

Japanese Farmers' Dilemma on Pro-liberalization Policies and Structural Transformation of the Japan Agricultural Cooperative

Eniola Fabusoro[†], Makoto Maruyama^{††} and Fapojuwo, O. E. ^{†††}

[†] Department of Agricultural Extension and Rural Development, Federal University of Agriculture, Abeokuta, Nigeria;

^{††} Department of Advanced Social and International Studies, The University of Tokyo, Japan

^{†††} Department of Agricultural Administration, Federal University of Agriculture, Abeokuta, Nigeria
Corresponding author: Email efabusoro@gmail.com

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Abstract

Agriculture in Japan has witnessed consistent policy protection and support since the end of World II. The protectionist policy gave fairer trade and subsidy treatment to Japanese farmers than their counterparts in the Organization for Economic Cooperation and Development (OECD). The policy also created trade barriers in the Asia-Pacific region, placing very high tariffs on certain agricultural products such as rice and milk. However, since the changes in political dynamics in Japan in 1995, there has been a shift towards liberalization in the agricultural sector. This has implications for the structural transformation of Japan Agricultural cooperative (JA) whose role in political and trade negotiations sustained the protectionist policy. JA's financial and trade businesses also enjoyed overwhelming support and protection from the government for about five decades. The policy changes also brought to the fore the need for agricultural competitiveness in the Asia Pacific and the need for Japan to join the discussion forum for the Trans Pacific Partnership Agreement (TPP). Japanese farmers are now left in a dilemma of retaining their inefficient, small scale production system or accepting the need for structural transformation of JA and facing the challenges of trade agreements. This paper examines this dilemma. Data for the study were collected through desk review and field level survey among the 2,914 regular and associate members of JA Oguni-go in Aso County, Kumamoto Prefecture, Southern Japan. The field survey involved responses of 91 farmers to a questionnaire, personalized interviews with 22 farmers and four JA/city officials and 12 focus groups representing each commodity group. The localization of the JA system could create competitiveness among local communities and the existing market network and the organizational strength of JA can also be utilized to overcome the dilemma and perform efficiently in the face of the changing policy.

1. Introduction

Since the end of World War II, farmers in Japan have enjoyed much policy protection and received more support than any farmers in the Organization for Economic Cooperation and Development (OECD) countries. Japan's nominal protection rate for agricultural commodities is one of the highest among developed nations (Godo and Takahashi, 2008). Japan's small farmers are treated twice as well as farmers in Europe and five times better than farmers in America (OECD, 2009). Japan protects its farmers through high prices that are maintained by tariffs and also by direct subsidies from state coffers. Japan is criticized abroad for being protective of its farming sector by its rigid opposition to tariff reductions, while at home the government is blasted for damaging the nation's interests because its position on agricultural issues stall negotiations in the World Trade Organization and talks on free trade agreements (FTA) (Yamashita, 2005).

The Japan Agricultural Cooperative (JA) or *Nokyo* in Japanese, established through the post World War II Agricultural Cooperative Law of 1947, is the driving force behind the farmer-

supportive policy in Japan and has demonstrated its economic, social and political strength for about six decades. JA controls the systematic application of technologies, marketing of produce, supply of inputs and access to credit services. The protectionist policy gave preferential trade and subsidy treatment to Japanese farmers and created trade barriers in the Asia-Pacific region, placing very high import tariffs on certain agricultural crops such as rice and milk. During the period from mid-1950s to mid-1990s, JA prevented trade liberalization in agriculture by having a monopoly of rice marketing and input sales and influenced the government's subsidy programmes in favour of small, inefficient farmers. The farmers' production system is expensive and inefficient making domestic prices of several agricultural products such as rice and milk higher than prices in the international market and making farmers as well paid and having the equivalent status to those in the industrial professions (Riethmuller, et al. 1996; Prakash, 2000; Godo, 2006; Yamashita, 2005; Koyama & Kobayashi, 2007). The support received by farmers from JA is from 'cradle to grave' (Godo, 2006; Koyama and Kobayashi, 2007).

In the last two decades however, JA has been witnessing a series of challenges that have been casting doubts and fears on the sustainability of the cooperative in the face of changes in the institutional environment within which it operates. The shift towards a market-oriented system commenced with the changes in political dynamics in Japan in 1995 and the commencement of the liberalization of the agricultural sector. The pro-liberalization policies had the objective of cutting the cost of servicing the agricultural sector and transforming it into a fully market-oriented system to facilitate development of commercial farming that will produce more efficiently and compete favourably in the import-export market in the Asia-Pacific corridor. The intention therefore, was that with liberalization, farming in Japan can be made more efficient and competitive and agricultural markets can be opened to allow import-export development and bring in the benefits of a Free Trade Agreement (FTA) in the Asia-Pacific region.

