it seems that the success or failure of investment can be determined after the lapse of time.

Marubeni has focused on building the supply network for Japan's domestic market supply for the last forty years, boasting a high market share in domestic grain markets. In the 1970s, it purchase grain elevators in Portland, United States, and established Columbia Grain Inc. (CGI). Marubeni took this company as the outpost for the expansion of procurement and strengthened the bases for import and production such as grain silos and assorted feed plants one after another at the same time in Japan to increase its presence in Japan's domestic grain business. Marubeni simply dedicated itself to the import of grain into Japan at first, but has changed its policy since 2003. In accordance with the policy of "We must expand our market to the world", it started a full-scale trade among three countries including Korea, China, and Taiwan. The key to the expansion of Marubeni's grain business was the fact it entered into a partnership with a leading grain trader (The strategic partnership was with ADM for the production, import, and sales of feed grains and seeds.) and then acquired Gaviion at last in 2012.

4.2. What is the Value for the Acquisition of Gaviion?

In November 2013, Marubeni announced the details of the annual reports of the second quarter and the third quarter, and the net profit (International Financial Reporting Standards) hit a record-high of 111.8 billion yen which is an increase of 23% as compared to the same period of the previous year. However, after the announcement on that day, its stock price tended drop for two consecutive business days. The cause was that Gaviion for which final acquisition was completed in 2013 by investing 270 billion yen recorded poorer profit than expected.

Marubeni guaranteed that it would "record the net profit of 15 billion yen without a problem", but Gaviion's net income was far less than initially expected. Gaviion has been included in the target of Marubeni's consolidation since last July. At that time, the profit for nine months was appropriated. However, Gaviion's announced net profit during the monthly period of July ~ September was only 0.6 billion yen as considering various cost factors, let alone 15 billion yen. The evaluation that profit is too small as compared to the investment of 270 billion yen was pointed out as the cause of the drop in the stock price for two consecutive days just after the announcement. It is analyzed that stock prices would be affected by the situation of international grain markets in the future.

Gaviion has more than 140 grain gathering bases across the United States. It is the third largest grain trader in the United

States and also the third largest grain trader in the world. As a warehouse rental company that gathers soybeans and corns from farmers in various regions during the harvest season in fall and store them in its bases (reservoirs), it is operating a business model that gets storage fee from farmers. It also generates trading revenues from the sales of gathered grain to the inside and outside of the United States. However, the profit from storage turned out to be significantly reduced. "Despite the bad harvest of the last year (2012) in a dozen of years due to a drought, American harvest crop reached an all-time high this year (2013). The United States Department of Agriculture reported that the grain inventory for the soybeans and corns at the end of August, 2014 is expected to increase by 2.3% and 20%, respectively. According to the prospect that the phenomenon of the declining grain price would continue due to such sense of excess, the strong tendency of selling off the grains produced in the previous year Gavilon's inventory sharply reduced, and therefore the revenue of storage fee obtainable from farmers was less." explained the *Nihon Keizai Shimbun*.

The problem is that the prospect after 2014 when the drought factor disappears is also uncertain. The weakening of Gavilon's substantial earning power is also expected. Marubeni analyzes that it would obtain an annual profit of at least 15 billion yen only if business is going along smoothly. However, the prospect becomes uncertain in the event of other factors as well as weather. Therefore, the *Nihon Keizai Shimbun* analyzed that Marubeni's prospect is also becoming the factor of uncertainty. However, the forecast of the annual net profit in the month period of March 2014 does not change. It is said to be at an all-time high with 210 billion yen, an increase by 61% as compared to the previous year. However, there is still a lingering doubt about whether Gavilon can realize profit as planned.

However, the Marubeni's acquisition of Gavilon itself is being analyzed as an exorbitant performance of Japan, because on single trading company acquired the world's leading grain trader, helping Japan jump up to be a leader of international grain distribution markets. Marubeni's acquisition of Gavilon gave unmeasurable value to Japan in terms of food security on which more emphasis is being laid as day by day simply beyond simply economic value. Furthermore, its value is also evaluated to be great in terms that Japan has broken its position of being dominated by the grain traders in international grain distribution markets and has formed an axis of international grain distribution markets. It is also a good precedent that Korea should take as a model to become a leader of international grain distribution markets.

