

4 JAPAN'S QUEST FOR FREE TRADE AGREEMENTS

CONSTRAINTS FROM BUREAUCRATIC AND INTEREST GROUP POLITICS

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In the 1990s, regional economic arrangements including free trade agreements (FTAs) became a popular way of promoting trade liberalisation and market integration. Japan, as an economy possessing exceptionally diverse export markets, had long taken a cautious stance on regional economic arrangements with a discriminatory nature. The Japanese government deemed economic arrangements with specific countries as contradicting the spirit of the General Agreement on Tariffs and Trade (GATT)/ World Trade Organization (WTO) as well as stunting the growth of overall trade.

However, intensive moves worldwide towards FTAs and regionalism have prompted Japan to reconsider its basic trade policy stance. Only in the late 1990s, did the Japanese government begin to shift the emphasis of its trade policy from multilateral to bilateral and regional arrangements. In part of this shift, in January 2001 Tokyo embarked on formal negotiations with Singapore about the formation of an FTA, signing the Japan-Singapore Economic Partnership Agreement (JSEPA) one year later. This move was followed by bilateral FTA agreements with Mexico, Malaysia, the Philippines, and Thailand, and negotiations with South Korea, Indonesia, and others.

Indeed, international forces constituted the initial factor that induced the Japanese government to reconsider its basic trade policy and promote bilateral FTAs. At the same time, domestic politics influenced the manner and speed with which the government's initiatives in FTAs were realised. Two factors are particularly important. The first is the preferences and behaviour of central government bureaucrats. In Japan, trade negotiations have been undertaken by four ministries: the Ministry of Economy, Trade and Industry (METI), the Ministry of Foreign Affairs (MOFA), the Ministry of Agriculture, Forestry, and Fisheries (MAFF), and the Ministry of Finance (MOF). These ministries tend to develop specific preferences that are incorporated into their concrete actions. The second factor is the influence of major domestic interest groups. A shift from the multilateral-oriented to the bilateral-centred trade policy has significant distributive effects on various segments of the domestic society. Accordingly, major interest groups have developed particular preferences and sought to have them accepted in the policymaking process.

This chapter argues that bureaucratic politics and interest group politics have impinged on the initiation and evolution of FTA policy in Japan. While inter-ministerial conflicts inhibited the Japanese government from pursuing a clear-cut approach on FTA policy and negotiations, demands from major interest groups exercised a critical influence over the start and progress of an FTA with a particular country. Before examining the development of Japan's FTA policy in detail, the following section provides a brief overview of bureaucratic politics and interest group politics in Japan.

Japan's FTA policy and trade politics

In the late 1990s, the Japanese government began to shift its stance on trade policy from an emphasis on multilateralism to stressing regionalism. In 1998, METI began internal discussions about new trade policy, and revealed its new policy orientation in its 1999 White Paper (Munakata 2001). In line with this change, in January 2001 Tokyo embarked on formal negotiations with Singapore over the formation of an FTA, signing the JSEPA one year after. Then, Japan signed the Japan-Mexico FTA in September 2004, followed by the conclusion of a similar agreement with

Malaysia in December 2005 and the Philippines in September 2006 (Table 4.1). Japan expanded the target of its FTA partners by beginning governmental negotiations with the Association of Southeast Asian Nations (ASEAN), Indonesia, Brunei and Chile.

While the Japanese government shifted its basic stance on trade policy, this shift did not produce apparent and smooth policy outcomes. The Japanese government did not at the outset, as a whole, set up a clear-cut vision for a new trade policy, and some of its new initiatives took a long time to put in place. Why did Japan show such an indecisive and rather awkward attitude towards trade policy? In order to address this question, we need to highlight two factors that affect continuity in reactive trade politics: bureaucratic politics and interest group politics.

In Japan, the parliamentary political system is practised and the cabinet led by the Prime Minister constitutes the senior executive organ. Since political appointees such as the ministers and senior vice-ministers turn over in a short time-span, ministries are run in practice by career officials, headed by the vice ministers and secretaries. Accordingly, bureaucrats have

Table 4.1 Japan's negotiation of FTAs to April 2007

Partner	Negotiations	Signature	Effective
Singapore	1/01–10/01	1/02	11/02
Mexico	11/02–3/04	9/04	4/05
South Korea	12/03–ongoing	n.a.	n.a.
Malaysia	1/04–5/05	12/05	7/06
Philippines	2/04–11/04	9/06	n.a.
Thailand	2/04–9/05	4/07	n.a.
ASEAN	4/05–		
Indonesia	7/05– 11/06	n.a.	n.a.
Chile	2/06– 9/06	3/07	n.a.
Brunei	6/06– 12/06	n.a.	n.a.
Gulf Cooperation Council	9/06–ongoing		
Vietnam	1/07–ongoing		
India	1/07–ongoing		

Source: Compiled by the author from data on the Japanese government website.

considerable autonomy and discretionary power, particularly with regard to internal organisation and personnel decisions. Moreover, central government bureaucrats are highly talented and disciplined elite officials with many years of service in the same ministry. They dominate the policymaking process by drafting virtually all legislation, controlling the national budget, and retaining significant amount of information necessary for formulating public policy (Johnson 1982, 1995; Campbell 1989). Thus, bureaucratic politics constitutes a major element in Japanese policymaking.

