

Japanese Agricultural Cooperatives at Crossroads: A Review

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Abstract: Japanese agricultural cooperatives (JA) are considered as one of the best forms of farmer collective action in a small farmer dominated agricultural sector. The JA, since its inception, has remained as the backbone of the small farmer dominated agricultural sector. However, in the wake of trade and financial liberalization compounded by the changes in the agricultural and political landscape, the JA is facing stiff challenges and wider criticism undermining its role in the agricultural sector. The aims of this paper are to review the development of the agricultural cooperative system in Japan and examine their status in the context of the evolving economic order. The evolving economic order is exerting tremendous pressure on the JAs extensive business and service portfolios. Analysis of the JAs performance revealed that it is losing from almost all the agriculture-related businesses leaving a huge deficit to be bridged from the profits derived from the financial business. Given the declining trend shown in the financial business and the stiff competition with other financial institutions particularly due to financial deregulations, the JA cannot continue to depend on the financial business alone for its long term survival. The JA has initiated some progressive reforms among them mergers and consolidation are the major endeavors, however; so far only modest success has been achieved in turning around loss-making agriculture-related business ventures. It is inevitable that the JAs position will further erode unless steps are taken to revitalize the local agricultural sector. It is utmost important to formulate strategies to improve the competitiveness of farming and attract young blood to farming. One rational way to attain this is to improve the profitability of farming through consolidation of land to achieve economies of scale. The JA needs to take steps to retain the entrepreneurial farmers within their folds, as they will hold the key to the future of the Japanese agricultural sector.

Key words: Agricultural cooperatives • Agricultural sector • Economic liberalization • Japan • Performance of Japanese agricultural cooperatives (JA)

INTRODUCTION

Japanese Agricultural cooperatives known as *Nokyo* or JA with a membership of 9.4 million and a net worth of 5557 billion yen in 2007 is probably the largest farmer based organization in the world. In terms of JAs annual revenue of 56 billion US dollars in 2007, it could have been placed 38th on the fortune 500 list of companies. Agricultural cooperatives in Japan differ in many respects to agricultural cooperatives in other parts of the world. One important distinction is that the majority of the farmers in the country belong to the agricultural cooperative movement. Another important aspect is that the scope of the agricultural cooperatives is so comprehensive that they cover almost all economic and

welfare related needs of both the farming as well as the non-farming communities by operating simultaneously in many areas including credit, mutual insurance, purchasing, processing, marketing, welfare etc.

Japanese agricultural cooperatives are believed to be one of the best forms of farmer collective action in a small farmer dominated agricultural sector achieved through consolidating people, land resources, producing the needed food and providing the needed services to the community. In the post war era agricultural cooperatives were in the forefront of reviving the Japanese economy through its contribution to the agricultural sector. Agriculture has played a crucial role in the transformation of Japan's economy from a predominantly rural based to one of the world's most highly industrialized countries [1].

In this respect, the contribution of the agricultural cooperatives cannot be disputed. However, in the wake of trade and financial liberalization compounded by the changes in the agriculture and political landscape, the agricultural cooperatives in Japan are facing stiff challenges and wider criticism undermining its role in the agricultural sector.

The aims of this paper are to review the development of agricultural cooperatives in Japan and examine their current status in the context of the evolving economic order in Japan. This study is based on desktop research and analysis of secondary data obtained from the annual statistics on multi-purpose agricultural co-operatives published by the Ministry of Agriculture, Forestry and Fisheries (MAFF) of Japan.

Historical Development of Agricultural Cooperatives:

