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國際學碩士學位論文

**Japan's Participation in the Trans-Pacific Partnership (TPP)
A Political Economy Explanation,
Comparative Analysis with Japan-Korea FTA**

한일 FTA 와의 비교분석을 통한 일본의
환태평양경제동반자협정 (TPP) 참여에 대한 정치경제적 해석

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**Japan's Participation in the Trans-Pacific Partnership (TPP)
A Political Economy Explanation,
Comparative Analysis with Japan-Korea FTA**

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Abstract

Japan's Participation in the Trans-Pacific Partnership (TPP) A Political Economy Explanation, Comparative Analysis with Japan-Korea FTA

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Japan successfully entered the Trans-Pacific Partnership (TPP) negotiation and also ratified it. This is surprising because Japan's selection of Free Trade Agreements (FTA) has been focused on those countries with small agricultural sector. Japan has been less active in doing FTAs with countries that needed Japan to open up its agricultural sectors. Korea-Japan FTA (KJFTA) highlights this trend.

The TPP encompasses a variety of countries of different development levels and includes those with which Japan imports large quantities of agricultural products. Ratifying the TPP means Japan needs to open up its agricultural markets to the extent it has never done. This brings to the question of how Japan was able to successfully negotiate with other countries and also able to construct a domestic political environment that allowed for the ratification, when in the case of KJFTA, it could not.

This paper focuses on the changes in the executive leadership as well as the wax and wane of political influence of the agricultural sector. The analysis draws on the framework provided by Mireya Solis on the two dilemmas faced by any trading nations, and also Robert Putnam's Two-Level Game. By comparing the two factors between TPP and KJFTA, this paper argues the following points: 1) In the case of the TPP, Prime Minister Shinzo Abe established a top-down executive leadership, which allowed for Japan to hold wider win-set in the international negotiation. On the other hand, in the case of KJFTA, without the presence of one ministry designated for trade negotiation, it created confusion from its counterpart and eroded Japan's credibility, thereby reducing the win-set. 2) Given the fortunate political circumstances (landslide victory in 2012, reducing number of farmers, growing pro-US sentiment etc) at the time of Abe coming back to power, he could carry out reform of the Japan Agricultural Cooperatives (JA) to further reduce its clout. Agricultural lobby was still very strong when KJFTA was being negotiated. For political and economic reasons, it was unviable for Korea to carry on with the negotiation if it did not gain concessions from Japanese agricultural sector. This was a type of concession that Koizumi could not give.

Keywords: Trans-Pacific Partnership (TPP), Korea-Japan Free Trade Agreement (KJFTA), Agricultural Lobby, Japan Agricultural Cooperatives (JA)

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Table of Contents

Abstract	i
1. Introduction	1
Analytical Framework.....	10
Solis' Dilemmas of a Trading Nation.....	10
Putnam's Two-Level Game	14
2. Overview of KJFTA and TPP.....	17
History	17
Gains from Trade	22
Unequal Distribution of the Gains from Trade	27
3. Analysis: Case of KJFTA and TPP	29
Japanese "Reactive" Foreign Economic Policies.....	29
Agricultural Lobby.....	33
JA (Japan Agricultural Cooperatives)	35
Decentralized Leadership	45
Chapter 4: Conclusion.....	51
References	53
Appendix	59
국문초록.....	61

List of Figures

Figure 1. Structure of Two-Level Game in KJFTA.....	15
Figure 2. Structure of Two-Level Game in KJFTA.....	16
Figure 3. Veto Points in Japanese Policy-Making System.....	32

List of Tables

Table 1. Chronology of the Abe Kantei: TPP and Agricultural Reform.....	41
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List of Appendices

Appendix 1. Effects the TPP has on Japanese Domestic Market.....	59
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1. Introduction

The emergence of the Trans-Pacific Partnership (TPP) is considered by many as a paradigm shift in international trade architecture. Some even go as far as saying that it is “the most important trade agreement in world history in both economic and geopolitical terms.”¹ TPP started off as an agreement between four small countries² known as the P4, and was little known to anyone else. It all changed when the US, during the Obama administration, joined as part of its “pivot to Asia”³. Its prominence took another hike when Japan officially joined the negotiation on July 23rd, 2013. This was achieved after countless political debates and struggles.

Against this backdrop, to say that Trump’s surprising presidential victory sent shockwaves to pro-globalists across the globe would be an understatement. Among the most shocked were Japanese legislators, politicians and Prime Minister Shinzo Abe himself, who worked diligently and used a tremendous amount of political capital to bring Japan to the TPP negotiation table and then follow through with the drafting of the deal. While the possibility of having TPP in its fullest form may already be all but over, Japan’s road to TPP remains well worth deeper research.

¹ <https://piie.com/commentary/op-eds/trans-pacific-partnership-and-japan>

² The four countries are Singapore, Chile, New Zealand and Brunei

³ “Why the TPP is the linchpin of the Asia rebalance,” <https://www.brookings.edu/blog/order-from-chaos/2015/07/28/why-the-tpp-is-the-linchpin-of-the-asia-rebalance/>

Japan's road to TPP remains somewhat of a mystery to many those who study political science, economics and negotiation. Go back ten years, before talk of Japan joining the TPP have surfaced, not too many people including experts, would have even imagined that a trade deal as comprehensive and ambitious as TPP would have been considered politically feasible for political leaders in Japan. Often criticized for being a "reactive state", Japan's foreign policies, including the ones in the economic realm, arguably have largely been designed and put forward in reaction to other countries' foreign policies. The main reasons for the lack of proactive policy formulation stem from the Japanese political system, which is characterized by inter-ministerial power struggle, decentralized trade policy-making procedures and strong opposition from the agricultural sector, often known as the "rice lobby". Hence, explaining Japan's success in joining the TPP negotiation and overcoming the agricultural lobby centered around the special five or "sanctuaries", rice, wheat, beef and poultry, dairy products and sugar, is an elusive one. The story is all the more surprising given the comprehensive nature of the trade deal. The purpose of the thesis is explaining how the Abe administration has been able to resist opposition to successfully pass the TPP bill in the Japanese parliament.

In doing so, this thesis tries to bring in perspectives and draw implications from the Korea-Japan FTA(hereafter, KJFTA) negotiation to ease the burden of explanation and provide a clearer framework. At first sight, comparing TPP with KJFTA may seem like

comparing apples to oranges. However, the comparison provides a good point of departure because the factors mentioned above were not as contentious as it was for TPP. In other words, given Korea's relative weakness in the agricultural sector vis-à-vis the US and other signatories of TPP and the less ambitious depth and width of trade liberalization of KJFTA, political capital needed for the ratification would have been much smaller. However, KJFTA failed to overcome the political hurdle. This result, retrospectively, is counter-intuitive.

In an attempt to explain Japan's success in ratifying TPP, in Chapter 1 the thesis will contain literature review and address the puzzle and the framework used to solve it. Also it will introduce the concept of "dilemmas" that Japan faced when selecting and pushing for trade deals. In Chapter 2, this thesis out and compare economic sides, trade gains and the losses expected of KJFTA and TPP. In Chapter 3, dilemmas of Japan when doing with the KJFTA and TPP will be introduced, and analyzed to shed light on what factors made one trade deal possible and not the other. Lastly, a conclusion will be drawn.

Literature Review

KJFTA

Most literature on the KJFTA recognizes the importance of economic issues. Of the numerous economic issues, two notable ones are constantly raised. The first is Korea's fear of a worsening trade deficit vis-à-vis Japan and the second is a lack of competitive edge in the manufacturing sector over Japan. Economic aspects will be discussed in greater depth in the next section.

Other research has focused on non-economic issues. Ahn and Kim focus on the political environment in Korea and Japan that restrict the room to pursue more active political postures to facilitate the negotiation. They focus on the battle between the winning sectors (endorse group) and losing sectors which demonstrate their political clout by demonstrating and aligning with other actors such as NGOs. They highlight that the opposition from the losing sectors were especially influential given the large size of trade volume and likeliness of the goods being exported between the two countries. (Ahn and Kim, 2010)

Lee names three domestic political factors in Japan that hindered the KJFTA negotiation. First is the lack of a solid political base for the Koizumi cabinet. The second factor is the existence of a dynamic political relationship involving agriculture and fisheries that resembles typical clientelism. This is considered a typical

characteristic of Japan's policy making system, widely known as 'pork barrel politics.' This means that politicians are prone to be focused on providing benefits to their constituents in return for their votes. Parochial regional interests are not always in line with what is best for the nation as a whole. The third factor is the strong opposition from the fishery and agricultural sectors. On top of these factors, he also names other unresolved political issues between Korea and Japan such as Yasukuni Shrine, territorial disputes, and the history textbook issues to have adversely affected the negotiation outcome. (Lee, 2013)

Such crossover between economic factors and political factors is echoed by Han. Han raises five political and historical problems specific to Korea and Japan that have been important during the negotiation: distortion of historical textbooks and disagreement on past events, territorial disputes and disagreement on the Korean-Japanese Fisheries Agreement, conservative swing in Japan and its collision with its Korean counterparts, Japan's efforts to strengthen its military, controversies surrounding the UN diplomacy and diverging positions on the North Korea issue. Such disagreements created mutual distrust and built public antagonism towards economic cooperation with one another.