4.3. Japan Expanding Its Territory in World Grain Distribution Markets

Marubeni affiliated Terlogs Terminal Maritimo Ltda, a port and harbor terminal operating company located in the Sao Francisco do Sul port in the state of Santa Catarina, Brazil in November 2011. It entered into a comprehensive partnership with a

Russian cargo logistics company (April 2010), and also entered into comprehensive partnerships with another Brazilian grain gathering company and Argentine grain gathering company, continuously making attempts to enter various countries in the world. Marubeni was only a small procurement company in international grain distribution markets in the past, but showed its ability to grow up as a member that influence international grain distribution markets, aiming at the first largest grain trader in the world.

Other Japanese trading companies, manufacturers, and cooperatives as well as Marubeni are actively participating in the international struggle for food. Toyota Tsusho Corporation, which is an affiliate of Toyota Motor, the world's largest motor company, entered into a comprehensive partnership with a strong grain trader in South America. After succeeding in the complete affiliation of a Brazilian company that has farmland for agriculture and performs gathering and sales of grain as a subsidiary (completely affiliated Multigrain S.A. as a subsidiary in May 2011), Mitsui & Co., Ltd. is making continuous attempts to secure grain.

Itochu Corporation established a new company with Bunge of the United States in June 2009 and constructed the largest grain export terminal in the West Coast of the United States. Sumitomo completely affiliated Australian Bulk Alliance (ABA), and Australian port and harbor terminal operating company, as its subsidiary (April 2010). In addition to that, Sumitomo conducted a complete management integration of Emerald P/L, a company engaged in gathering and sales of grain, and ABA (December 2011), aiming at increasing its influence. Gialinks Co., Ltd. Purchased farmland in Argentina and exports locally grown grain to Japan.

Mitsubishi Corporation, a leader of resource trading, established an acquiring company that operates grain gathering facilities in the inland area of the United States by investing on halves with Cargill of the United States (March 2012). By accepting the allocation of new stock to a third party of Seguros, a Brazilian grain company, Mitsubishi Corporation acquired 20% of the same company and agreed to the work of securing the priority in the acquisition of gathered grain from Seguros (January 2012), aiming at the promotion of the goal to be the first in Japan. In addition, Mitsubishi Corporation has partnerships with food processing companies in China and Brazil.

Sojitz Corporation established an agricultural business company in Argentina, South America and secured to start production of beans and corns in the humid Pampa area of the central part. Sojitz also entered into a strategic partnership for the export of wheat with the Russian Grain Association in 2010. The entry of Japanese trading companies or firms is being widely conducted to the extent that Toyota Tsusho Corporation participates in the international struggle for food. In order to expand the investment in the sales promotion of grain and vegetable oil seeds and the extraction and storage facilities in Brazil and Argentina, Toyota Tsusho Corporation entered into a comprehensive partnership with Nidera S.A., a large-scale grain

company, that shows a strong influence in South America in November 2010. After that, it is pushing the competition for securing grain without a stop.

In addition to companies, in May 2012, the Central Union of Agricultural Co-operatives also announced the establishment of the merged company to handle feed grains (the wheat procurement line as a priority) to be imported to Japan with the CHS, known as the largest crop and agricultural union. It is the situation where even cooperatives joined the struggle in international grain markets. Besides, a lot of Japanese trading companies and firms are getting prepared the entry into or already entered overseas grain markets under the advice and guidance of the Overseas Agricultural Development Association of Japan, showing the attitude of preparing long-term and thorough measures by the united efforts of the government and civic sectors against the weaponization of food that can be encountered at any time. It is a good example that should be benchmarked by Korea and Korean companies.

Japanese companies' struggle for food is being conducted in the grain-producing countries such as North America, Eurasia, South America, and Australia. The Japanese government and companies are going to the places where there is food. They have struggles surrounding the grain produced there with large grain traders. Due to such competition, international grain prices have already gone up threefold in ten years. It is the situation that Japanese companies are lighting a fire to the struggle for food. Japan is becoming a cause of the international grain crisis.

The investment scale of Japanese companies is large. Besides 290 billion yen (about 3 trillion won) of Marubeni, Mitsubishi invested 14 billion yen to take over a grain gather company of the United States while Mitsui invested a total amount of 45 billion yen to take over a bean producing company in Brazil. Having had fierce struggles in the grain distribution area as well, Japanese companies took over the bases such as the terminals or silos at the ports of various parts of the world and are operating them.