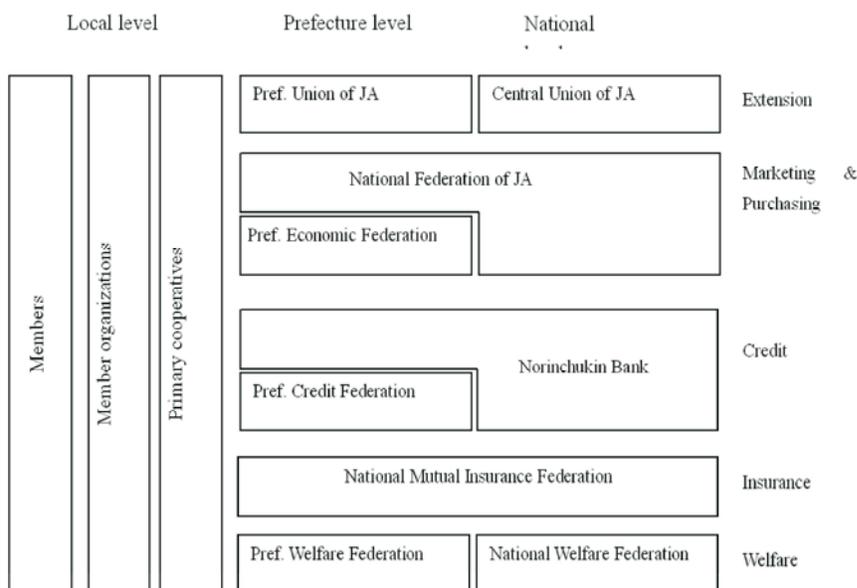
The historic evolution of the JA can be traced back to the traditional cooperative movement during the Tokugawa period (1603 to 1868) [2]. The traditional cooperatives became extinct with the abolishing of feudal rule by the Meiji restoration in 1868. The cooperative society law enacted in 1900 by the Meiji government based on *Raiffeisen* cooperative model gave birth to cooperative associations encompassing credit, marketing, purchasing and production associations. There was an unprecedented growth in number of cooperatives after the end of Russia-Japan war (1904-1905) and during the period of the First World War (1914-1918). The cooperative society law was revised as much as ten times to suit the contemporary needs of the time. The five year development plan of the cooperative associations (1933-1937) formulated to respond to the economic crisis of the Great Depression augured well to revitalize the rural economy. During the period of World War II, in order to mobilize village economies for the war, the cooperative system underwent changes as *Nogyokai* (Agricultural society) was setup by amalgamating the cooperative associations. Subsequently, *Nogyokai* was abolished and all economic activities were transferred to the agricultural cooperatives set up based on the Agricultural Cooperative Law of 1947. This law remains as the basic legal framework of the agricultural cooperatives in Japan. In the background of the enactment of the Agricultural Cooperative Law and the unique socio-cultural relationships and unity among members of the community, the number of agricultural cooperatives increased rapidly to more than 13,000 multipurpose and nearly 21,000 single purpose cooperatives by 31 December 1950 [2]. During the 1960s, with the significant growth of the Japanese economy, agricultural

cooperatives experienced rapid development. However, since the oil shock in 1973, the growth rate of the Japanese economy declined and hence, the development of the cooperative movement was curtailed [3].

Structure of Japanese Agricultural Cooperatives:

JA has a three tier hierarchical structure (Fig. 1) which corresponds to the national political administrative structure of municipal, prefectural and national government. The basic three-tier structure was established in the mid 1950s [4]. The basic unit consists of the primary cooperatives operating at the local levels such as city and village. The primary cooperatives are of two types; multipurpose and special cooperatives. The second level of the hierarchy at the prefectural level consists of the prefectural federations organized based on type of activity undertaken, while at the apex of the hierarchy are the national federations organized based once again on the type of activity undertaken. *JA-Zenchu* or central union of agricultural cooperatives is the apex organization representing the entire system. Its main activities include Agricultural extension, better living guidance, management guidance to cooperatives, auditing, agriculture policy representation and public relations. Other national level federations are *Zen-noh* or national federation of agricultural co-operative associations which deals with marketing, purchasing and processing businesses. *Zenkyoren* or national mutual insurance federation of agricultural cooperatives deals with insurance, while central cooperative bank for agriculture forestry and fisheries also known as the Norinchukin bank handles credit services. The national welfare federation deals with medical services and other welfare services, while *Nokyo* tourist cooperation, Japan agriculture news cooperation and *ie no hikari* charitable association are other national level organizations belonging to the JA system.

To reduce the duplication of activities at the prefectural and the national levels and improve cost effectiveness of the JA system, initiatives have been taken to restructure the JA system into a two-tier system by absorbing the prefecture level federations to the national and the primary cooperatives at the local level. Due to these restructuring efforts, already the prefectural mutual insurance and the economic federations have been merged with their national federations. Moreover, the Norinchukin bank (central cooperative bank) through vertical integration has created the JA bank system which consists of 765 primary cooperatives, 38 prefectural federations and the Norinchukin bank [6].