Other literature also focuses on the 'negotiation' between the two countries.⁴

Considering factors such as negotiating power, internal and external negotiations, and position and process of internal negotiations, Kim focuses on how Korea failed to

⁴ The Analysis on the Negotiation Process of Free Trade Agreement between Korea and Japan from the Perspective of Internal Negotiations

come to terms with the lack of coordination from within. The KJFTA was initiated without fully taking the process of internal negotiations, thereby reducing the negotiating power of Korea rather than Japan. Kim also recognizes that negotiation is not only important during the formal negotiation phase but also in the pre-negotiation phase, during which modality and agenda are largely determined, and in the post-negotiation phase. He argues that the spillover of non-economic issues on the negotiation agenda made it very difficult for Korea and Japan to come to agreeable terms.

Also, in the process of negotiation, while Korea called for a comprehensive elimination of tariff and non-tariff barriers, Japan called for a gradual approach that include issues like investment promotion and industrial technology transfer. (KIEP•Asia Economy Institute, 2000). On the issue of agriculture, the two countries showed huge discord in that Japan asked to negotiate for a gradual opening of its agricultural sector, while Korea maintained its position that ratification of the KJFTA is impossible without an aggressive opening of the agricultural sector. Because agriculture was one of the few sectors that Korea had a comparative advantage over Japan, it was political not feasible to let Japan off the hook on agriculture. This reduced the ability for both countries to maneuver and come to a deal.

Others argue that Japan was not overly interested in doing a FTA with Korea in the first place and instead used it as a leverage to pursue other FTA initiatives. Given that Japan evaluated its potential FTA with China to be more economically beneficial,

Japan saw a FTA with Korea as a means of overcoming this hurdle. Hence, it was less active in pursuing a FTA with Korea. When political tensions worsened, the negotiations were put off.

It should be noted that all literature mentions the difficulties associated with the agricultural lobby in Japan. Although there are some minor discords about the extent, to which the lobbying power affected (or did not affect) the negotiation outcome, most would agree that the opposition from the Japanese agricultural sector is said to have had a hand in changing the course of the negotiation.

TPP

Literature on TPP also focuses on economic, as well as non-economic aspects. Auslin (2012) pointed out several structural and immediate factors that prevented Japan's pursuit of joining TPP negotiation during the Noda administration, when the likelihood of Japan being able to ratify TPP seemed low. Structural and institutional factors included political clout from the agricultural sector and lack of political unity. More immediate political causes stemmed from political and economic crisis, coming from the 2011 Tohoku earthquake and tsunami as well as the decreasing approval rate of the DPJ and Prime Minister Noda.

Naoi and Urata (2013) used data on public opinion on TPP and named it as a constraining factor for policy makers. Because election (and reelection) can be seen as one of the most notable determinant on politicians' policy choices, swaying public

opinion on a certain policy issue, in this case, Japan's participation in TPP, can explain why it was successfully carried out in one administration and not in another.

Katada in evaluating Japan's choice between Asian Infrastructure Investment Bank(AIIB) and TPP, notes that its choice to join TPP and stay out of AIIB is a peculiar one because TPP "promotes the type of trade liberalization that Japan has resisted since the 1970s." On the other hand, AIIB, which "aims to increase infrastructure investment in Asia," which seems more in line with Japan's economic interest. In other words, its endorsement of TPP and reluctance in supporting AIIB indicate a switch in the Japanese government's focus, and also an indication of a desperate attempt to change courses. While she recognizes the importance of security and balance of power concerns, she looks at domestic politics and regional economic strategies to explain the choices. Katada names three reasons to explain the Japanese government's decision to opt for TPP: structural reform as one of the "three arrows" of Abenomics, through which it hopes to revitalize the economy, expected large economic gains and an advantageous position to exert influence in the region especially with the notable absence of China. Similar views are echoed by Terada (2015).

Mulgan (2015) focuses on Abe's efforts to make agricultural reforms. the Abe administration sees Japan Agricultural Cooperatives (hereafter, JA) as an ever-present obstacle to most liberalization efforts, and feels it is necessary to strip JA of some of the legal and institutional privileges that make it a strong lobbying force.

Lastly, many literatures, like those from Ishiguro (2014) use Putnam's two-level game to explain the success and failure of the trade deals. Ishiguro talks about Japan's agricultural lobby and how different reforms have taken place after the establishment of the WTO. With agricultural reform under Abe, diminishing influence from the agricultural sector was fed back to the international scene rendering the deal possible.

However, by naming a range of factors from economic to political, it becomes difficult to determine which factor was critical. Given how the agricultural lobby was much more fierce and the public was much more divided in the case of TPP, many of the theories that have been used to explain the failure of KJFTA are not suitable for explaining how Japan has been able to ratify TPP. In addressing the problem of a lack of solid framework, two frameworks will be applied to both KJFTA and TPP, and then compared. The first frame framework from Mireya Solis will be used to explain the domestic interaction, and the repercussion onto the international negotiation will be analyzed through Robert Putnam's Two-Level Game.

Analytical Framework

Solis' Dilemmas of a Trading Nation

Solis's framework mainly focuses on the non-economic purposes of trade deals. She identifies the difficulties associated with appealing the traction of public policy to the general public because getting the right policy is “incredibly hard”⁵. In other words, it is very difficult to reconcile the essential goals of trade policy. One goal of trade policy is to achieve economic competitiveness and to exercise leadership abroad. Also important is the need to help build social understanding as the trade agenda continues to grow and has deeper reach. Therefore, it is important to build the case to show why trade is important, why it is desirable and how to do it carefully to protect domestic regulation. The last goal is to make this agreement politically viable, or to make sure that ratification is possible. If the negotiated trade agreement falls apart, it is obviously a big blow to the participating countries and its members. When trade policymakers try to reconcile these goals of economic competitiveness, social legitimacy and political viability, the essential dilemma appears.

The existence of both winners and losers from trade, combined with other non-economic considerations involved with the trade deal, make ratifying and designing a trade deal a series of serious political choices. Policymakers and politicians are met

⁵ Solis, Mireya. Dilemmas of a Trading Nation: Japan and the United States in the Evolving Asia-Pacific Order. Washington, D.C., *Brookings Institution Press*, 2017.

with dilemmas when making these political choices. Mireya Solis categorizes two essential dilemmas which she calls “dilemmas of a trading nation”: decisiveness vs inclusiveness and reform vs subsidization.

Decisiveness vs Inclusiveness

The first dilemma is the tension between executive leadership and social responsiveness.⁶ Executive leadership is considered strong and ‘top-down’ when executive branch of a government (in the case of Japan, it is the Prime Minister and his cabinet) has the discretion to design policies without much interference and opposition from other actors. Those actors can include opposition party, bureaucrats and other interest groups (in the case of Japan, it can include intraparty opposition). While having a top-down executive leadership can be conducive to expediting trade deals to be concluded, it can also be exclusionary and exclude many whose interests may also be affected by the fate of a policy decision. If the power that rests on the executive branch is too strong, then it could be a source of discontent among the constituents and also erode the legitimacy of the government. On the other hand, being too “inclusive” may prevent governments from carrying out its policy agenda, which may be beneficial for the nation as a whole. If too many interest groups can voice and articulate their interests, and if the executive branch is forced, either institutionally or politically, to accommodate those needs, negotiation power of the nation can deteriorate. Therefore,

⁶ *ibid*

all trading nations are forced to meet the dilemma of finding the right balance between the social responsiveness and executive leadership.

In terms of the social group, this paper hopes to define the unit as major interest groups in each industry sectors. It should be noted that the existence of such interest groups does not necessarily imply that they will be automatically involved in political activities for or against ratification of a certain trade deal. If the stake is not large enough, opposing sectors may not come out to the streets or use their lobbying powers. Equally, if the stake of not doing a trade deal is huge for certain groups in an industry, they too can take to the streets to support trade initiatives. Of course, as mentioned before, the losing sectors are structurally more prone to the unequal distributive nature of trade.

Reform vs Subsidization

Another essential dilemma is the tension between the drive for economic reforms and the need for the political pragmatism. In other words, the second dilemma is how to “make the agreement politically viable at home so that the ratification can materialize.”⁷ Trade deals affect the domestic economy in two ways. First, they creates winners and losers. Because of the distributive nature of trade, losers will inevitably

⁷ Ibid

more heavily affected. Second, they will bring with them liberalization efforts. This is closely tied to the first reason. In order to compete with foreign producers, domestic producers will have to either improve its competitiveness or move to an entirely different sector, should they decide that they cannot compete with the world, even with the help of some subsidies.