Bureaucratic politics in Japan is characterised by sectionalism—turf battles among ministries. This characteristic derives from various factors. The historical origins of sectionalism lie in conflicts among the south-western clans in the early Meiji era. Institutionally, the structure of each ministry is determined by the establishment law of each agency, and the code of conduct for each ministry is produced under this law. This legal system has deepened the gap between the ministries (Muramatsu 1994). Furthermore, limitations on resources given to each ministry have intensified sectionalism. Ministry-centred competition enabled the government to maximise the mobilisation of limited resources by way of severe inter-ministerial competition in the political market for policy innovation (Muramatsu 1996). From a broader perspective, bureaucratic conflicts had much to do with the weak power of the Prime Minister and the cabinet. Both the Prime Minister's Office and Cabinet Secretariat traditionally had weak capabilities with small staff, most of whom were bureaucrats, not personal appointees, often being entrenched in the sectionalism of their home ministries (Mulgan 2000).

The second factor that prevented the Japanese government from adopting a decisive stance on trade policy is interest group politics. Some scholars of international political economy postulate that trade policy is a function of interests and capabilities of interest groups that compete each other for greater benefits or incomes and form political coalitions to attain this objective. Theoretical and empirical interests have been directed towards clarifying conditions under which particular groups develop particular preferences for trade policy. Some observers have focused on factors of production such as labour and capital, as central factors in creating

different policy preferences (Rogowski 1989). Others have highlighted sectoral or firm-based factors as keys to develop particular policy preferences (Ray 1981; Milner 1988; Frieden 1990). The characteristics of sectors—including the number of firms or workers in an industry, an industry's size or geographic concentration—have been regarded as critical factors in affecting concrete policy preferences and outcomes of trade politics.

As far as the representation of interest groups in Japanese policymaking is concerned, some scholars argue that the influence of traditional interest groups such as big business, labour and farmers declined as Japan moved to its catch-up goal and its matured economy produced more diverse interests in the society (Curtis 1999). However, the political influence of these traditional interest groups still matters, especially in the fields where a bureaucratic agency, relevant Liberal Democratic Party (LDP) politicians, and interest groups constitute the so-called 'sub-governments'.¹ This sub-governmental triangle is an exclusive policymaking institution, which is often insulated to a large extent from the influence of other political actors (Otake 1979). In the sub-governments, interest groups have influenced the evolution of public policy by forging tie-ups with relevant politicians in the ruling parties.

Reactive FTA politics before 2003

Japanese trade negotiations are conducted by various representatives from the Ministries of Foreign Affairs, Industry, Trade and Economy, Agriculture, Forestry and Fisheries, and Finance. Ministerial rivalries and bureaucratic conflicts have often impeded the Japanese government from formulating consistent and cohesive trade policy in a timely manner. This problem has been repeated over the handling of agricultural products in FTA negotiations between MAFF on the one hand and MOFA and METI, on the other. MOFA and METI considered that close trade linkages through FTAs were inevitable trends. It was METI that led a shift in trade policy from multilateralism to bilateralism. When METI officials began to investigate the importance of bilateral FTAs in the late 1990s, they regarded FTAs as effective measures to motivate government officials and private actors to promote structural reforms of domestic industries (Oyane

2004:58). In October 2002, MOFA published guidelines for FTAs, *Japan's FTA Strategy* (MOFA 2002). In these guidelines, MOFA maintains that 'unless we take a stance linking FTAs to economic reforms in Japan, we will not succeed in making them a means of improving the international competition of Japan as a whole'. Accordingly, both ministries acknowledged that some pains resulting from the formation of FTAs would be unavoidable for promoting structural reforms.

However, MAFF was cautious about including agricultural products in the purview of FTAs. MAFF's views on FTAs were revealed in several official documents. In a paper regarding the JSEPA released in August 2001, MAFF stated that given the current situation of Japanese agriculture, tariffs relating to agriculture, forestry and fisheries should be discussed at the WTO negotiations, and that further tariff reductions should not be made at negotiations for individual FTAs (MAFF 2001). In July 2002, MAFF issued a formal position paper entitled *Japan's Food Security and Agricultural Trade Policy: Focusing on FTAs*. MAFF stated that, in committing to an FTA, it is necessary to pay due attention to food security in Japan and to avoid negative impacts on efforts to implement structural adjustment. The report also states that FTAs will give minimal direct benefits to the agricultural sector (MAFF 2002). MAFF considered the potential benefits of FTAs in light of the agricultural sector alone, not the entire Japanese economy.