Source: Esham *et al.* [5]

Fig. 1: Organizational structure of the JA group

Primary Cooperatives: The primary agricultural cooperatives are the basic constituents of the JA system. It operates as a multifunctional economic entity by providing a wide range of services to the members. Services include agricultural extension, better living guidance, credit, insurance, marketing, material supplying, agro processing and welfare services. Agricultural extension involves providing guidance to member farmers to improve their farm management and productivity of farms. Better living guidance is aimed at uplifting the socio economic conditions of the member households by providing guidance on daily living and household management. The credit business involves providing financial services such as accepting deposits, making loans, remitting funds and offering other financial services to the members. Marketing services enable the members to secure higher prices for their farm products and utilize marketing facilities such as grading, storage, grain elevators and shipping. Purchasing business involves in proving high quality agricultural inputs as well as daily necessities. Processing business promotes value addition to agricultural products through processing primary agricultural products.

The general representative meeting acts as the highest decision making forum of a primary cooperative. This forum normally gathers once a year to make policy decisions and to appoint the board of directors. Representatives to this forum are selected from among regular members every three years. These members

become part of the management supervisory committee which is a mechanism put in place to ensure the member representation in the management of the cooperative. There are many other means by which member participation in the cooperative affairs is ensured among them are business- wise steering committees, product-wise producer groups, village level groups etc.

The number of primary cooperatives peaked in 1950s however, since then the number of primary cooperatives has declined overtime mainly due to various policy measures. More recently, under the import-liberalization for agricultural products, the central union of agricultural cooperatives decided in 1988 to promote mergers and structural reorganization [7]. As a result, as depicted in the Fig. 2, the number of cooperatives has drastically reduced from 3591 in 1990 to 719 by 2010.

Membership in the agricultural cooperatives is open to individuals and groups. There are two types of membership regular and associate. To qualify as a regular member it is necessary to be involved in farming. However, associate membership is open to non-farming individuals or groups in the community receiving services from JA. Both membership types have equal rights in patronizing services of the JA however, associate members have no voting rights. A majority of members elect the president of a primary cooperative from among the regular members. The JA membership has gradually increased overtime from 6.36 million in 1960 to 9.43 million in 2007, of which 4.88 million and 4.54 million are

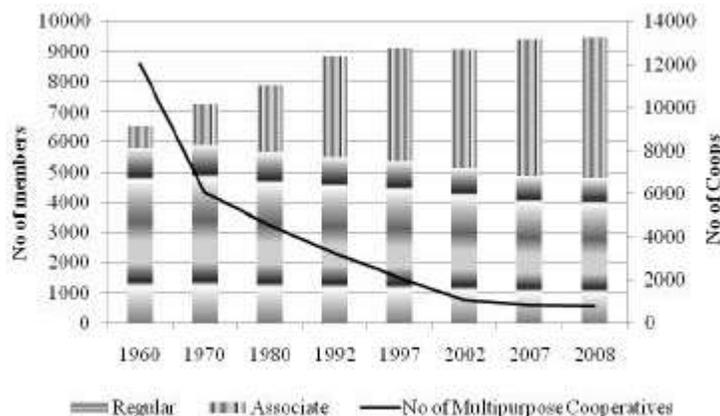


Fig. 2: Number of cooperatives and membership

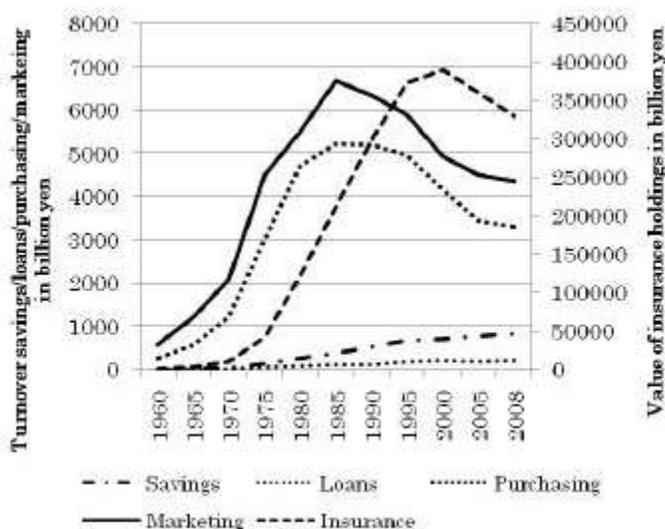


Fig. 3: Trends in the JA business activities

regular and associate members respectively (Fig. 2). The composition of membership in the agricultural cooperatives has undergone significant change during the past two decades, as of 2007 almost half of the members were non-farming associate members. This can be attributed to the changes that are taking place in the agriculture landscape of the country. Many farmers are moving away from agriculture to other occupations, while the contribution from agriculture to the total household income continues to decline. Although, there are 4.88 million regular members, currently the majority of them are not engaged in farming as national statistics reveal that there are only 2.61 million commercial farmers in the country [8].