With this in mind, in order for a trade deal to come into effect, two things need to be done. Two nations need to come to the negotiation table, and agree on certain terms. Also, the agreed trade deals need to be ratified domestically. For example, trade deals with overly ambitious tariff elimination plans may be agreed by both sides at an international level, but may be turned down domestically, if the opposition is too strong. In order to offset some of these concerns, governments often resort to providing subsidies to the losing sectors. While this would surely soothe the opposition, it would offset some of the aforementioned liberalization efforts by the government. In other words, too little concession or subsidy to the losing sector runs the risk of not being able to ratify the trade deal domestically, while too much concession could substantially undermine the liberalization efforts. Hence the tradeoff between liberalization and subsidy (concession) makes up the second dilemma that trading nations face.

As can be seen, the two dilemmas are not independent, but rather, mutually affect each other. For example, a decisive executive decision-making body could allow for

stronger reform even at the face of stronger opposition. Also if a government can promise a larger subsidy for the losing side, at the expense of conducting reform, decisiveness in the executive body may not be necessary at all because wider subsidy, to an extent, implies inclusiveness.

Putnam's Two-Level Game

Faced with the two dilemmas, trading nations often have to give concessions to the losing sector, in an attempt to soothe the opposition. These concessions often come at the expense of exporting sectors from the other country, and such conflicting interests are fed back onto the international scene and affect the outcome of the negotiation.

These dynamics will be scrutinized using Putnam's two-level game. At Level I, there is the bargaining between the negotiators representing positions of the respective governments. At Level II, the governments hold discussions and arrangements with domestic constituents about the possibility of ratification of the trade agreement. The catch is that even if an agreement is reached at Level I, unless it goes through the legislative process domestically, it will be meaningless. Also, in order to satisfy at least the minimum legislative requirements, politicians need to work with their constituents and appease them when necessary.

Where win-sets are the possible outcomes from the negotiation that would be acceptable to domestic constituents, agreements will be made when (and only when) there exists an overlap between the win-sets of the two countries. The size of the win-sets will be affected largely by three factors: First, preferences and the distribution powers among those making up Level II. Second, Level II political constituents. Third, strategies of the Level I negotiator. This research will focus on the role of domestic actors and the shift in their distribution of power and preference, and how they affect the interaction at Level I. It is worth noting that there is a degree of uncertainty about the counterpart's win-set as well as international pressures affecting the preference and distribution of the powers of Level II actors, and the role of the chief negotiator, all of which can also affect the relationship between Level I and Level II. (Calder, 1988)

2層ゲームモデル構造 Structure of 2 level game model (13頁)

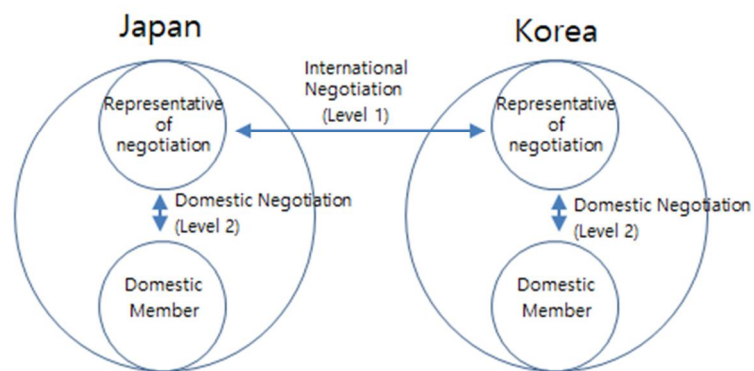


Figure 1. Structure of Two-Level Game in KJFTA (Sakuyama 2015)

2層ゲームモデル構造 Structure of 2 level game model (13頁)

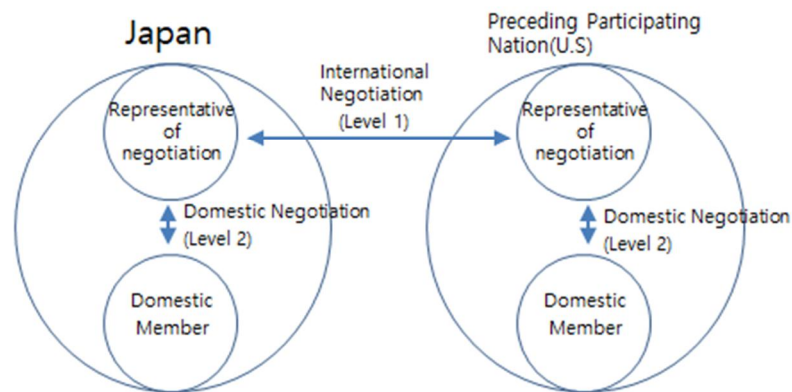


Figure 2. Structure of Two-Level Game in TPP (Sakuyama 2015)

This research will compare the factors that affect Level I interaction between KJFTA and TPP, focusing on how diverging preferences give birth to different coalitions and how such coalitions go through institutional settings to engender negotiation outcomes. A great deal of discussion will be devoted to explaining how the Japanese government countered the formidable coalition from the agricultural sector, efforts from different prime ministers to centralize trade authority, leadership of the respective prime ministers along with the influence of how the two trade deal were framed and presented to Japanese constituents.

2. Overview of KJFTA and TPP

History

KJFTA

Being neighboring countries, Korea and Japan have established a fruitful economic partnership since the normalization of relations in the 1960s. Although due to globalization and diversification of trade partners, both have seen the importance of the counterpart wane in the 1980s, the two countries both still remain important to one another. The partnership, however, is not without problems. Korea has been particularly worried about its trade deficit vis-à-vis Japan, and there had been a few measures to address the problem. For example in 1992, the then President Roh Tae Woo and Prime Minister Kiichi Miyazawa agreed on cooperation programs to increase Japanese investment in Korea and Korean export to Japan. Also, the establishment of the Japan-Korea Industrial Technology Cooperation Foundation was designed to tackle this problem at a private-sector level. (Kim, 2015)

Scalapino noted that given the cultural similarities and geographical proximity, and also the need for cooperation in many areas including North Korea issues and the rise of China, it is counter-intuitive that KJFTA has not yet come to fruition. This

highlights that both sides must have felt an acute need for further cooperation including stronger trade relations. And such was the underlying sentiment in the late 1990s and 2000s.⁸

After the Asian Financial Crisis in 1997, the two countries felt acute need for further cooperation. Towards the end of year 1998, through meetings at various levels - ministerial-, cabinet-, and Head of State-, both countries included the agenda of discussion on a potential KJFTA. A KJFTA was first suggested by the Japanese Ambassador to Korea, Ogura in September 1998 in an address titled 'Korea-Japan cooperation in the twenty-first century'⁹. President Kim Dae-Jung visited Japan in 1998¹⁰, which further improved relations and discussions were advanced when Prime Minister Koizumi Junichiro came to Korea to hold a summit meeting, during which a joint study for preliminary studies by the two countries was agreed. For the preliminary research and feasibility study, the Institute of Developing Economies (IDE) and the Korea Institute for International Economic Policy (KIEP), semi-governmental research institutes were assigned for Japan and Korea, respectively. The study group meetings started in April 1998, and the reports were published in December 1998. After further joint studies, Korea and Japan finally agreed to launch the negotiation in October 2003.

⁸ Robert A. Scalapino, "The Prospects for the East Asian Political Economy in the 21st Century" in Han Jong Man(eds.), *Political and Economic Outlook of Asia: The Year 2000 and Beyond*(Taejon. Korea: Social Science Research Institute of Pai Chai University, 1997)

⁹ <http://www.mofa.go.jp/region/asia-paci/korea/joint9810.html>

¹⁰ <http://www.mofa.go.jp/region/asia-paci/korea/pv0009/overview.html>

The first round of negotiation took place on December 22, 2003. On that day, Korea's Deputy Trade Minister, Kim Hyun-Jong, said adamantly that "both Korea and Japan should pursue comprehensive FTA, eliminating tariff and non-tariff measures in all sectors including agriculture."¹¹ It is worth-noting that he singled out the agricultural sector, insinuating that he and others were aware that this is going to be the veto point for a smooth negotiation. The Japanese counterpart, Ichiro Fujisaki, then Deputy Minister for Foreign Affairs echoed the importance of the KJFTA, and added "we should ensure benefits from both sides. As you say, we have to create win-win situation."¹² Thus, both agreed to finalize the negotiation by 2005.

The negotiations continued until November 2004, which was the sixth round, but the two countries could not come to an agreement, and negotiation has stopped ever since. Although several rounds of Working-, Director-General-, and Manager-Level consultations continued until deep into 2012, KJFTA was *de facto* dead without any real death sentence.