While MOFA and METI adopted a concerted stance over the necessity of market opening even in internationally weak sectors, they had different views over concrete approaches to FTAs. In the 2002 FTA guidelines, MOFA argued that Japan should give priority to FTAs with South Korea, ASEAN and Mexico. MOFA's basic direction was the same as METI's. However, there were differences in concrete strategies between the two ministries. For instance, MOFA's strategy for ASEAN was to create bilateral economic partnership individually, and begin a process of expanding these agreements to one between Japan and ASEAN as a whole. As for China, MOFA supported a strategy of continuing to closely monitor the country's fulfilment of its WTO obligations and the status of overall bilateral relations before determining Japan's policy. METI hoped to pursue the conclusion of an FTA with ASEAN as a whole. METI's policy orientation was

understandable given that the ministry has striven to assist economic integration and industrial cooperation in ASEAN, which would then serve to the interests of Japanese firms operating in the region. As for China, METI included the country into its concept of the 'East Asian Business Zone'.²

Trade frictions have often occurred in policy fields where the major interest groups and their supporters in political circles could play a vital role in policymaking. This interest group politics was prominent in the initial stage of Japan's FTA policy. A driving force to promote some of FTAs was exercised by Nippon Keidanren (the Japan Business Federation, hereafter referred in this article as Keidanren), the most influential peak business association in Japan.³ Keidanren became the main player who raised the position of Mexico in Japan's FTA strategy. Mexico was one of the most active countries in the promotion of FTA networks. Mexico signed the North American Free Trade Agreement (NAFTA) in 1992 and expanded its FTA networks to encompass Latin American countries in 1994. As of December 2002, Mexico had concluded FTAs with 32 countries covering regions from the American Continent through Europe to the Middle East. US firms had already secured access to the Mexican market through NAFTA, as did the Europeans after the FTA between Mexico and the European Union (EU) came into force in July 2000. Japanese manufacturing firms and trading houses suffered from serious negative effects from these moves. The absence of an FTA with Mexico forced Japanese firms to pay duties on key imports products from Japan and excluded them from bids on government procurement in the country.

Given the above conditions, Keidanren demanded a prompt conclusion of the Japan-Mexico FTA (JMFTA). In April 1999, the federation issued a report entitled *Report on the Possible Effects of a Japan-Mexico Free Trade Agreement on Japanese Industry*. This was the first comprehensive report that examined the likely effects of the FTA on bilateral trade and Japanese investment in Mexico, and identified problems needing to be resolved. Furthermore, Keidanren directly lobbied senior government officials in both countries to conclude the FTA at an early date. When the members of the federation's Japan-Mexico Economic Committee met with Herminio Blanco Mendoza, Minister of Commerce and Industrial Development, in

July 1999 and August 2000, they made a formal request that the Mexican government begin FTA negotiations as swiftly as possible. Furthermore, Nobuhiko Kawamoto, the head of the Japan-Mexico Economic Committee, met with Takeo Hiranuma, then Minister of METI, immediately prior to Hiranuma's visit to Mexico in January 2001, and requested the Japanese government to conclude the JMFTA as soon as possible (Tsuchida 2001). The federation's persistent lobbying persuaded the Japanese government to consider the JMFTA issue seriously. In particular, the federation forced the government to take necessary actions by demonstrating the serious damage being caused to Japanese firms' businesses with Mexico by the absence of the FTA with the country.

Interest group politics had regressive influences on Japan's FTA policy. The *norin zoku* ('agricultural tribes') in the LDP had vital influence in initiatives and negotiations over a series of FTAs.⁴ A major reason why Japan chose Singapore as the first partner for an FTA was that the country exported a minimal amount of agricultural products. Singapore's exports of agricultural products, such as dairy products and cut flowers, made up only 3 per cent of Japan's imports from the country. Nonetheless, the treatment of the agricultural sector became a controversial issue during the negotiations because MAFF asserted that agricultural products should be excluded from the target of an FTA. The Japanese government as a whole was anxious about international criticisms of excluding the entire range of agricultural products from the FTA with Singapore. Accordingly, the government adopted a policy to list agricultural products whose tariffs were virtually zero as 'tariff zero products'. Some 460 items became the target under this method.