Role and Performance of Agricultural Cooperatives:

In the past few decades, the agricultural cooperatives played a vital role in the agricultural sector of Japan. The JA model ideally suited the small farmer

dominated agricultural sector as evidenced by the overwhelming participation of farmers in the cooperative movement. However, with the economic liberalization and the transformation of the Japanese agriculture structure, the role of the agricultural cooperatives has changed. In line with these changes, the focus of the cooperative businesses and services has gradually shifted away from the agricultural sector. There are strong indications that the JA is distancing from its members as studies have shown that there are discrepancies between the JAs focus and the real needs of both farming and non-farming communities [9]. This becomes clear when the business activities and performance of the agricultural cooperatives are closely examined (Fig. 3).

The main agriculture-related business activities of the JA comprising of purchasing and marketing have peaked in 1985 and since then gradually declined. However, despite of the declining trend in terms of business

Table 1: Composition of the marketing business (turnover in billion yen)

	Financial Year				Annual rate of change		
	1995	2000	2005	2007	1995-2000	2000-2005	2005-2007
Rice	19694.9 (33.4)	12066.4 (24.4)	10272.5 (22.8)	9450.3 (21.7)	-7.7	-6.9	-4.0
Wheat, Barley and others	856.1 (1.4)	797.9 (1.6)	873.8 (1.9)	502.9 (1.2)	-1.4	-1.6	-21.2
Miscellaneous Cereals and Pulse	591.1 (1.0)	655.9 (1.3)	818.0 (1.8)	623.4 (1.4)	2.2	0.5	-11.9
Vegetables	12753.9 (21.6)	12881.3 (26.0)	11869.7 (26.3)	12415.5 (28.6)	0.2	-1.4	2.3
Fruits	7600.3 (12.9)	5433.9 (11.0)	4408.2 (9.8)	4480.4 (10.3)	-5.7	-5.6	0.8
Flowers & Ornamental Plants	2072.6 (3.5)	2025.7 (4.1)	1826.9 (4.0)	1700.5 (3.9)	-0.5	-2.0	-3.5
Livestock Products	11634.6 (19.7)	12356.8 (25.0)	11935.4 (26.4)	11465.0 (26.4)	1.2	-3.1	-2.0
Others	3843.1 (6.5)	3289.8 (6.6)	3144.7 (7.0)	2841.8 (6.5)	-2.9	-5.2	-4.8
Total	59046.7	49507.7	45149.2	43479.9	-3.2	-4.1	-1.8

Note: values in parenthesis are the percentage shares

Table 2: Composition of the purchasing business (turnover in billion yen)

	Year				Annual rate of change		
	1995	2000	2005	2007	1995-2000	2000-2005	2005-2007
Production Materials	336.7 (7.8)	292.9 (8.0)	269.3 (8.9)	276.6 (9.5)	-2.6	-1.6	1.3
Fertilizer	287.9 (6.6)	251.9 (6.9)	218.4 (7.2)	212.9 (7.3)	-2.5	-2.7	-1.3
Agro-chemicals	371.8 (8.6)	359.1 (9.9)	337.6 (11.1)	390.9 (13.4)	-0.7	-1.2	7.9
Feed	375.0 (8.7)	266.5 (7.3)	230.2 (7.6)	199.9 (6.8)	-5.8	-2.7	-6.6
Agricultural Machinery	520.5 (12.0)	567.1 (15.6)	582.6 (19.2)	550.4 (18.8)	1.8	0.5	-2.8
Oil Products	290.7 (6.7)	199.9 (5.5)	112.8 (3.7)	86.7 (3.0)	-6.2	-8.7	-11.6
Automobiles	568.1 (13.1)	502.1 (13.8)	424.9 (14.0)	401.7 (13.7)	-2.3	-3.1	-2.7
Other	2750.5 (63.5)	2439.4 (67.0)	2175.0 (71.5)	2119.1 (72.5)	-2.3	-2.2	-1.3
Sub Total	1582.0 (36.5)	1200.5 (33.0)	866.1 (28.5)	804.1 (27.5)	-4.8	-5.6	-3.6
Daily Necessities	4332.6	3639.9	3041.1	2923.9	-3.2	-3.3	-1.9
Total							

Note: values in parenthesis are the percentage shares

turnover, agriculture-related businesses earned the highest turnover which stood at 2936 billion yen or 46% of total business turnover in 2008. The insurance business has performed well until 2005 and then declined. Only credit business consisting of savings and loans has shown steady growth overtime. Performances of the JA operations are discussed below in detail.