¹¹ MBN News - <http://news.naver.com/main/read.nhn?mode=LSD&mid=sec&sid1=115&oid=057&aid=0000001761>

¹² Ibid

TPP

When TPP was first founded in May 2006 between the P4, it did not grab worldwide attention. Also for the Japanese government, it was not until 2009 that the government started taking an interest in the TPP. Obama came to Tokyo in November 2009, two months after Yukio Hatoyama became the prime minister of Japan, and announced that the US will join the TPP. The fact that Obama physically came to Japan to make such announcement underlines how important Japan's role in the US's design of TPP had been. In March 2010, the US, along with Australia, Vietnam and Peru officially joined, and the world realized that the TPP is a 'big deal.' Malaysia, Mexico and Canada joined subsequently, and by then, TPP was already a topic of heated debates in Japan. Meanwhile, US-Japan relations was as Prime Minister Hatoyama was overtly leaning towards China with his "East Asia Community," and the US was discontent with how the Japanese government dealt with the Futenma Airbase issue in Okinawa. Not long after Naoto Kan(hereafter, Kan) became the prime minister, he reassured the US that the "East Asia Community includes the US." It should not come as a surprise that one week after, on 1 October 2010, during a Diet session, Kan announced that Japan will consider joining the TPP negotiation. Within weeks after the announcement the Diet was boiling with opposing forces¹³. After several feasibility studies with different contracting parties, the progress hit an unexpected obstacle, the 2011 Great East Japan Earthquake. Kan, having to deal with the aftermath of the crisis, could not push further

¹³ Within LDP, Research Commission on Agriculture, Forestry and Fisheries Trade(農林水産物貿易調査会), and mainly with members from DPJ a Group that think about TPP carefully (tpp を慎重に考える会)

with his TPP initiative. His successor, Noda after coming into office in September, said “with regards to participation in the TPP negotiation we have to come to the conclusion as soon as possible,” and pushed for some kind of bipartisan agreement and compromise in allowing for the negotiation to take place. However, the priority given to the TPP waned as the DPJ was more concerned about the falling approval rate and opposition from his own party, and was concerned about controversial nature of the deal. It was not until August 2012 when Shinzo Abe, for the second time, became the Prime Minister that the discussions about Japan joining the TPP took a positive upturn. And this was a major surprise to many because he was one of the main opponents against the TPP initiative before becoming the Prime Minister. Although when Japan was coming closer to the election, he started to flirt with different ideas about the TPP, to many, “Prime Minister Abe’s early push for TPP membership came as a surprise.”¹⁴ He announced in March 2013 his decision that Japan will participate in the TPP negotiation.

It is worth noting that while the DPJ Prime Ministers struggled to provide meaningful impetus to their TPP initiative, Prime Minister Abe managed to show significant progress within months after coming into power. The reasons behind such differences will be discussed in depth later.

¹⁴ Solis, Mireya. Dilemmas of a Trading Nation: Japan and the United States in the Evolving Asia-Pacific Order. Washington, D.C., *Brookings Institution Press*, 2017.

Gains from Trade

KFFTA

According to the most basic economic theory of trade, trade between countries through exporting goods in which the country has comparative advantage and importing those in which the country has comparative disadvantage, creates a win-win proposition. This means that all involved countries can expect net gain from trade. This is the underlying economic incentive for any international trade, and why efforts to liberalize trade exist.

Before trade deals are considered for negotiation, it is common to conduct feasibility studies to determine the extent of trade gains. Such were the cases for KJFTA and TPP. While there exist small discrepancies and differences in the numbers depending on the investigating agencies, there were definite results that unequivocally predicted a net trade gain for Japan (as well as for all other countries involved)

In October 2003, the two countries published “Japan-Korea Free Trade Agreement Joint Study Group Report”¹⁵. In the report, the overall economic effects of a potential KJFTA were examined through two lenses: static(short-term) effect and the dynamic(long-term) effect. The result from both KIEP and IDE spoke favorably of Japan’s gains from trade. Although for Korea, the results were a little more

¹⁵ MOFA, Japan-Korea Free Trade Agreement Joint Study Group Report, 2003

controversial, in that such FTA would aggravate an already worrisome trade deficit vis-à-vis Japan in the short-term. However, it should be noted that such studies assume minimal removal of non-tariff barriers. For example, in another individual study done by KIEP in 2001 that assumed for a significantly wider inclusion and reduction of non-tariff barriers predicted that Korea's trade deficit with Japan will, in fact, decrease and Korea's GDP to increase "by 0.22 percent to 0.33 percent in the short-term and 0.82 percent to 1.90 percent in the long-term." (KIEP, 2001)

The trade relations between Korea and Japan are quite unique in that the two countries, compared to the world average, are competitive and uncompetitive in similar industries. Also, the winning sectors and losing sectors seem to have been divided quite clearly from the very beginning. Given the competitive nature of Japan's industries, for example, in the automotive and heavy industry, Japan was widely expected to experience greater trade surplus and high trade gains. According to the Bank of Korea, "67% of the Korean exported products are in competition with Japanese products, among which only 9% have higher competitiveness than Japanese products."¹⁶ In other words, Japan's export structure is heavily competitive vis-à-vis Korea in industries like steel, automobile, ship building and electronics. With Japan having an upper hand in the competitiveness, large trade gains were expected with the wider access to Korea's domestic market. Also from the supply chain perspective, Japan could expect an

¹⁶ Pg 26. An and Taeoe, 2005

increase in exports in technology-intensive capital goods and intermediate inputs to Korea.

TPP

Similar feasibility studies have been published for TPP as well. TPP was touted as “a landmark 21st-century agreement”¹⁷. Its significance comes from multiple aspects. Before the US decided to opt out of the trade deal, it incorporated about 40 percent of the world economy, in the report published by METI in November 2015, two notable characteristics of TPP are introduced. The first is high level market access. In principle, TPP aims to liberalize not only the goods but also the services market. On average, eleven countries excluding Japan successfully agreed to eliminate 98.5% of tariffs on agricultural products and 99.9% of tariffs on the manufacturing products. In the case of Japan, it is 100% for manufacturing products and 81.0% for agricultural products, making it in total 95%. This is a huge improvement from 89% elimination percentage in the case of the recently signed EPA with Australia. (USTR Website)

In terms of what the voters saw to be the direct effect of TPP on Japanese economy, METI published a table that can be found in the appendix. It had been predicted that Japan, among the twelve nations, will be the greatest beneficiaries from the trade. According to the report, Japan can expect increase in the incomes “by \$106 billion or 2

¹⁷ <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2015/october/summary-trans-pacific-partnership>

percent of GDP, and exports rising by 12 percent.”¹⁸ These gains are devoted to lowering of non-tariff barriers as well as liberalization of investment in Japan.

Other elements include greater international competition forcing Japanese companies to invest in innovations and produce more competitive products, reducing outputs in uncompetitive sectors that cannot compete with imported products as well as significant liberalization in the agricultural sectors that would allow consumers to enjoy their products at much lower costs.

Given the sheer size of the parties involved in TPP, it is hard to draw solid comparisons between the Korea-Japan FTA and the TPP. However, given the research conducted by the Japanese government, it was clear that the Japanese economy will experience net gain in both of the agreements, should these pass. This should not come as a surprise because the main underlying assumption for doing most FTAs, and in fact trade, is economic gain. Here, two points need to be considered.

While the size of the economy that the TPP covers is huge, the trade gains from TPP may not be as big as it looks at first glance. Japan has already concluded FTA agreements with Singapore, Australia, Mexico, Malaysia, Brunei, Vietnam, Peru and Chile, which makes up eight of the eleven TPP countries. The three omissions from the

¹⁸ <https://piie.com/blogs/realtime-economic-issues-watch/japans-third-arrow-why-joining-tpp-game-changer>

list are Canada, New Zealand and the United States. The US is by far the biggest trade partner of Japan, and its share of trade volume in the TPP, too, is beyond compare with others. While it is true that the ambitious targets for eliminating tariff and non-tariff barriers (NTBs) would guarantee varying extents of improvements on the existing FTA vis-à-vis aforementioned eight countries, and inclusion of New Zealand and Canada result in both trade creation and diversion, not dissimilar to Bhagwati's "spaghetti bowl effect.", the lion's share of the 1.8% expected GDP increase reported by the Japanese government comes from de facto FTA with the US. This is to say that the economic gains from TPP do not differ too greatly from a potential bilateral Japan-US FTA, should the same conditions stipulated in TPP apply.

Other notable characteristics are the inclusiveness and comprehensiveness of the rules. In comparison with WTO and pre-existing FTA/EPA, "TPP includes new elements that seek to ensure that economies at all levels of development and businesses of all sizes can benefit from trade."¹⁹ The rules include chapters on customs cooperation (Chapter 5) and Intellectual Property Rights (Chapter 18) that supersede less stringent preexisting WTO rules. Rules on E-Commerce and State-Owned Enterprises (SOEs) and Designated Monopolies also provides level playing field for contracting parties. These new rules take into consideration deepening of global supply chain. Also addressed are non-economic issues like labor and environment that are often avoided

¹⁹ <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2015/october/summary-trans-pacific-partnership>

by other FTAs. Despite these differences, recognizing that both KJFTA and the TPP are to yield significant economic benefits to Japan allows for a suitable departure from which viable comparison can be drawn.