Since the commencement of this policy, the operational framework of JA has been under threat and therefore has been undergoing transformation in order to accommodate and adjust to changing policy and ensure it remains relevant in agricultural production and trade in Japan. With the pro-liberalization policy and the structural transformation of JA, farmers within JA are in a dilemma of whether to retain their inefficient, traditional production system or accept the need for further structural transformation of JA and face the challenges of trade agreements.

This paper discusses:

- i. the pro-liberalization policy in Japanese agriculture and its effect on the structure and functions of JA; and
- ii. the dilemma and divergent opinion of Japanese farmers amidst these pro-liberal changes and structural transformation of JA.

2. Context

2.1 The pro-liberalization policy in Japanese agriculture

The pro-liberalization policy in Japanese agriculture commenced after 1995 when the Liberal Democratic Party of Japan (LDP) lost the majority in the Japanese Diet to the Democratic Party of Japan (DPJ). This ended a five decade uninterrupted rule of LDP. During the rule of LDP, the policy direction was totally in support of sustaining the traditional, small, inefficient and subsidy dependent production system. It was an oligarchy structure where the farmers, through JA, wielded much political power, gaining government interest to their favour. At the national level, JA became a de facto sub-governmental body that helped make policy and enforced it (Godo, 2001). Therefore, JA was strengthened through favourable financial policy, a subsidy programme, rice

collection and marketing, a land allocation and an acreage-control programme among others. JA's banking and insurance businesses were the most heavily protected, which gave them the opportunity above other financial institutions to amass large funds for inter-bank lending. JA's interest rate was allowed to be higher by 0.1% than that of other commercial banks (Godo, 2001). This gave them the opportunity to attract businesses and depositors. In the insurance sector, JA was allowed greater freedom to set premiums, giving it an advantage over the private insurance companies (Saeki, 1989).

The pro-liberalization policy is aimed at putting agriculture in Japan on a competitive footing, which will need to be reinforced by additional reforms that address the market distortions that adversely affect the efficiency and competitiveness of the sector. Barriers to competition will need to be lowered, first among farmers themselves, and ultimately with other economic sectors and internationally (OECD, 2009). Some of the pro-liberalization policies already implemented and affecting the structure and function of JA are as follows:

- a. *Financial liberalization*: Financial liberalization came into effect in Japan in the late 1970s with the Ministry of Finance, allowing greater competition in the financial sector and liberalizing interest rates. The move was to remove policy supports that helped inefficient banking and insurance institutions to thrive. The special interest rate allowance for JA's Bank (Norinchukin) was also removed. This policy affected JA's financial structure and commenced the collapse of the financial strength of JA.
- b. *Implementation of Trade Agreements on import tariffs*: The implementation of trade agreements such as the Uruguay Round Agreement on Agriculture (URAA) and the Economic Partnership Agreements (EPA) among others, has brought a steady change in agricultural policy in Japan. Under the URAA, Japan committed to reduce the tariff rate for agricultural goods by 36% on average and a minimum 15% for each commodity, between 1995 and 2000. Japan also replaced all its quantitative restrictions on imports with tariff rate quotas including rice. The EPAs were entered into to eliminate or reduce tariffs, and to introduce preferential tariff quotas for several sensitive agricultural products such as poultry meat and fruits. EPAs have been made with several countries among which are Singapore, Mexico in 2004, the Philippines, Thailand, Malaysia, Indonesia, Chile, and Switzerland. The latest of such trade agreement talks is the Trans-Pacific Partnership (TPP), which has wider applications and implications for agriculture in Japan.
- c. *Reduction of price support*: Price support estimates (PSEs) showed a steady decline from around 1986 with periodic increases in the early 1990s. The nominal value of the PSE declined by 37% from JPY 7 236 billion in 1986-88 to JPY 4 541 billion in 2005-07. The decline in the level of PSE support is due to the domestic deregulation for rice and the reductions of tariff in the URAA, particularly in the case of livestock products (OECD, 2009).
- d. *Revision of the agricultural land ownership and land use system*: This is to ensure that farmland is used efficiently and to allow commercial farming. This is a consequence of the yearly reduction in the total area of land used for agricultural purposes that has resulted largely from an increase in farmland abandonment and conversion to other purposes.
- e. *Liberalization of marketing of agricultural inputs and products*: Until the mid-1980s, JA was the sole marketer of agricultural inputs such as fertilizer, seeds, chemicals, and machinery. It also had the monopoly for the marketing of agricultural products, collection of products from farmers and their distribution across Japan. With deregulation, agricultural inputs and the products market became open to competitors, forcing down prices and limiting the influence of JA in most rural communities. Most farmers also have the opportunity to market their products directly by themselves or join other cooperatives to market their products.