Marketing Business: The JA through its active involvement assures a guaranteed market for member farmers' agriculture produce. One of the major services

offered by the JA to its member farmers is to guarantee market access. The JA collects agricultural products from members and distribute to markets and other traders. Various approaches are used by the JA to ensure market access for members among them consignment marketing is the prevalent approach. Consignment marketing is a joint-marketing approach where member produce is delivered to the primary JAs and they sell the produce individually or through their federations at regional and national wholesale markets. According to Table 1, the overall revenue from marketing business has declined

overtime, while the composition of the marketing business has changed as contribution from rice has declined from 33% in 1995 to 22% in 2007, making horticulture and livestock products prominent contributors to the marketing business.

The market share of the marketing business was around 60% in 1997[10]. However, overtime the market share declined. In 2006, the market share of rice, fresh produce and fresh milk declined to 43%, 31% and 19% respectively [11]. The virtual monopoly status enjoyed by the JA in the rice market which accounted for more than 95% in 1985[12] has diminished since the liberalization of the rice market as a result of repealing the staple food control act and replacing it with the act for stabilization of supply-demand and prices of staple foods.

Purchasing Business: Input purchases from the JA are normally based on an advance reservation system prior to the cultivation season. The JA supplies its own inputs or purchased inputs from trading companies. Theoretically, the farmers should benefit from low prices due bulk purchase discounts made available by trading companies.

The JAs purchasing business involves supply of fertilizer, agrochemicals, animal feed, agricultural machinery and tools. In the purchasing business, the JA played a dominate role in the past as the main supplier of farm inputs. In 1995, the JA supplied 94.5% of fertilizers, 70% of agrochemicals and 35.5% of feed requirements of farmers [12]. However, by 2006, these shares had declined to 54%, 37% and 30% for fertilizer, agrochemicals and blended feed respectively [11].

When the trend of revenue from the purchasing business is considered, it is clear that the overall turnover has declined, while turnover from agriculture machinery, automobiles and daily necessities have declined rapidly. Moreover, the overall share of daily necessities has declined overtime. Turnover from feed has increased in 2005-2007 period, while fertilizer has marginally increased during the same period. Oil products contribute the highest to the total revenue followed by feed, fertilizer and agrochemicals. The declining trend of the total turnover can be attributed to number of reasons such as decline in agriculture production, farmers using alternative procurement channels and high market competition in the input supply and the daily necessity supply operations.

Agricultural Extension: Agricultural extension is identified as one of the core activities of the JA. The aim of agricultural extension is to enhance farming and management skills of the members. Agricultural extension

has been given due consideration in the Agriculture Cooperative Association Law by incorporating it under the goals of the agriculture cooperatives. Agricultural extension covers areas such as technical guidance, selection of production materials, marketing, management and planning. Technical guidance on farm management aspects of rice, wheat, livestock and horticulture are also offered. Agricultural extension is offered by a set of skilled farm advisors housed in the agriculture cooperative or its branches. The Figure 4 shows the number of advisors and the number of farm households handled by an advisor. With the ongoing mergers and restructuring, the number of farm advisors has declined over the years as a result the number of farm household per advisor has increased. Farm advice is mainly offered through producers' groups who are organized on a commodity-wise basis. In view of contributing to better farming of member farmers, these advisors promote many activities such as joint-marketing agricultural products and joint-purchases of production materials. Field technical guidance services are also offered to farmers by these advisors. Agricultural extension is offered as a service to member households with a nominal fee. Agricultural extension is closely linked to other activities of the JA such as purchasing, sales, insurance and credit. Studies have shown that agricultural extension indirectly affect other business activities and contribute significantly to the performance of primary JAs [14]. Agricultural extension activities are showing a tendency to be neglected because of their low profit, in spite of its importance as a core activity of the JA [7, 2].

Financial Business: The financial business consisting of credit and insurance has been the dominant business of the JA. The JA system is the main provider of agriculture credit to members and agribusiness sector. In the fiscal year 2008, of the outstanding agriculture-related loans, 81% was channeled through JA [15]. JAs credit system functions through the JA bank system. The primary JAs act as the financial service provider to the member farmers as well as other customers in the community. Member farmers gain easy access to credit facilities, while the interest charged is relatively low compared to other financial institutions. Financial services include credit facilities, acceptance of deposits, remittance, discount of bills and other financial services.