The peculiar treatment of agricultural products in the JSEPA had much to do with political pressure. In early August 2001, MAFF explained detailed policies for agricultural products in an FTA with Singapore at the LDP's Research Commission on Trade in Agriculture, Forestry and Fishing Products, and confirmed that tariffs affecting agricultural and fishing products would not change as a result of the FTA. However, commission members argued that tariffs on agricultural products should only be discussed at the WTO and that it was necessary to examine effects of an FTA with Singapore on Japan's proposed FTA negotiations with Mexico

and South Korea.⁵ LDP commission members had a strong preference for discussing tariffs on agricultural products at the WTO because they feared that once Japan made concessions on market liberalisation in an FTA with Singapore, it would be forced to make the same concession to other countries. Eventually, on the same day as the third round of negotiations, when the Japanese government hoped to reach a virtual agreement with Singapore, the LDP formally approved the government policy.⁶ A government official who was involved in the negotiations recalls that 'there was strong pressure from the LDP and the farm lobby on the government not to agree to make any further liberalisation of the agricultural market in negotiating an FTA with Singapore'.⁷

The FTA negotiations with countries that had larger agricultural exports to Japan then became more controversial. A typical example is Japan's FTA with Thailand. In September 2002, the Japanese and Thai governments set up a working group to discuss FTA issues. Since Thai Prime Minister Thaksin Shinawatra planned to make a visit to Tokyo in June 2003, both governments hoped to use his visit as an occasion to launch formal FTA negotiations that would conclude by the end of 2003. However, the LDP's *norin zoku* objected to full-scale negotiations because Thailand was expected to demand the liberalisation of rice imports and free trade in chicken. The MOFA officials in charge of FTA policy lobbied the *norin zoku* to agree to the conclusion of the FTA within 2003, but they met furious opposition.⁸

The FTA talks with Mexico were also problematic. At a meeting of the LDP's Research Commission on Trade in Agriculture in May 2003, commission members reached a consensus that an accord that would bring benefits to both Japan and Mexico should be pursued and that Japan should not agree to an easy compromise. They also decided that exceptional items should be established in an FTA. At a meeting in August 2003, the commission reaffirmed that important exceptions should be allowed.

Strong lobbying by the agricultural groups occurred behind the scenes. When the initiation of the full-scale FTA negotiations with Thailand became a critical issue, agricultural groups intensified their lobbying of the *norin zoku* and LDP executive members. In April 2003, the Central

Union of Agricultural Cooperatives (Zenchu) distributed to the LDP members a brochure entitled *Requests Regarding FTA Talks with Thailand, Mexico and Other Countries*. In the brochure, the association expressed vehement opposition to FTAs, stating that it was premature to begin negotiations with Thailand and that the Mexican request to liberalise tariffs on agricultural imports was unacceptable. At a meeting of the LDP's Research Commission on Trade in Agriculture in May 2003, Isamu Miyata, chairman of Zenchu, asserted that a transition to formal negotiations for an FTA with Thailand would not be permitted because this would ignore the preferences of those who would suffer serious damage if FTAs were implemented, namely those in the agricultural, forestry and fishery sectors.⁹ Eventually, the Japanese government failed to agree on the start of negotiations for the FTA with Thailand during Thaksin's visit.

When negotiations on the FTA with Mexico entered their final stage, agricultural groups again became increasingly active. At a meeting of the LDP's Research Commission on Trade in Agriculture in September 2003, Zenchu's executive director adamantly opposed concessions to Mexico involving tariff cuts for all farm products.¹⁰ In early October, Zenchu chairman Miyata held a meeting with senior LDP executives, and demanded that pork be listed as an exclusion item in the FTA with Mexico.¹¹ The LDP members, *norin zoku* in particular, were attentive to the demands of agricultural groups because a general election was expected before June 2004. Clearly, when LDP members called for postponing formal FTA negotiations with Thailand and the adoption of exceptional items in the FTA with Mexico, these were responses to demands by the agricultural groups that could influence the retention of their elected positions.

In brief, bureaucratic politics and interest group politics constituted major obstacles to the smooth formation and implementation of trade policy in Japan. The fragmented structure of the Government on trade issues and the lack of coherent interests and policies among bureaucrats virtually prevented the government from formulating cohesive and persistent trade policy preferences. The protection of specific sectors due to opposition from interest groups and their political supporters often impeded the smooth development of FTA initiatives.

Nuanced changes in FTA politics after 2004

In the previous section, we outlined how Japan's reactive trade policy and indecisive commitments to any new policy had much to do with bureaucratic politics and interest group politics.

An objective source of bureaucratic politics lies in the fact that no single entity had the authority and power to make decisions that span multiple ministries. In order to overcome this problem, the coordinating role or leadership of the Prime Minister had long been called for. In this respect, the reorganisation of government ministries in January 2001 contributed to enhancing the power of the Prime Minister and the Cabinet. The Cabinet Secretariat increased its authority by assuming the role of planning and drafting important national policies. This was one of the major points that bureaucrats strongly resisted during the consultations over administrative reform. The existing ministries did not want the Cabinet Secretariat to plan and draft bills in their own jurisdiction (Shinoda 2004). The secretariat also strengthened its functions by the expansion of senior positions. Five new posts (three Assistant Chief Cabinet Secretaries, one Cabinet Public Relations Secretary and one Director of Cabinet Intelligence) were established as special positions directly appointed by the Prime Minister.¹²

Moreover, the Prime Minister demonstrated his determination to improve coordination among the ministries. In February 2002, Prime Minister Koizumi ordered an expansion of personnel exchanges among the ministries, aiming to increase the ratio of exchange in some 1,400 senior posts from 3 per cent in 2004 to 10 per cent in 2007. In summer 2004, 14 ministries and agencies exchanged officials for 40 new posts in addition to the 47 existing posts. This initiative was expected to overcome the shortcoming of vertically structured ministries and to promote more coordination among the ministries.