Unequal Distribution of the Gains from Trade

The core of the abovementioned economic theory of trade is that distribution of the gains from trade, by nature, is unequal. Some sectors of the industry gain tremendously, while others lose. This is why economic theories alone cannot explain why some international trade takes place while others do not, and why some trade deals are successful in being ratified by the respective political institution while others fail.

Against such background, it can be quite confidently established that Japan should expect trade gains from both the Korea-Japan FTA and TPP upon their ratification despite the differences in the nature and size of the trade gain. However, trade deals collapse not because of the differences in the size or the nature of net gains but because trade or the expansion of trade creates losing sectors/industries. The issue of trade in general, and FTA in particular, is inherently controversial because while the economy as a whole, experiences net gain, the gain from trade is not equally distributed and hence, creates winners as well as losers. Because losers are concentrated in particular

sectors (or regions), interests are more effectively accumulated and articulated to affect policy making process and its outcomes more directly.

Although in the case of TPP, other sectors such as insurance and pharmaceutical were also against it, given the lack of coordination among the potentially affected companies and individuals, as well as Japanese government's inability to ask for further concessions in the negotiation.

Despite all the marked differences between the two deals, the losing sectors (and in fact, winning sectors as well) do not differ as greatly. Most notably, agriculture sectors have been the strongest opposition for both the agreements. Most literature agrees that Korea's export of agricultural products to Japan will increase with the finalization of KJFTA (Choi, Kim, 2001) (Cheong, Cho 2006).²⁰ Their lobbying power has been well documented by many scholars, as will be explained in the later sections, but it should also be noted that the damage for the losing sector in Japan would be unequivocally larger in the case of TPP. If we take for granted that the agricultural sector has heavily affected both trade negotiations, it is all more puzzling that it is in fact, TPP that was managed to be ratified rather than KJFTA, in which the farmers in Japan would have less stake.

²⁰ Some scholars claim that the actual amount is predicted to be not too high, given that the percentage of agricultural products in Korea-Japan trade is at mere 5%.

3. Analysis: Case of KJFTA and TPP

Understanding the roots and characteristics of Japan's foreign economic policies should lay a useful groundwork on which comparative analysis between KJFTA and TPP can be drawn. In order for trade deals like KJFTA and TPP to be ratified, it has to go through the following policy procedures. Although the Cabinet is responsible for negotiating and finalizing treaties, the approval is with the two houses of the Diet, and the decision will be made by a majority vote. If the decision by the two houses differs and cannot come to a compromise, then the decision from the House of Representative stands. With this in mind, this chapter will trace back to some of the characteristics of Japan's foreign economic policy-making process and lay out why Japan's past foreign economic policies had been considered "reactive," and factors that changed the course of Japan's policy direction.

Japanese "Reactive" Foreign Economic Policies

From the early 2000s, Japan joined others in the race for FTAs as a latecomer. Starting from PM Koizumi's trip to Southeast Asia in January 2002, Japan agreed on FTA with Singapore in 2002, Malaysia in 2005, Philippines in 2006, Thailand in 2007, Thailand, Indonesia and Brunei in 2007, ASEAN in 2008, Switzerland and Vietnam in 2009,

India in 2011 and Peru in 2012. It quickly caught up with the forerunners like South Korea. But Japan's foreign economic policies have not always been this 'active.'

There is much literature that explains Japanese foreign policy decisions due to external factors. It is not domestic politics but rather external factors that drew Japan to the negotiation table. This is especially so as Japanese foreign economic policy formation has been famously described as that of "the reactive state." Calder define the "reactiveness" in two ways: First, the state's disability to undertake independent foreign economic policy when it has both the ability and incentives to do so. Second, the state response to outside pressures for change. Calder also comments that "Japan is more hesitant in pursuing strategic trade and industrial interests in cases that require pro-active multilateral initiatives."²¹ As to the reasons for the reactiveness, he names three factors: state strategy, the character of the international system, and the internal structure of individual states that jointly make up the system. (Calder, 1988)

In the light of Japan's policy on steel trade disputes with the United States, it was discussed about how effectively Japan has been using WTO as a means to achieve its foreign policy objective and protect its national interests in international trade (Yoshimatsu 2007). By scrutinizing the process that brought Japan to steel trade disputes vis-à-vis US, and comparing it with that of the EU, Yoshimatsu draws the

²¹ Calder, Kent E. 1988. "Japanese Foreign Economic Policy Formation: Explaining the Reactive State." *World Politics* 40(4): 517-541

conclusion that three factors - the “specific nature” of Japan-US bilateral relations, growing multilateral institutions, interconnectedness and the diverging ministry’s interests of MOFA and METI - were responsible for rendering indecisive and ineffective the use of WTO mechanism in countering US’s protectionist measures.

Also, in explanation about differences in the stances taken by MOFA and METI, Yoshimatsu brings in concepts such as ‘path dependence’ and ‘learning’. He argues that MOFA, staffed with pro-America bureaucrats who may be biased and reluctant to put a hard stance vis-à-vis US, including the trade deals, went through ‘path dependence’, and that MOFA did not learn from the experience of 1988 when Japan’s first attempt at multilateral negotiation proved to be fruitful and from Japan-US auto and auto parts dispute. (Yoshimatsu 2007)

Thus, the “reactive” nature of Japan’s policy making system is caused by several factors, one of which is its decentralized decision making system. As mentioned before, because of the distributive characteristic of trade, diverging preferences exist across a nation. Often times, the larger benefit of trade is shared among a greater number of constituents, whereas losses are more concentrated on certain sectors. Naturally, losers have a more urgent incentive to accumulate and articulate their interests. They accumulate their interests by forming coalitions. If such coalitions are large and strong enough, it can be politically influential, and work as veto points to a certain policy, in this case ratification of trade deals. These interests are then articulated into the policy

making process, and politicians cannot ignore the demands of the losers from trade, even at the expense of the larger benefit associated with trade.

In order to avoid policy paralysis and push forward the policy, the executive body needs to have a strong leadership to quench the resistance, or weaken the coalition. In the case of Japanese policy making process, there are many veto points from various actors both within and outside the government preventing many foreign economic policies that go against their parochial ministerial or regional interests, to be enacted.

“Veto Pressure” in the Japanese Policy -Making

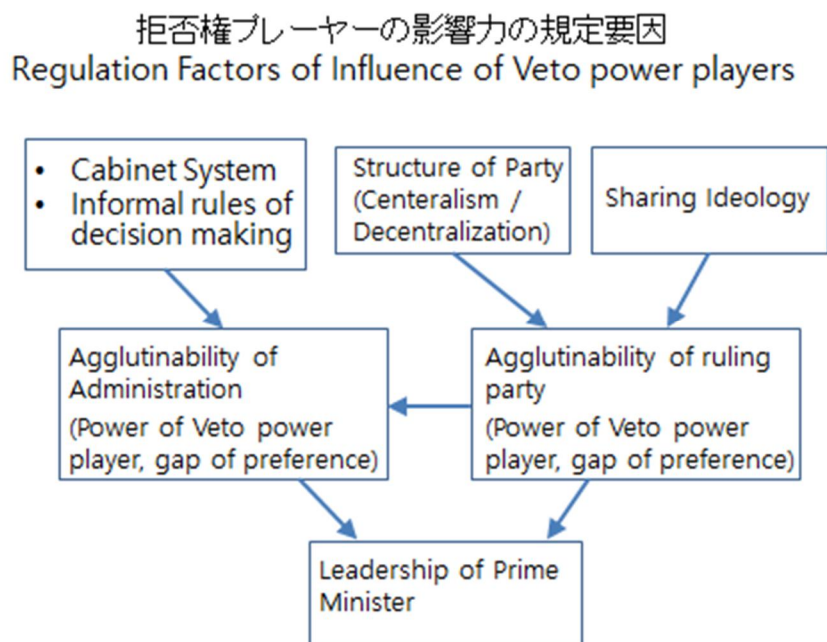


Figure 3. Veto Points in Japanese Policy-Making System (Sakuyama 2015)

In any institutionalized policy-making process, there exist actors that can act as veto points to policies being discussed. Veto points can be seen as individuals or actors whose approval is required for a change in a policy or a circumstances in the legislative body. (Sakuyama 2015) In the case of KJFTA and TPP, those actors have been the norin zoku and JA. These veto points do not necessarily have the jurisdiction or legal power as designated in the constitution, but have de facto influence over the policy-making process. This power can be both formal and informal. It can be driven from twisting the arms of the actual institutions responsible for enacting the policies or swaying public opinion by accumulating and articulating interests on behalf of those against certain policies.