The JA is also involved in the mutual insurance business, it is among one of the most profitable business operations of the JA. The members are able to get any type of insurance coverage similar to what is offered by

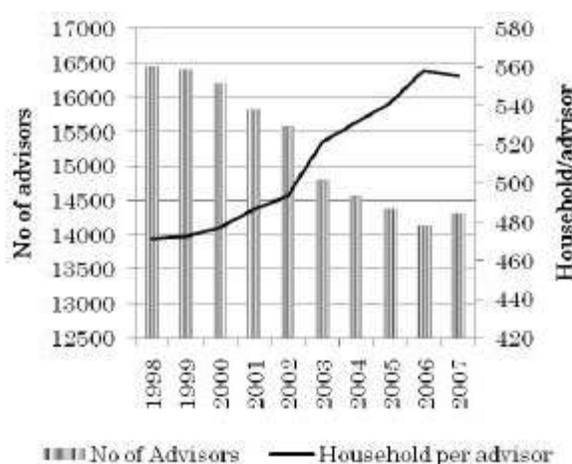


Fig. 4: Distribution of farm advisors

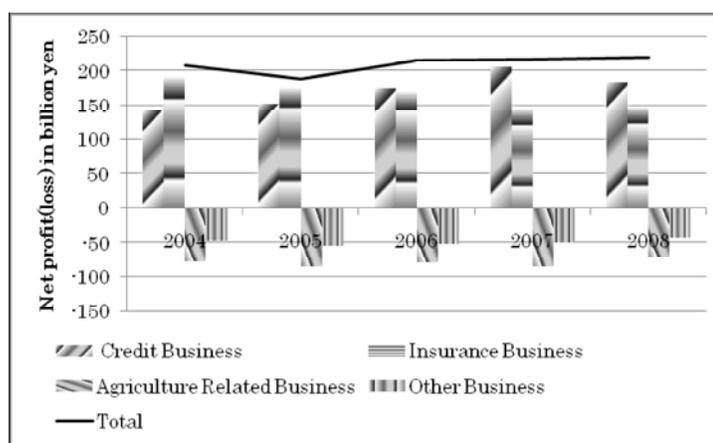


Fig. 5: Net profits from the different business operations

Table 3: Development of the financial business (in 100 billion yen)

	1980	1985	1990	1995	2000	2005	2008
Credit business							
Savings	268.5	387.4	532.5	674.8	716.6	786.1	827.8
Loans	106.4	117.4	136.9	189.8	218.8	211.2	225.8
Savings to loan ratio	39.6	30.3	25.7	28.1	30.5	26.9	27.3
Gross Profit	598.7	885.8	1068.7	932.3	771.9	731.7	737.7
Insurance business							
Long	1212.1	2120.4	2991.2	3728.8	3897.5	3602.8	3301.9
Short	1.4	2.1	3.6	4.3	4.7	4.6	4.4
Total	1213.5	2122.5	2994.8	3733.1	3902.1	3607.5	3306.3
Gross Profit	217.1	345.7	455.8	572.2	582.5	548.4	509.4

other insurance companies. In the insurance business, again the three-tier system comes to play as initially the members' contract with the primary cooperative and the primary cooperative enter into a reinsurance contract with the prefectural federation. Prefectural federation enters into reinsurance contract with the national federation.

As members deal directly with the primary JA, the insurance premium tends to be low compared to other insurance companies.

According to Table 3, the amount of savings in the credit business has gradually increased and stands at a staggering figure of 82,780 billion yen in 2008. Gross profit

Table 4: Overall business performance of the JA (monetary values in billion yen)

	1980	1985	1990	1995	2000	2005	2008
Gross business profit	1520.4	2050.6	2413.1	2464.5	2190.4	1996.3	1916.7
Business administration cost	1366.4	1737.9	2039.5	2274	2147.9	1836.3	1756.3
Net current profit	214.7	348.6	445.2	258.3	164.8	188.7	218.9
Total number of employees	286377	297095	297459	297632	269208	232981	224063

Source: Ministry of Agriculture, Forestry and Fisheries, Japan

from credit business has gradually declined overtime after achieving a peak in the early 1990s. The savings to loan ratio has throughout remained relatively low compared to 80% to 100% in commercial banks. The saving to loan ratio has further declined and was just 27.3% in 2008. This indirectly implies that only a fraction of the huge savings in the JA is reinvested in agriculture.