The Prime Minister and the Cabinet Secretariat also began to play more coordinating roles in trade policy formation and negotiations in various ways. For instance, the Prime Minister became more willing to intervene directly in the trade negotiation process. A typical example was negotiations over an FTA with Mexico. The Japanese government strongly

hoped it could reach an agreement on the FTA when Mexican President Vicente Fox visited Tokyo in October 2003. Accordingly, Tokyo proposed a bold cut in tariffs on pork imported from Mexico at the final stage of negotiations. However, both governments failed to agree, largely due to a difference of view over the access quota for Mexican orange juice. In early November, a mission comprised of senior officials from METI and MAFF had a meeting with the Mexican government representatives, but no progress was made. In late November, Prime Minister Koizumi dispatched Shotaro Yachi, a Deputy Chief Cabinet Secretary, to Mexico City in a bid to break the impasse in the FTA negotiations. Cabinet Secretariat officials were part of the mission, but officials from relevant ministries such as METI and MAFF were excluded on the basis of instructions from the Prime Minister. That this action was exceptional is shown by the fact that Hosei Norota, Chairman of the LDP's Research Commission on Comprehensive Agricultural Administration, criticised this move as leading to 'dual diplomacy'.¹³

Prime Minister Koizumi continued his efforts to strengthen the participation of the Cabinet Secretariat in coordinating issues over trade policy among ministries. Koizumi himself considered that the lack of coordination among ministries was a main cause of failure in negotiations with Mexico. Accordingly, several measures were adopted in order to overcome this problem. In December 2003, Koizumi ordered the institutionalisation of meetings of FTA-related ministries under the Deputy Chief Cabinet Secretary. At the meeting, Directors-General from 14 relevant ministries were in attendance. Furthermore, Prime Minister Koizumi created the Council of Ministers on the Promotion of Economic Partnerships. Council members from 15 government agencies held their first meeting in March 2004, and discussed Japan's overall FTA policy at their second and third meetings in September and December. At the third meeting in December 2004, the Basic Policy towards Further Promotion of Economic Partnership Agreements (EPAs) was announced. The policy identified the value of EPAs in the development of Japan's foreign relations, the attainment of Japan's economic interests and the promotion of structural reforms, and positioned EPAs as a mechanism to complement the multilateral free trade system centring on the WTO. The policy was

accompanied by criteria for identifying countries and regions with which EPAs were to be negotiated.

These two institutions aimed to strengthen systems that overcome miscommunication and bickering within the different government branches. In particular, the Basic Policy was important because it was virtually the first coordinated government policy for FTAs and EPAs. Although each ministry had issued its own FTA policy, there was no integrated policy as the Japanese government.

The formation of cross-ministry institutions had positive effects on each ministry's posture towards FTAs. In November 2004, MAFF made public its policy guidelines (Promotion of EPAs with Other Asian Countries in the Field of Agriculture, Forestry and Fisheries Green Asia—EPA Promotion Strategy). The new guidelines were explicit in proclaiming that 'EPA efforts...will be promoted in a positive way.' It then listed six points in promoting EPAs: i) stabilising and diversifying the sources of food imports into Japan; ii) ensuring the importation of safe food; iii) promoting the export of Japanese brands of agricultural products; iv) developing a business environment for the food industry; v) resolving problems like poverty in rural areas; and vi) conserving the global environment and ensuring the sustainable use of resources. MAFF defined the value of FTAs by referring to the expansion of exports of Japanese agricultural products and the maintenance of the people's food safety.

The institutionalisation of the ministers' meeting forced MAFF to reconsider its previous approach. Before the basic policy towards EPAs was announced at the Council's meeting, each ministry needed to clarify its own policy stance. MAFF maintained an extremely cautious approach about including the agricultural sector in FTA talks, formulating a list of strict criteria for FTA negotiations. Other ministries had formulated their approach to FTA policy stressing the promotion of FTAs with East Asian countries. MAFF was in a difficult policy position as most East Asian countries aimed to conclude FTAs that expanded agricultural exports to Japan. Eventually, MAFF formulated new policy guidelines with a focus on Asian countries.

Despite moves to overcome inter-ministerial conflicts, bureaucratic politics remained a major issue for Japan's FTA policy. As the FTA

negotiation emerged as a crucial policy issue for Japan, relevant ministries began to strengthen their internal organisations that sought to implement this policy. In November 2003, MAFF established its FTA Headquarters for formulating strategies for FTA negotiations. Under the headquarters, five country-specific teams were organised. In August 2004, MOFA reorganised its FTA/EPA Office into the Regional Economic Partnership Division, increasing the number of staff from 30 to 40. METI also established its Economic Partnership Division with some 80 staff.¹⁴ These moves intensified rivalries among ministries and led to less coordination in FTA negotiations.