Agricultural Lobby

The most prominent of the veto points in Japan's foreign economic policy-making process is the agricultural lobby. As C.Dent bluntly says, "by far the most contentious issue in the development of Japan's FTA policy has been that of agriculture."²² Dent has conducted interviews on what they saw to be the most significant hindrance factor in the development of Japan's FTA policy, and the overwhelming majority reflected this thought. Hence, this chapter section will layout the history and current status of the agricultural sector in Japan, and how the lobbying force for agriculture is effectively

²² Dent, Chris "New Free Trade Agreements in the Asia-Pacific", Palgrave Macmillan UK, 2006.

organized under JA. Further, the ways through which JA and agricultural lobby influenced KJFTA and TPP negotiation will be discussed, as well as how the Japanese government has been struggling to deal with some of the problems arising from having a influential lobbying presence.

The history of the source of its influence stretches back a long time. After the World War II, when all manufacturing and for that matter most major industrial complexes were bombarded and decimated, farmers were much better off than most citizens. When in the 1960s, however, industry grew at an unprecedented speed and laypeople's income increased on a similar level, farmers became relatively worse off and asked for governmental policies to remedy the situation and guarantee them with stable source of income and price stability. As such, the Japanese government, with LDP's main constituents comprised of rural farmers, had to accommodate the request and increased the price there by introducing "the acreage reduction or set-aside program" in the 1970s . Also provided them with means through which they could continue to grow rice and work at nearby factories. This engendered a strange situation where the majority of the rice farmers are not only part-time but also small scale that in turn turned the entire rice industry to be hugely inefficient. In order to protect the domestic rice, the Japanese government slapped humongous tariff of 800% that in essence made foreign rice prohibitive for domestic consumption. It is quite remarkable that not a single grain of rice had entered the Japanese territory until very recently.

The farming population in Japan consistently decreased over the past decades, in part due to the change in the composition of Japanese economy and demographics represented by low birth-rate and aging population. At its peak, in the 1970s, there were as many as 7 million farmers in Japan, which decreased to 3 million in 2008 and again below 2 million in 2016. However, the importance of agricultural lobby in deciding fates of trade deals in Japan cannot be understated, and in the center of orchestrating it, is the JA. (Yamashita, 2009)

JA (Japan Agricultural Cooperatives)

One number can show how strong agricultural lobby can be, 11,668,809. This is the number of anti-TPP signatures that agricultural sector collected and submitted to Prime Minister Noda.²³ In the center of orchestrating all such lobbying activity is the infamous JA (Japan Agricultural Cooperatives) that is a collusion of many supply members of agricultural products. They control packaging, transportation, marketing and production and the membership amounts to around 5 million.

JA, before the reform, was influential at all levels - municipal, prefectural and national - and in all four corners of Japan. It operated as a business giant as well as a huge interest group. Central Union of Agricultural Cooperatives (more widely known as JA-Zenchu) is flanked by Zen-noh, Norinchukin Bank and JA-Kyosairen. Zennoh works

²³ Kingston, Jeff, "Critical Issues in Contemporary Japan," *Routledge*, 2014.

as the headquarters of JA's economic including marketing and purchasing business. Norinchukin Bank is the Central Cooperative Bank for Agriculture and Forestry. And JA-Kyosairen is the National Mutual Insurance Federation of Agricultural Cooperatives. (Mulgan, 2016) Different smaller subsidiary organizations operate in all prefectures and when it comes to anything that has to do with agriculture, JA is there. The political power and institutional stability came largely from its organizational structure that controlled the nuts and bolts of everyday business activities of all farmers in Japan. (Honma and Mulgan 2015)

The long list of legal protections and government's support provided for farmers is long. As nicely summarized by Mulgan, the laws include

- the Agricultural Disaster Compensation Law (the agricultural mutual aid associations and their federations)
- the Land Improvement Law (the land improvement organizations along with agricultural cooperative organizations and agricultural land-holding rationalization corporations)
- the Law to Promote the Strengthening of the Agricultural Management Base (agricultural and land-holding rationalization corporations)
- the Law Concerning Price Stabilization etc.. of Livestock Products, the Provisional Measures Law for Subsidies to Producers of Raw Milk for Processing and the 1988 Beef Calf Production Stabilization etc. Special Measures Law (ALIC)

- the Agricultural Land Law (agricultural incorporated entities and joint farming cooperatives)
- the Agricultural Improvement Fund Assistance Law (agricultural cooperatives)
- the 1995 Special Measures Law Concerning Loans to Encourage Engagement in Agriculture by Young People (young farmers' education centers)
- the 1953 Agricultural Mechanization Law (corporations for executing the business of promoting the practical use of high powered farm machinery)
- the 1951 Law Concerning the Adjustment etc. of Raw Silk Imports (ALIC)
- the Provisional Measures Law for a Deficiency Payment for Soybeans (agricultural cooperatives and their federations). (Mulgan 2014)

JA-Zenchu maintained close relations with bureaucrats and politicians. JA-Zenchu accumulated votes for the politicians in return for favorable policy outcomes. It is also generally known as the 'iron triangle,' a three-ways collusion between the political party, LDP, bureaucrats and powerful interest groups. Within LDP, there are Diet members (mainly those with districts from the rural area), which forms an informal coalition within the party. Their influence in the PARC, and eventually in the policy-making body of Japan cannot be ignored.

KJFTA

Given the strong presence from the agricultural sector in the policy-making system, progress of KJFTA, too, had been heavily affected. Many identify the major cause for

the failure to progress further in negotiation as “disagreements over the opening of Japan’s agricultural and fishery markets.” (Asahi Shimbun 2010, Choi and Oh 2011)

Koizumi after coming into power, pledged to “destroy the LDP,” aiming to eliminate party’s heavy influence over the government’s policymaking. The party had a significant role because the party members could look through the policies in discussion and decide whether they be sent to the Diet for approval. Although it is an informal institution, it worked as a veto point. It had the ability to challenge prime-ministerial policy initiatives and to exert independent influence on policymaking. According to different factions and industries which the Diet members represent, *norin zoku*, representing the agricultural sector, too has exercised formidable powers of intervention in agricultural policymaking and interference in the administrative affairs of MAFF. The *norin zoku* comprise past and present executives of LDP agricultural policy committees in PARC and have, therefore, dominated party policymaking processes for agriculture. The extent of their influence can be seen with the election result from 1986 and 1989. Japan went on to liberalize its beef and citrus market with 1988 beef and citrus agreement. Political retaliation for the liberalization effort was “swift and decisive: farmer support for the LDP dropped from 81 percent in the 1986 Upper House elections to 50 percent in 1989. The 1989 election reminded the LDP of its traditional dependence on the farm vote.”²⁴

²⁴ <https://thediplomat.com/2014/07/the-tpp-and-japanese-agriculture/>

However, there had been some watershed moments in the history of Japan's politics. This is despite how incentives are weakening for LDP Diet members to pursue an exclusively pro-agriculture stance. In the 1994 electoral reform, during which Single-Member District(SMD) system was implemented, one party could not dominate a certain district. Experts evaluate "the main significance of the introduction of the SMD system for agriculture has been the change in the condition of the LDP *norin zoku* because of the sinking of their general voting base." (Solis, 2017) Because of the reform that prevented parties(in particular, LDP) from letting more than one candidate run in a single district, it became increasingly inconvenient and ineffective to appeal to particularistic interest. Rather, through appealing to the median voters, candidates would stand a higher chance of getting elected (or reelected).

The Prime Minister and the cabinet only had limited influence over the policy decision making process. Solis highlights the efforts of the Koizumi administration to empower the executive branch during Koizumi administration by noting that the Cabinet Office were staffed with 649 people by the end of 2003 as opposed to the earlier administrations. Koizumi administration pushed hard for several liberalization efforts, which then angered many farmers in the rural area.

Farmers' discontent was reflected during the 2003 election, which is precisely during when the KJFTA was going on. In November 2003 general election, many farmers in the stronghold region of LDP, voted for other candidates or did not show up at all to

the ballot box. Turnout in Tottori decreased by 6.59%²⁵ and many voted for DPJ. In July 2004 Upper House election, similar patterns followed. As Solis notes, “the party’s support rate in rural municipalities just two percentage points higher than the DPJ’s.” (Solis, 2017) Against these backdrop, it was politically unviable for LDP and PM Koizumi to continue with KJFTA negotiation without demanding further concessions from Korea, and this made the negotiation very difficult.

TPP

In the light of these changes, the LDP Diet members realized that championing protectionist measures in return for the votes cannot be sustainable. Also, with Japan’s economy showing almost no signs of recovering from the “Lost Twenty Years,” there was a sense of urgency to bring some changes. As one of the moves to appeal to the rural people of Japan, LDP, Komeito, which had its main constituents in the urban area became LDP’s junior party in coalition. With Abe coming back as the Prime Minister in December 2012, the mood was set for a big change.