The investment regionally diversified is a very important element for food crops due to the natural disasters such as drought. According to the reports from Japanese media such as the *Weekly Diamond*, Japanese companies are involved in fierce investment competition in the continents other than the United States where major grain traders established themselves even though there is an example that Marubeni acquired Gaviion while catching others off guard. There is a movement to take over Brazilian or Russian grain companies. Not only Japanese general trading companies but also large enterprises and even cooperatives are expanding their territories in international grain distribution markets.

5. Conclusions and Implications

The Lee Myung-bak administration of Korea input budget and

manpower for the past three years to create a company as the Cargill of Korea. But, having no good results, the company went through the liquidation procedure. It is a dramatic contrast to Japan having Marubeni that emerged as the third largest grain trader in the world at once by acquiring Gaviion, a major grain trader. In Japan, manufacturers or agricultural cooperatives as well as the general trading companies engaged in the export and import of grain and resources are rapidly moving to secure the grain resources in the world.

The overseas expansion of these Japanese companies is not based on a short-term plan. The Overseas Agricultural Development Association which was supported by the Japanese government and participated by companies has continuously and carefully prepared it and established its ground for nearly fifty years. A long-term and careful strategy was operated. Even though Japan is one step ahead in food security which is the key of non-traditional security (NTS) by securing food stably even though international grain markets fluctuate due to climate change and lean years, Korea is not taking even a step forward. Non-traditional security is the concept that contrasts with traditional contrast represented by national defense and diplomacy. Ensuring security such as food and climate change is typical, and Non Traditional Security is abbreviated as NTS according to the initials.

Grain traders are now fiercely struggling for food with Korea, China, Saudi Arabia, UAE, Qatar, and India in addition to Japan. Furthermore, the struggle for dominance in agricultural product (grain) distribution markets is getting fiercer.

As Cofco, the largest Chinese state-run food trading company, that acquired the share of Nidera, a Dutch grain company with a history of 100 years, enters the leading grain traders' competition, there is an indication of intensification in competition between companies and countries in international grain distribution markets. It is considered desirable to refer to the successful cases to create the Cargill of Korea which was failed in the Lee Myung-bak administration. Above all, there are many study results arguing that careful long-term plans over decades are needed rather than one-off plan that fizzles out soon after being made when there is a crisis of a rise in prices and then calmed down. Such plans should be promoted persistently and tenaciously. According to Kim et al. (2012), Korea has repeatedly showed the tendency of being concerned for a while in case of international grain crisis and then forgetting it and fizzling out once food markets become stabilized. The Overseas Agricultural Development Association established under the co-operation of the Ministry of Agriculture, Forestry and Fisheries, the Ministry of Foreign Affairs of Japan, and the Federation of Economic Organization similar to the Federation of Korean Industries would be a good example.

In particular, as there are many prospects that the intervals of food crisis would be shorter according to climate change, it is not too early to hasten to prepare countermeasures. Therefore, there are suggestions that creating a council that supports companies' activities of acquiring food is a more rea-

sonable measure than promoting the Cargill of Korea. The government authorities will need to refer to the study results showing that the probability of failure is likely to be high if officials directly come forward.

It should be noted that the Japanese government and related provide comprehensive support and private companies take over the global networks of production, gathering, transportation, and export and affiliate with them. In a sense, Japan has presented the models of the food importing countries and the countries with lack of food. Though Korea's food security is extremely bad, the concerns about the government or civic society are relatively low. There are many results pointing out that it is too idle. Even though it is the worst situation where self-sufficiency was decreased from 80% (in the 1970s) to 40% last year and grain self-sufficiency stays at 20%, it is still too idle. Korea's grain self-sufficiency of the major crops except for rice is not more than 1%. Most crops and feed crops are procured from overseas, making the situation dangerous. Food security is so weak. Food security, which is Korea's non-traditional security is worsening and food crisis is being visualized. However, many advocates for comparative advantage are being pointed out for their lackadaisical stance that food security can be accomplished through the import of grain only is there is money.

This study intended to show that the need of overseas agricultural development is urgent even though the reserve system and trade liberalization are still good, and that the maintenance of domestic productivity base is most important to ensure food security. In particular, the example of the overseas agricultural development led by the Japanese government and the private sector can be said to give us enough implications and warning.

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