This influence was seen in the Japan-South Korea FTA (JKFTA). During the Asia-Pacific Economic Cooperation (APEC) summit meeting in October 2003, Prime Minister Koizumi and Korean President Roh Moo-hyun agreed to launch formal negotiations for a JKFTA, and the first round of negotiations took place two months later. However, talks were stalled after late 2004, largely due to political tensions caused by Prime Minister Koizumi's visit to Yasukuni Shrine. At the same time, internal differences over negotiation style within the Japanese government impinged on the deadlock. METI and MAFF had different ideas about negotiating the JKFTA. While METI asserted a negotiation style of exchanging demands from each government first, MAFF supported a strategy of presenting the concession lists each other first.

In April 2006, METI announced its New Global Economic Strategy. One of two pillars of the strategy was the East Asian EPA concept.¹⁵ The concept aimed at launching a comprehensive economic partnership agreement among ASEAN members, China, South Korea, India, Australia and New Zealand regarding investment, intellectual property rights, and economic cooperation in addition to tariff reductions. The creation of a region-wide FTA network would assist Japanese manufacturing firms under METI's jurisdiction that had formed production networks throughout East Asia.

However, other ministries displayed chilly attitudes towards the East Asian EPA concept. For instance, Shoichi Nakagawa, who had changed his ministerial post from METI to MAFF in October 2005, criticised the concept at the press conference just after it was announced by METI.

Nakagawa claimed that METI's concept was unexpected and many matters should be settled before launching such a concept.¹⁶ From MAFF's standpoint, the East Asian EPA concept, which included Australia, a major exporter of agricultural products to Japan, should have been formulated with due consideration to the influence on the domestic agricultural market. MOFA was also sceptical about the concept from the viewpoint of Japan's relations with the United States, which was excluded from the concept, and coordination with the ongoing bilateral FTA negotiations.

It was an urgent matter for Japan to formulate a regional FTA strategy once China launched its aggressive regional economic policy. In fact, the concept behind Japan's strategy derived from METI's concern with the rising regional role of China, which had proposed the establishment of a study group for an FTA among ASEAN members, China, Japan and South Korea at the ASEAN+3 Economic Ministers meeting in September 2004. METI hoped to show Japan's leadership in regional FTA policy by expanding the possible membership to 16 countries to the regional FTA and broadening the fields targeted in the agreement.¹⁷ However, contrary to normal bureaucratic practice in Japan, METI did not undertake prior consultations concerning the East Asian EPA concept with other ministries. METI had little interest in conducting satisfactory discussions, and the Council of Ministers on the Promotion of Economic Partnership did not function effectively.

Significant changes in attitudes towards trade policy began to emerge in the moves and influence of the interest groups and their supporting politicians. Keidanren gradually intensified their activities in support of FTAs. A particularly important move was its use of the resumption of political donations as leverage to exert influence on politicians. In January 2003, Keidanren revealed its plan to commence discussions about the resumption of political contributions, and this move strengthened the federation's bargaining position against politicians. Keidanren organised meetings with the LDP's senior executives where its officials explained the damage that lack of FTAs by Japan caused to Japanese industry. When the federation's senior officials met with the LDP's top executives in June 2003, the LDP members welcomed the federation's decision to resume political contributions. Keidanren members referred to the FTA issue and obtained

positive responses from the party.¹⁸ Coincidentally, one month after this meeting, the LDP set up the Select Commission on FTAs. Keidanren also linked the provision of political donations to the parties' commitments to its preferred policies. One of the ten priority policy items was 'the promotion of commercial, investment and economic cooperation policies responding to intensive global competition'. Keidanren's strong commitment to FTAs was the main content of this item.

Keidanren's activities made LDP politicians recognise FTAs as a vital policy issue by detailing the negative effects resulting from the lack of FTAs on Japanese business activities and the Japanese economy. For instance, 'Promotion of EPA/FTA Strategy'—the policy guidelines that the LDP's Select Commission on FTAs launched in February 2004—included a phrase that 'we need to take account of preventing and breaking up situations where Japan suffers diplomatic and economic drawbacks from the lack of an FTA'. This was precisely the point that Keidanren forcefully argued in relation to the necessity of an FTA with Mexico.

Keidanren also took the lead in expanding the target countries for FTAs. In April 2006, the Japanese government officially announced that it would start FTA talks with the Gulf Cooperation Council (GCC), and the first negotiation meeting was held in Tokyo in September 2006.¹⁹ The close linkages with the GCC through an FTA were important in terms of energy security because Japan gets 75 per cent its crude oil from GCC members. Japan's moves were rather slow given that China started FTA talks with the GCC in April 2005 and the EU did in March 2002.