In order for the TPP to be politically viable, it needed change in the institutional structure in which trade policies were being formulated. MAFF formulated the policies and the party reviewed and amended them. During these amendment processes, politicians belonging to *norin zoku* could change the policy direction which could

25

serve their regional interests. And this had weakening effect on the executive leadership.

And such was the importance of the reforms, as some would say “it is PM Abe’s implementation of Structural Reforms that will determine whether the Prime Minister will be seen as Japan’s greatest modern post-war leader or a flash in the pan.”²⁶ As part of the reform, he quite openly stated that JA reform is of the uttermost importance. His reform initiative started about one year after assuming the office, and the legislation dealing with the reform of JA was enacted in early 2016.

Table 1. Chronology of the Abe Kantei: TPP and Agricultural Reform

(2012) Dec 16	Landslide LDP victory in general election, coalition government with Komeito
(2013) Jan 23	Relaunch of economic headquarters, CERP; launch of Economic Revitalization Headquarters
Feb 22	Abe-Obama summit, bilateral understanding clearing Japan’s TPP participation
Mar 1	Appointment of Koya Nishikawa as chairman of LDP’s TPP Committee
Mar 14	LDP’s TPP Committee resolution on five sacred commodities
Mar 15	Prime Minister Abe announces Japan’s TPP membership bid

²⁶ https://www.huffingtonpost.com/eugene-matthews/structural-reform-key-to-_b_3355412.html

Apr 5	Cabinet decision to establish TPP Headquarters with Minister Akira Amari in charge
Apr 19	Diet resolution on five sacred commodities
Jul 21	LDP victory in Upper House election: end of twisted Diet
Jul 23	Japan formally joins the TPP negotiations
Nov 6	Government announces reform of gentan (set-aside program)
(2014) Apr 1	First tranche of consumption tax increase (from 5 to 8 percent)
May 14	Regulatory Reform Council proposes far-reaching JA reform
Jun 1	Kantei and LDP agree on principle of JA self-reform
Nov 18	Prime Minister Abe announces postponement of second tranche of consumption tax increase
Dec 14	Snap general election; LDP and Komeito victory
(2015) Feb 1	Compromise package on JA reform adopted
Feb 23	Farm minister Koya Nishikawa resigns over political funding scandal
Apr 1	Unified local elections
Oct 5	TPP negotiations conclude
Oct 9	Prime Minister Abe establishes the TPP Taskforce
(2016) Jan 14	Supplementary budget for fiscal year approved
Jan 28	Resignation of Minister Amari over graft claims
Mar 29	Budget for 2016 fiscal year approved
Apr 5	Lower House deliberations on TPP begin

Apr 8-18	Diet deliberations suspended and resumed due to Nishikawa book scandal
Apr 19	TPP ratification vote postponed until after the Upper House election
Jul 10	Upper House election; ruling coalition keeps majority
Nov 10	Lower House ratifies TPP
Dec 9	Upper House ratifies TPP
(2017) Jan 20	Japanese cabinet finalizes all domestic TPP ratification procedures

Source: Mireya Solis (2017)

The reform included following elements. It will provide greater autonomy to local branches by stripping JA-Zenchu of its exclusive auditing power. The local JA could basically go to other CPAs or accounting firms to take care of their auditing. Also it restricted the number of board members that could be filled by ‘politicians.’ Half of the board members had to be registered farmers or business people selling those products. This will give more political clout to the business side of the agricultural sector.²⁷ While it was impossible to completely block all funds from being funneled to the Zen-Noh, giving the autonomy to the local authorities can be expected to significantly undercut the funding Zen-Noh receives.

²⁷ https://www.japantimes.co.jp/news/2015/04/03/national/politics-diplomacy/cabinet-approves-ja-zenchu-reform-bill/#.WnByCqhl_IU

Also, it allowed one of the industrial body of Zen-Noh, which was responsible for the sales to be changed into a stock company in an attempt to make Zen-Noh more profitable, and closer resemblance to a normal private company.²⁸ There were several other steps to strip the organization of many legal benefits, in order to ‘normalize’ the status of Zen-Noh and also decrease its political power.

Having said this, there had been fierce opposition from JA and also norin zoku within the LDP, not to mention opposition parties. Faced with these challenges, Prime Minister Abe let JA determine the terms of reform, and readjust and change if deemed necessary. It was a way to bring about some desired changes, and at the same time, not to be forced to invest too much of political capital into pushing for reform. And although Abe considered initial proposals to be well short of his expectations, compromises were made from both sides to achieve the goals that many before could not.

It is worth noting that such ‘success’ did not come without any political costs. Many in the rural area opposed the reform, and together with it the TPP. The opposition party, DPJ, capitalized on this opportunity and started to oppose the TPP. As a result, losses in the Diet seats in these rural areas were apparent. According to Solis, “The LDP lost ground in the rural single-seat districts (it went from twenty-nine seats in the 2013

²⁸ Ibid

Upper House election to twenty-one in the last electoral cycle); and the losses in Tohoku (four out of five seats), in particular, generated consternation in the party.”²⁹

To sum up, Prime Minister Abe did not fully counter the agricultural lobby per se. In using carrot and stick strategy to appease and curb the influence of JA through his reform initiative, Abe gave concessions by excluding five major products and compromising the content and extent of the reform. Also, because Abe and LDP was riding high approval rate, and other events including the Kumamoto Earthquake, he could challenge what had previously considered the insurmountable agricultural lobby.

Decentralized Leadership

Whether a country leans more towards ‘decisiveness’ or ‘inclusiveness’ can largely depend on the institutional structure of trade policy-making. Sometimes even if the government wanted to pursue a more decisive executive posture, it may not be possible given the institutional structure. This tie into different people having diverging preferences and forming coalitions to articulate their interests to the policy platform. Institutions play a pivotal role in building consensus between different coalitions that would otherwise have not been possible. Choi and Oh categorizes domestic trade governance in a similar manner as Solis: cohesive and fragmented. They call domestic trade governance to be cohesive when one single ministry takes charge of and has

²⁹ Solis, 2017

“undisputed jurisdiction on trade matters,” and fragmented when it is separately allocated to different ministries. (Choi and Oh 2011) Decentralized executive leadership, as mentioned before, has had a hand in making Japanese foreign policies “reactive,” and traces of such “reactivity” can be observed in the case of KJFTA and even well deep into the TPP negotiations.

The importance of executive leadership in trade policy formulation can be observed with Korea’s example. It cannot be a mere coincidence that Korea having started as a ‘late comer’ to FTA and had “fragmented” domestic trade governance, managed to become a ‘trade hub’ within two decades after MOFAT (Ministry of Foreign Affairs and Trade) was established in 1998. The government effectively warranted the new ministry with the jurisdiction to oversee trade matters. They established Office of the Minister for Trade (OMT) under MOFAT and allowed for a cabinet-level official take the lead, not dissimilar to the executive government structure in the US, where the Commissioner for the USTR (United States Trade Representative) is one of the cabinet members, and belongs to the executive branch. Although the fate of the works of USTR has to be backed by the Senate and the House, because the authority to negotiate rests solely on the shoulder of the USTR, the counterparts know for sure whom to look for when trying to initiate trade negotiation. After OMT was established, Korea, too was free from such confusion.

The process of forming the new ministry was not without opposition. Established ministries feared losing their voice in intervening in trade matters and the Ministry of Agriculture(MOA) was especially skeptical about the works of OMT. Such problems notwithstanding, domestic trade governance was further centralized with the establishment of a coordination mechanism in the form of Ministerial Meeting on External Economic Affairs in 2001. it started to dominate agenda setting and negotiations on trade policies. Korea has done so by dramatically changing its institutional structure.

When negotiating KJFTA, Japan sent four different delegates to Korea for negotiation. Korea, too, had representatives from those respective ministries to represent the ministry and constituents' interest, but they came as a team and under the leadership of MOFAT. Before coming to the negotiation table, they have sufficiently discussed about the agenda, and each ministries were aware of the kind of concessions that they would have to make in the case of a finalization of the deal. Lack of centralized authority over trade negotiations and inter-ministerial conflicts and struggle within the Japanese government hinder for an ambitious liberalization from taking place. In Japan, there is more than one ministry that is responsible for trade, depending on which partner it seeks to have trade deals with. And this is despite Koizumi's relatively centralized bureaucracy during which a part of JKFTA negotiation took place.

In Japan, business interests usually call for a more far-reaching liberalization. As such, for example, in the case of Japan-Mexico FTA, the automobile and electronic sectors were one of the strongest proponents of the deal. (Solis and Katada 2007) And the opposition came from the agricultural sector. These agricultural lobbies are backed by a large portion of the Japanese population which is concerned about the quality and safety of food products being imported into Japan. Such resistance can be observed in any trade negotiation that dealt with significant agricultural presence. There were many struggles in its negotiation with countries like Mexico and Australia, and the fact that the first FTA partner was Singapore highlights the cautiousness of Japanese government when conducting trade deals.