- f. *Policy on cooperatives*: Before the liberalization, JA was the only producer cooperative in Japan and all farmers were conscripted as members. With the deregulation, farmers have liberty to resign their membership and form other cooperatives. This gave many farmers opportunity to pursue competitive farming and take advantage of the open market to earn more income than they would have under the JA system.

2.2 Effect on structure and functions of JA

The aforementioned liberalization policies have contributed in no small measure to the changes experienced by JA in the last two to three decades (Table 1). First and foremost, there was a reduction in the political influence of JA and this reduced its ability to influence policy decisions. Contrary to the period when JA's opinion mattered in formulation and implementation of agricultural policies, the loss of political influence implied a change in the institutional context of JA which means that JA will now be treated just like any other cooperative (Yamashita, 2005). Secondly, the liberalization of the financial sector caused a drastic reduction in JA's financial capital and operational funds. This affected the local units of JA and led to the first changes in JA's structure and functions. With this, local units were merged and the prefectural and national service companies (Norinchukin Bank and Mutual Insurance Federation, *Zenkyoren*) were merged. The structural organization of JA changed from a three-tier to two-tier arrangement, with the merger of the Prefectural federations with their national bodies. The merger process was adopted in the 1990s to improve the collapsing financial and managerial capacity of JA and reduce overhead costs. This has seen JA unit cooperatives declining from 3,574 in 1990 to 1,411 in 2000, 878 in 2005, 719 in 2010 and 715 in 2011 (Kurimoto, 2004; JA, 2011).

Table 1: Effect of liberalization policy on JA's structure and functions

Pro-liberalization policy	Effect on structure	Effect on function
Financial liberalization	<ul style="list-style-type: none"> ○ Merger of local units ○ Merger of service companies ○ Unemployment ○ Loss of local participation ○ Reduced income 	<ul style="list-style-type: none"> ○ Reduction in provision of credit, extension services ○ Reduction in income and operational funds ○ Reduction in market share in the financial market
Implementation of Trade Agreements	<ul style="list-style-type: none"> ○ Market network ○ Loss of monopoly ○ Increased competition 	<ul style="list-style-type: none"> ○ Reduced market share ○ Increased need for quality production and sustainability
Reduction of price support	<ul style="list-style-type: none"> ○ Reduced political influence 	<ul style="list-style-type: none"> ○ Increase in loan default among inefficient members
Revision of the agricultural land ownership and land use system	<ul style="list-style-type: none"> ○ Reduced control of agricultural land allocation 	<ul style="list-style-type: none"> ○ Loss of land to commercial farming ○ Increased need for competitive farming
Liberalization of marketing of agricultural inputs and products	<ul style="list-style-type: none"> ○ Loss of monopoly ○ Increased competition with other cooperatives ○ Reduced income 	<ul style="list-style-type: none"> ○ Reduced market share ○ Loss of membership
Policy on cooperatives	<ul style="list-style-type: none"> ○ Loss of political influence ○ Increased competition 	<ul style="list-style-type: none"> ○ Reduced participation by members

Other significant effects on JA's function are evident in the provision of extension services, credit and insurance services, and sales of produce. The extension service was drastically affected by a reduction in extension staff and contacts with farmers. Nationally, farm advisors decreased in number by 18.1% over 20 years to 15,579 in 2002 (JA factsheet, No. 9, 2006). The *'farm advisors are the face of JA'* as they introduce most technologies to farmers, take part in marketing surveys, draw up community development plans for specific crops or enterprises, support the

Bunkai (farmers commodity based groups) and promote environmentally-friendly agriculture. The over 2000 farmers in the study communities do not have adequate access to extension services as there were only 12 extension officers as at 2011. Income from banking and insurance forms the crux of JA's income and sources of financial survival and represented over 60% of its annual income from 1998-2002 (Table 2). Marketing of agricultural produce that used to be a major activity of JA became less and less important for annual income due to deregulation in produce marketing and the availability of open market channels that promise more income for farmers.