Importantly, Keidanren was the primary actor urging the government to enter into FTA negotiations with the GCC promptly. In September 2005, the federation issued a policy proposal—Call for Early Launch of Negotiations for Japan—GCC Economic Partnership Agreement. The paper stated that 'Japan must actively pursue a comprehensive EPA with the GCC. Such an agreement should include not only elements of an FTA but also cover the energy sector and the improvement of the business environment. The conclusion of such an agreement would be of crucial strategic importance to the historically amicable diplomatic relationship between Japan and the Middle Eastern countries' (Nippon Keidanren 2005). Keidanren hoped to avoid a repetition of the experience where

Japanese firms suffered substantial economic losses due to the lack of an FTA with Mexico.

As already explained, the agricultural sector was the most serious constraint upon Japan's new trade policy, and Zenchu was the actor leading moves against the inclusion of the agricultural sector in FTAs. However, the association eventually began to be more realistic towards FTAs. Before formal negotiations FTAs with Asian countries were launched, an informal study group comprising representatives from the government, business and academia engaged in a deliberation of possible effects and problems of the FTAs. Zenchu sent its officials to these study groups as representatives from Japanese business circles. In the meantime, Zenchu began intensive internal discussions about the impact of FTAs on Japanese agriculture. In February 2004, the association issued a report entitled *JA Group's Basic Ideas Concerning FTAs with South Korea, Thailand, the Philippines, Malaysia, and Indonesia*. The 54-page report was still cautious about the conclusion of FTAs, but it represented substantial progress in that Zenchu had actually investigated the concrete impact of FTA arrangements on Japanese agriculture from various viewpoints. Moreover, the report stressed the need for a public dissemination program in order to make the agricultural groups' basic stance on FTAs better understood by the members and the public.

In line with this new orientation, Zenchu intensified its own public relations activities to disseminate its basic approach on FTAs to the Japanese public. An important event in this respect was a summit meeting with Keidanren, a long-honoured enemy over trade policy. At this meeting in February 2004, Chairman of Zenchu Isamu Miyata explained to Chairman of Keidanren, Hiroshi Okuda, the necessity of 'offensive' strategies such as export expansion for Japanese agriculture. The association then determined that April–June 2004 would be months during which it would conduct intensive public relations activities such as convening study groups and symposiums. Zenchu's public relations activities even went beyond borders. When a special seminar of the Asian Farmers' Group for Cooperation was held in Manila in mid-March, Association representatives attended and stressed that FTAs should not pursue trade liberalisation alone, but must involve agricultural cooperation in areas such as food safety and rural development.²⁰ In March and April, the Association sent a 30-member

mission to the Philippines and Thailand to exchange views with senior government officials in the two countries and explain Japan's conditions for FTA negotiations.

These changes in attitudes on the part of the agricultural groups were partially caused by new shifts in their support for politicians from the LDP. Some of the *norin zoku* gradually departed from advocating the simple protection of the domestic farm market from international competition. These *zoku* can be called the 'internationally oriented *zoku*' who consider the protection of Japanese agriculture from a broader and international perspective. They are different from the conventional *zoku* who tend to act to defend narrow interests of agricultural groups. Former Agriculture Ministers, Yoshio Yatsu and Shoichi Nakagawa, are two representatives of the newly emerging *zoku*.

The internationally oriented *zoku* directly influenced the evolution of FTA policy and negotiations. In April 2003, Nakagawa and Yatsu met with Koizumi, and stressed the importance of FTAs. Koizumi was reportedly influenced through this discussion about FTAs.²¹ They also played a crucial role in leading the conclusion of an FTA with Mexico. Nakagawa, who had become the Minister of METI in the cabinet reshuffle in September 2003, sought to lead the negotiations over the Japan-Mexico FTA to a smooth conclusion by coordinating agricultural and trade policies and interests. As noted earlier, the Japanese government made concessions by cutting tariffs on pork in October 2003. Some LDP members criticised this bold measure at a meeting of the party's Research Commission on Trade in Agriculture, Forestry and Fishery Products. Yoshio Yatsu, the Secretary-General of the commission, asserted that the commission members agreed to leave the matter to the executives of the commission, and the Government undertook negotiations in close liaison with commission executives and agricultural producers.²²

In summary, the fundamental characteristics of sectionalism in Japanese bureaucratic politics have remained almost unchanged. However, the Prime Minister has deepened his recognition of shortcomings caused by sectionalism and of the need to provide more coordination among ministries. As a result, the Cabinet Secretariat intervened in trade negotiations processes and set up institutions that cut across the ministries.

New moves also emerged in interest group politics. While pro-FTA interest groups gradually increased their influence, anti-FTA groups became more realistic in handling the FTA issues and were more tolerant of FTAs. As for the agricultural issues, internationally oriented *zoku* gained influence in the policymaking process.

Conclusion

This chapter examined the evolution of Japan's FTA policy by examining trends in domestic politics. In particular, it considered the influence of bureaucratic politics and interest group politics.