The long term insurance consisting of life and building endowment insurance are the main types of insurance accounting for 54% and 45% of the value of insurance holdings respectively. The total insurance holdings have rapidly increased up to early 2000 and then declined gradually. The gross profits from insurance business show a similar trend.

The JA financial business has grown rapidly in 1980s and 1990s however, since then both credit and insurance businesses have declined. The trend in once lucrative financial business of the JA seems to be on the decline, this can be attributed to the ongoing financial liberalization and relaxation of favorable treatment received from the Ministry of Finance. This situation has serious consequences for the overall profitability of the JA, as it is overly dependent on profits from the financial businesses to compensate for the deficits in other agriculture-related operations.

Profitability of the Ja Business Operations: It is evident from the Figure 5 that overall profitability of the JA is solely dependent on profits derived from financial business as agriculture-related and other businesses have incurred huge losses. The JA has been able to maintain its net profits stable over the past few years mainly due to the contribution from the financial business and cut down in business administration cost through restructuring and downsizing the workforce. As shown in Table 4, the number of employees has declined and thus the business administration cost has declined enabling the JA to maintain its profitability.

The restructuring efforts through mergers and amalgamation has brought in economies of scale benefits to the banking and insurance businesses as the profit per primary JA shows a positive relationship with the number

of members per cooperative. However, other businesses including agriculture-related businesses have not derived economies of scale from the amalgamation[15], while primary cooperatives making losses has increased from 2.5% in 1990 to 11% in 2007, casting doubts in the effectiveness of the amalgamation in terms of improving agriculture-related businesses. This is further confirmed by a study undertaken by Hoshino [16] where it was found that financial ratios of non-merged cooperatives were better than merged cooperatives.

Challenges Faced by Japanese Agricultural Cooperatives: In this section, some of the challenges faced by the JA are briefly discussed. The main challenges faced by the JA arise due to three interdependent domains such as changing agricultural structure, trade liberalization and the political dynamics.

The Changing Agricultural Structure: The Japanese agricultural sector is shrinking as between 1960 and 2005 contribution to GDP has declined from 9% to 1%, the proportion of labor employed in agriculture declined from 26.6% to 4%, agriculture population from 11.96 million to 2.52 million and the number of farming households from 6.06 million to 2.85 million. The number of commercial farm households has decreased by 48% from 3.31 million in 1985 to 1.75 million in 2008 [15]. Increasingly farming households extensively involve in non-farm employment and derive a major proportion of their incomes from off-farm employment. Thus, the proportion of fulltime farming households has declined and part-time farming households have significantly increased. Moreover, the number of young farmers has rapidly declined as in 2008 only 8.5% of the population involved in agriculture was aged 39 or under and more than 60% were aged 65 or over. Because of the structural changes there are serious implications on the local food production and food security. All indices of agriculture production in Japan show a steady decline after reaching a peak in the mid 1980s (Figure 6). The food self-sufficiency has declined to an alarming level, as of 2009, it stands at 40%, one of the lowest in developed countries making Japan the world's

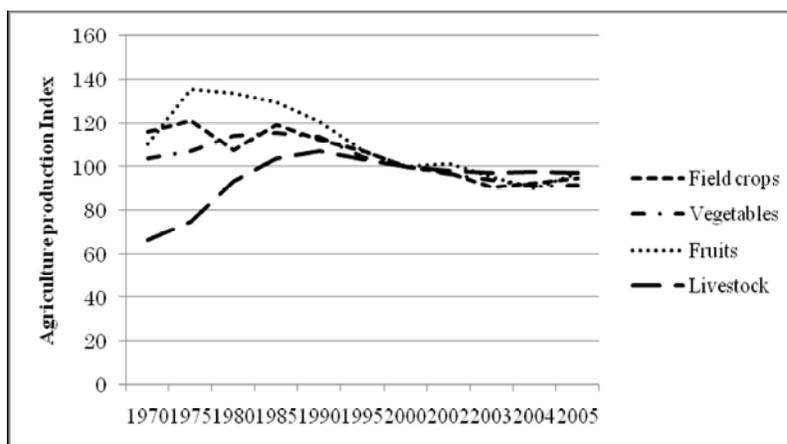


Fig. 6: Indices of agriculture production in Japan (2000=100)
 Source: Ministry of Agriculture, Forestry and Fisheries, Japan

largest net importer of agricultural products. In the context of a structural change, the JA as the backbone of the agricultural sector has a daunting task ahead to uplift the status of agriculture in Japan.