Table 2. Trend of gross business income of JA in Japan (Amount in ¥1 million)

Business activities	1998		1999		2000		2001		2002	
	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%
Credit	835,667	33.9	798,885	32.6	771,959	34.7	701,697	32.8	745,886	34.6
Mutual	589,353	23.2	581,602	23.8	582,563	26.2	579,275	27.1	574,386	26.6
insurance										
Supplying of inputs	585,668	23.0	564,058	23.1	536,032	24.1	530,784	24.8	504,756	23.4
Marketing of produce	313,628	12.3	286,730	11.7	137,641	6.2	132,641	6.2	134,926	6.3
Others	218,881	8.6	215,556	8.8	195,291	8.8	194,628	9.1	197,779	9.2
Total*	2,543,197		2,446,831		2,223,486		2,139,025		2,157,733	

Source: JA 2006c. Factsheets No 30: Main Figures of JA Business Management, www.zenchu-ja.or.jp/eng/ja_fact_sheets/pdf/30.pdf, *the total gross income exclude the negative income from the farm guidance activities

3. Method - Study Design and Data Collection

The sample for the study was selected from the 2,914 regular and associate members of JA Oguni-go in Aso County, Kumamoto Prefecture, Southern Japan. The sample was selected from the membership list of JA Oguni-go using both random and purposive sampling. The sample is constituted by 91 farmers, 12 group leaders representing commodity groups and four (4) officials of JA and city agricultural office, Data for the study were collected through a desk review of available secondary data and literature, focus group discussions (FGD) and personalized interviews (PI) using questionnaires. JA Oguni-go was formed in 1992 after the merger of JA units of Oguni and Minami-Oguni. Oguni and Minami-Oguni are located north to the Aso caldera with Oguni sharing a border with Oita Prefecture. Oguni covers 13,700ha while Minami-Oguni covers 11,586ha of land.

4. Results and discussion: The dilemma between accepting the need for structural transformation of JA and facing the challenges of trade agreements

Information obtained from farmers and officials in Oguni-go indicated a dilemma and divergent opinion on the need for structural transformation of JA and the implementation of pro-liberalization policies. The arguments are both for and against JA, with the majority of the farmers (55%) accepting the reality of pro-liberalization policies and the need for structural changes in JA. These farmers were of the opinion that the existing JA structure does not allow competitive farming as it contributes to a reduced profit margin and an increased cost of inputs. The system also hinders direct contact with consumers, disallows premium price for quality produce and creates an increased cost of loans. The opinion of this group of farmers was in support of structural transformation to reposition the cooperative in a way that it can compete favourably and meet emerging challenges. According to this set of farmers, the political involvements of JA made it a 'friend of the state but an enemy of the people'. This they suggested made the group averse to market-oriented principles.

On the other side, the remaining 45% of the farmers opposed trade liberalization policies as being implemented by the government and were of the opinion that the JA structure and functions are important to sustaining the livelihoods of small farmers in Japan. The opinion of these farmers was based on the founding ideology of the cooperative, which had promoted the cooperative attitude of farmers and had helped in building a sustainable local system for Japan. They also felt that the sudden changes in government policies would destroy the structure of JA and eventually affect agricultural production in Japan. To these farmers, the pro-liberalization policies will not drastically achieve increased food production and the desired food security. In addition, this group of farmers asserted that JA functions are immensely beneficial to them, their households and the entire community.

Some factors that influenced their opinion on the liberalization policies and structural changes in JA were identified. These are:

- i. Accessibility to market information through several media, particularly the Internet;
- ii. High costs of input and high interest charges of JA, which yielded lower returns for farmers compared to returns from other marketing sources. This factor influenced the marketing decisions of about 10-12% of farmers;
- iii. Size of farm and extent of outputs: for some farmers with larger output, sales through open market channels may be burdensome with a lot of procedural bottlenecks, contrary to the JA system which offers easy market access to its members. However, some with a farm size above 3 ha tend to source for open markets such as consumer cooperatives and supermarkets in order to maximize profit. On the other hand, farmers with smaller farms and output favoured the relative ease of supplying through JA. From another angle, farmers with very small output tend to do personal daily supply to small vegetable shops within the community;
- iv. Age: younger farmers (less than 50 years old) tend to seek open market sources while older ones (above 60) are more attached to the cooperative. In the communities, 45% of farmers were older than 60 years of age. As farmers get older, their involvement in agriculture tends to decrease and they depend more on JA for marketing;
- v. Full/part time farming: part-time farmers were in the majority (about 85.9% of total farming households) and depended solely on the JA marketing network because of their engagement in other non-farm livelihoods. The full-time farmers could have the motivation in seeking open marketing sources (15-17%) but it seems the higher number of part-time farmers sustain JA's relevance and its higher market share;
- vi. Involvement in the JA executive and commitment to leadership in JA influenced the utilization of JA's marketing channels. As leaders, their responsibility is to promote the marketing activities, which they also have obligations to contribute to. The executive board of JA in Oguni comprises the *Bunkai-sho* (leaders of smaller groups) of different crop/livestock enterprises, from which the *Kumiain-sho* (President) is appointed. For these members, their commitment to running the JA business goes beyond available opportunities to sell through open market sources.

It was observed that despite the increasing trend in liberalization opportunities for Japanese farmers, JA still influences farmers' choices in a lot of ways in local communities. From either ends of the spectrum and as agricultural liberalization is no more a mirage, every farmer wants JA to survive through the process but the approach to achieving this is still the source of the dilemma. At present, JA has made structural changes that reduced local units, staff, agricultural extension services, access to credit and loans, and increased diversification into several non-farm activities. Despite these changes, it is becoming obvious that JA will need to further reposition

itself in order to meet the challenges that may be posed by the existing trade agreements and the on-going TPP discussions.

The common ground therefore is that everyone wants the continuance of JA's functions as the changes in its structure are inevitable and the further implementation of trade agreements may take further toll on its activities. From either end of the spectrum JA's relevance is undoubted. Therefore, the direction JA shall turn to in the face of the inevitable reforms and the position it would take in improving the agricultural production system through increasing competitiveness and efficiency will largely determine the successes of the reforms and the possibility of Japan making gains from the trade agreements.

The general opinion of the farmers and officials interviewed in this study suggested that the JA structure should be returned to its original, old village level structure. That is, they want JA in their local community as it was before; they want the parts of JA that were merged to be detached as this, in their opinion, will enhance competition between communities and even farmers. While the success rate of this suggestion was not predicted, farmers thought that the original village level structure of JA promoted local agriculture in the 1940s and 1950s and formed the foundation upon which the now bigger JA conglomerate stands. The arguments rest on the fact that the local JA units sustain JA relevance in agricultural production in Japan. Localizing JA in the current trade liberalization realities will re-awake JA, make more farmers committed, reward quality production and breed a competitive spirit among farmers and local communities - changes needed at the local level in order for farmers to participate more effectively in the global and regional markets. A majority of the farmers believed that competition is good for them as it will reward quality and enhance the government's support for good producers. The farmers cited examples (Aoyama in Oita prefecture and local units JA in Hokkaido Prefecture) of some local units of JA that refused to be merged with other units and today are better for it.

The farmers also suggested that JA involvements in non-agricultural activities should be reduced. Structurally, this means the devolution of the present banking, insurance and other non-agricultural support services from the main agricultural components of input provision, extension services and sales of produce. It was their opinion that JA bank and insurance companies grew so big and took away the core values of farming from JA, distracting it from its main purpose of community farm development.

5. Conclusion

Arising from the discussions in this paper, the solution to Japanese farmers' dilemma of sustaining their cooperative structure and accepting the need for liberalization of the sector, is seen in the structural devolution of JA that will localize JA and make it more relevant to farmers' needs for core agricultural services. This call for the detachment of existing local units is so they can operate more independently; use their local advantage to build a sustainable system devoid of political interest, and become more active in improving local production, processing and marketing. A further structural devolution needed for solving the dilemma is the separation of banking, insurance and other non-farm services from JA's structure. While these organizations are relevant in the provision of support services to farmers, their separation will position them effectively to meet the challenges arising from the open market system. Their core values in helping farmers should, however, remain and strong linkages with JA should be developed.

The continued relevance of JA will depend on its ability to focus more on the core components of its existence and repositioning its marketing services such that it competes favourably in the open market, maintaining its appeal to farmers. JA should therefore create opportunities for its farmers

to have direct access to the open market, have improved food safety standards, have contact to consumers' cooperatives and add to its cooperative culture a competitive system where quality products are well rewarded and efficient farmers are encouraged.

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