Japan was behind other countries in initiating bilateral FTAs due to its commitments to multilateralism. After a policy shift from multilateralism to bilateralism in the late 1990s, Tokyo intensified its own internal deliberations on FTAs and expanded the number of countries who would be party to the agreement. However, the new trade initiatives, in general, did not lead to smooth policy outcomes. The Japanese government failed to establish a clear-cut vision for FTAs, and the negotiation process often took longer than expected. The bureaucratic politics and interest group politics had much to do with this result.

The Japanese government failed to formulate and implement comprehensive and consistent external economic policy largely because of rivalry and factionalism among relevant government agencies. METI, MAFF and MOFA adopted diverse policy stances on FTAs. MAFF was extremely reluctant to promote FTAs that would lead to the liberalisation of the long protected agricultural market. METI was an active promoter of FTAs that would produce significant benefits to Japanese manufacturing exporters. MOFA tended to consider FTA issues from the broader perspective such as the stable relationship with the United States.

Interest group politics exercised a vital influence over the evolution of Japan's FTA policy. The Japanese Government was obliged to be passive towards FTAs due to strong opposition to market liberalisation from agricultural interest groups and their supporting politicians. Agricultural groups successfully impeded the progress of negotiations of FTAs with Mexico and Thailand. On the other hand, Keidanren spearheaded the

evolution of the FTA with Mexico through various measures. In its position papers, the federation explicitly demonstrated the negative effects that the absence of an FTA with Mexico had on the performance of Japanese firms operating in that country. It then lobbied government officials and ruling politicians to begin negotiations for an FTA. These activities encouraged government officials to consider the adoption of an FTA strategy more seriously and to take necessary actions to this end.

Some evolution occurred also in both bureaucratic politics and interest group politics. The Koizumi administration made efforts to promote inter-ministerial coordination and intensified direct involvement of the Cabinet Secretariat in FTA issues. Moreover, cross-ministry institutions were set up to promote smooth coordination among relevant ministries. Such moves surely contributed to the advancement of FTA policy by drawing flexible responses from MAFF. However, the fundamental characteristics of fierce inter-ministerial rivalry remained unchanged. As for interest group politics, Keidanren increased its leverage in political circles by resuming political donations. Agricultural groups became more realistic in handling the FTA issues. They changed their strategy from stubborn opposition to stress on public relations activities to gain public understanding about its stance on FTAs.

Notes

- 1 Sub-governments are defined as 'small groups of political actors, both governmental and nongovernmental, that specialise in specific issue areas' (Ripley and Franklin 1984:8).
- 2 The concept of the East Asian Business Zone was formally introduced in the White Paper on International Trade and Industry 2003.
- 3 *Nippon Keidanren* was founded in May 2002 through the merger of the Japan Federation of Economic Organisations (*Keidanren*) and the Japan Federation of Employers' Association (*Nikkeiren*).
- 4 *Zoku* (tribe or clan) are 'LDP Diet members who exert, formally or informally, a strong influence on specific policy areas mainly at the LDP's Policy Affairs Research Council' Inoguchi and Iwai 1987:20).
- 5 *Nihon Nogyo Shimbun*, 10 August 2001.
- 6 *Nihon Nogyo Shimbun*, 4 September 2001.
- 7 *Japan Times*, 23 November 2001.
- 8 *Nihon Keizai Shimbun*, 1 August 2003.
- 9 *Nihon Nogyo Shimbun*, 31 May 2003.
- 10 *Nihon Keizai Shimbun*, 9 September 2003.
- 11 *Nihon Nogyo Shimbun*, 3 October 2003.

- 12 At this reorganisation, the Cabinet Office was established by merging most part of the Prime Minister's Office with the Economic Planning Agency, with an eye to providing greater assistance and support to the Prime Minister and Cabinet.
- 13 *Asahi Shimbun*, 12 December 2003.
- 14 *Nihon Keizai Shimbun*, 27 July 2004.
- 15 The other pillar was the establishment of a policy coordination entity in East Asia to be modelled after the Organisation for Economic Cooperation and Development (OECD).
- 16 Press Conference by Shoichi Nakagawa, Minister of Agriculture, Forestry and Fisheries, 7 April 2006. Available at <http://www.kanbou.maff.go.jp/kouhou/060407daijin.htm>.
- 17 *Asahi Shimbun*, 28 July 2006.
- 18 *Nihon Keizai Shimbun*, 17 June 2003.
- 19 The GCC member countries are United Arab Emirates, Bahrain, Saudi Arabia, Oman, Qatar, and Kuwait.
- 20 *Nihon Nogyo Shimbun*, 13 March 2004; *Japan Agrinfo Newsletter*, 21, 9 May 2004.
- 21 *Nihon Keizai Shimbun*, 9 December 2003.
- 22 *Asahi Shimbun*, 21 November 2003.

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