Trade Liberalization: The Japanese agricultural sector is facing the pressure of liberalization of agricultural trade. Japan is encountered with heightened external pressure to provide better access to agricultural markets under WTO framework in return for further improvements in market access for its manufacturing exporters and foreign investments. Japan had to concede to these pressures in the Uruguay round negotiations. The agricultural market for major products including beef, orange and rice was opened to the foreign producers in spite of strong resistance from the JA. The ongoing trans-pacific partnership (TPP) negotiations too have put the JA in an awkward position pushing them to reconsider their role in the agricultural sector. The process of trade liberalization in the agricultural sector is likely to continue into the foreseeable future. These reforms are likely to have serious implications on the agricultural sector and invariably on the JA as increased market access and phasing off of farm support will increasingly make the small scale farming unviable requiring the JA to shift its focus from part-time small scale farming to full-time large scale farming.

Political Dynamics: The JA has long-standing political affiliation with the Liberal Democratic Party (LDP) which was in power for more than three decades until 2009. The strong rural membership base of the JA was extensively used to get political patronage in terms of

favorable agricultural policies and preferential treatment for the JA endeavors. The JA has been criticized for its strong role in the protective agriculture policies in Japan and the consequential loss of competitiveness in the agricultural sector. The changes taking place in the political arena, especially election of the Democratic Party of Japan (DPJ) to office is having its impact on the JA. The DPJ's agricultural policies especially the direct subsidy system to farmers is likely to bring down prices and create an environment to further liberalize the agricultural markets. In the long run, the JA is no more likely to enjoy political patronage therefore, it needs to distance itself from politics and formulate sustainable strategies to remain a competitive force in the Japanese economy.

CONCLUSIONS

Japanese and global economic dynamism is exerting tremendous pressure on the JAs extensive business and service portfolios. It is very clear that JA is losing from almost all agriculture-related businesses leaving a huge deficit to be bridged from the profits obtained from financial business. Given the declining trend shown in the financial business and the stiff competition with other financial institutions particularly due to financial deregulations, the JA cannot continue to depend on financial business alone for its survival. Moreover, over dependence on the financial business will eventually force the JA to compromise its core agriculture-related activities and precipitate into a credit and insurance cooperative losing its multipurpose nature and agricultural focus.

The JA will have to come into terms with the new realities in the changing economic order. It is inevitable that the JAs position will further erode unless steps are taken to revitalize the local agricultural sector. It is utmost important to formulate strategies to improve the competitiveness of farming and attract young blood to farming. One rational way to attain this is to improve the profitability of farming through consolidation of land to achieve economies of scale. The total production cost for farm operators who cultivate less than a half hectare is more than double of those cultivating more than 15 ha [17]. Hence, undoubtedly, consolidation of land to achieve economies of scale though painful to the JA, needs to be given special consideration.

The JA treats all farming households equally despite the increasing diversity and involvement in agriculture. Full-time farmers are poorer than part-time farmers as part-time farmers earn 90% of their income from non-farming activities. Moreover, the part-timers are richer than non-farming households therefore, their enthusiasm of practicing agriculture is naturally not high as full-time farmers. These farmers retain farmland to benefit from future capital gains but not so interested in making profits from farming [18]. Therefore, the JA needs to reconsider its policy on equal treatment as full-time farmers deserve preferential treatment to remain with the JA, unless it will not be possible to prevent more entrepreneurial farmers deserting the JA and establishing their own marketing and procurement channels. The JA needs to take special efforts to retain entrepreneurial farmers within their folds as they will hold the key to the future of the Japanese agriculture.

The JA has initiated number of progressive reforms to overcome the challenges posed by changing agriculture structure, trade liberalization and political dynamism. Among them mergers and restructuring is given high priority on the reform agenda. Merger of primary JAs and transformation of the three-tier structure into a two-tier structure is currently in progress. The JA needs to be very cautious with regard to the merger of primary JAs as evidence show that agriculture-related businesses are not benefited through these reforms.

In the wake of emerging challenges, although critics of the JA paint a bleak picture of the future role of the JA in the Japanese agricultural sector, given the wealth, human capital, technology and the powerful membership base combined with a right mix of strategies it has the potential to bounce back to revitalize the deteriorating Japanese agricultural sector.

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