In the case of Japan, it was due to the decimation of the opposing political party and allowing the ruling party, LDP, to have a leeway and wiggle room to 'abandon' some of its rural constituents. Abe enjoyed a very high approval rate throughout the negotiation phase and PM could essentially work as the control tower in decision-making without necessarily going through all due 'democratic' policy making procedures.

Although Abe had to brute force its way through some fierce public and milder opposition from MAFF, MAFF was no longer a veto player. This is because one of the factors that prevented from a more direct top-down decision making process to be found in Japan, an informal party-bureaucracy decision-making system could be

overcome. By convention, the cabinet could submit bills to the Diet only if they had received prior approval from the LDP's policymaking organ, the Policy Affairs Research Council. And this allowed for LDP policy tribes from within to act as veto points. Although the reform did take place to ease intraparty electoral competition, and thereby put an end to the one-party dominant political system in 1994, which is before KJFTA, complete decimation of DPJ in 2012 election rendered such reform useless. After 2009, DPJ achieved a landslide victory, LDP came back stronger than ever in 2012. And this was largely due to DPJ's failed institutional reforms and policy paralysis.

DPJ's short-lived term coincided with many unfortunate events including the Senkaku/Diaoyu conflict with China that put a ever-growing distrust towards Yukio Hatoyama's idea of "East Asia Community" that was one of DJP's foreign policies. The other event was 3.11 Tohoku Earthquake and Tsunami. To all fairness to DPJ, it was largely built on the legacy of LDP and its confidants, but constituents' distrust only got deeper. Such miseries coupled with conundrum with Futenma Airbase and increase of consumption tax.

Although it was Kan who suddenly announced in the fall of 2010 his interest in Japan joining the TPP, the party quickly polarized among supporters and detractors. There were 140 anti-TPP members which represented almost half of the party's lawmakers. Add to that opposition from different ministries including MAFF and METI, which are

set to be the most powerful veto points when it comes down to trade deals. Noda continued Kan's flirtation with the idea of Japan joining TPP and made an attempt to reform the executive leadership. However, it did not work and Abe came back with absolute majority in both the houses. This time, he was ready to conduct a very big project and a more proactive foreign policy, all in line with Abenomics.

Chapter 4: Conclusion

Japan was facing the dilemmas of decisiveness vs inclusiveness and reform vs subsidization when pushing for KJFTA and TPP. In both cases, agricultural sector was the largest and the most powerful interest groups opposing the liberalization. There were many factors that rendered TPP a much more tricky trade deal for the Japanese government: less control over the trade forum for being multilateral, behind-the-door negotiation and most importantly more severe expected losses from the agricultural sector, and hence stronger opposition. However, KJFTA failed while TPP was ratified.

KJFTA failed because there was no central authority to act as the control tower for trade negotiation. Japanese government had to be “inclusive” at the cost of being “decisive”. Agricultural lobby was strong, and despite his efforts, Koizumi failed to establish a trade authority that could match its Korean counterpart, which then significantly narrowed Japan’s win-set in the negotiation. Its indecisiveness can be said to have cost the trade deal, and it also could not achieve reform.

In the case of TPP, Abe was able to establish a central authority for trade negotiation in the aftermath of the landslide victory in 2012. He could decisively carry out his reform policies whose target was the agricultural sector itself. By stripping JA of its legal protection and special status, Abe could afford to carry on his TPP initiative and

withstand the opposition. He framed TPP as one of his key reform policy and a part of his ambitious “Abenomics” that represented a breakaway from the lost decade. Abe put much political capital towards establishing executive leadership or “decisiveness” at the expense of “inclusiveness”, and that significantly widened Japan’s win-set in TPP negotiation, and can be said to have been decisive in making Japan’s participation in TPP possible.

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Appendix

Appendix 1. Effects the TPP has on Japanese Domestic Market

Area	Main contents of the preliminary agreement	Effect on Japan(Japanese Company)
Access to the goods market	(Access to Japan's domestic market) -Tariff elimination to 95% in all products -30 percent on five major agricultural categories (586 products), and around 50 percent tariff elimination on 834 products, which has no precedent of having tariff eliminated (safeguard measures and tariff quota system to be secured) -Complete tariff elimination on manufacturing product	▷ Increase in the purchasing power of the consumers ▷ Cost reduction on ingredients for franchise restaurants, food brand, and on feed for livestock industry ► Large damage to agricultural sector ► High possibility that through renegotiation, Japan is asked to accept wider market access ► Because of low liberalization for agricultural products coupled with government purchasing the surplus agricultural products, reform effect is limited *Need for a revision on the legal process for safeguard measures * When importing American automobiles, cannot lower Japanese safety standards
	(Access to foreign countries) -Tariff elimination on 98.5% of agricultural products (average on eleven countries) - Tariff elimination on 99.9% of manufacturing products (average on eleven countries)	▷ Agricultural products, automobile, machinery and clothing industry with brand power can expected to see its export increase ► Because there exist companies that already are producing locally, tariff elimination may not bring about the benefits to the desired extent ► Because tariff elimination period for automobile exports to the US takes time, there is a possibility for triggering of safeguard measures or delay on tariff elimination plans

Rules of Origin	- Trade within TPP contracting countries is considered uniform	▷ Because the percentage of automobile sector within the TPP countries is large, there can be expected increase in demand for automobile parts produced by Japanese SMEs * Need for change in legal procedures for rules of origin verification process
SPS Measures	- Set quarantine measures to the extent that does not harm the trading environment while securing food safety. - Ensure product safety standard to the extent that does not harm the trading environment	► Due to agreements with other countries, there is a possibility of a change to Japanese system
Government procurement	- Non-discriminatory measures and MFN measures to organizations included as part of the positive listing - Additional negotiation within three years after the ratification	▷ Increase in infrastructure business dealing with railroads and airplanes in developing countries ▷ Could counter China-led AIIB initiatives *No change to Japanese government's government procurement legal procedures
SOEs	- Secure foundation on which foreign companies can compete with SOEs under the same condition - Exclude SOEs associated with Japan's municipalities - Additional negotiation within five years after the ratification	▷ Expect SOEs reform in developing countries to take off, and provide opportunities for Japanese governments

“▷” indicate positive effects, “►” indicate negative effects (and concerns) on the constituents

“*” indicate government's opinion on changes to legal procedures

Translated and reorganized by the author

Source: METI Issue Brief 735, 2012, “Recent issues and challenges surrounding the TPP”

국문초록

한일 FTA 와의 비교분석을 통한 일본의 환태평양경제동반자협정 (TPP) 참여에 대한 정치경제적 해석

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국제통상전공

일본은 환태평양경제동반자협정(TPP)을 위한 협상에 성공적으로 참여했을뿐만 아니라 국회에서 비준을 마쳤다. 농업국가들과의 자유무역협정(FTA)를 기피해오던 일본의 여태까지의 행보로 미뤄봤을때 놀라운 것이다. 농업시장의 개방이 요구되는 자유무역협정에 대해서 일본은 소극적인 모습을 보여왔다. 한일 FTA 가 그러한 예이다.

TPP 는 다양한 경제발전 단계의 국가들이 포함되어 있고 이들 중 일본이 많은 양의 농산물을 수입하는 국가도 포함되어있다. TPP 비준은 일본이 여태까지 해오지 못했던 수준의 농업개방을 해야한다는 것을 의미한다. 한일 FTA 의 경우와 비교해볼때, TPP 협상시 일본이 상대국들과 어떻게 성공적으로 합의에 도달하였고, 또한 비준을 위해 요구되는 국내 정치환경을 어떻게 조성하였는지에 대한 의문이 나온다.

본 논문은 행정부로의 권력집약과 농업분야의 정치적 영향력의 변화에 중점을 두고있다. 분석에는 통상국가들이 맞닥드리게 되는 딜레마를 설명하기 위해 미래야 솔리스가 제공한 분석틀과 로버트 퍼트남의 양면게임이론을 응용한다. 위에 언급된 두 가지 점들의 비교를 통해서 본 논문에서 저자는 다음과 같은 주장을 한다. 1) 아베 총리의 경우, 행정부로 권력을 집약시킴으로써 톱다운 형태의 정책결정 절차를 만들고, 이를 통해 국제협상 시 윈셋이 확대되었다. 한일 FTA의 경우, 여러 부서가 협상에 동시다발적으로 참여하게 되어 상대국의 혼란을 야기하고 일본의 대외협상 신뢰도가 낮아짐으로써 윈셋이 축소되었다. 2) 여러 정치적 호재 덕분에 아베 총리는 일본의 농협에 대한 규제를 강화하여 로비 능력을 제한시켰다. 한일 FTA 협상이 진행되고 있을 당시에는 일본 농업의 정치적 영향력이 굉장히 강하였다. 이에 더해, 한국은 정치·경제적 이유로 일본 농업의 전격 개방이 없을 시 협상을 진행할 수 없는 상황이었지만 코이즈미 총리는 강력한 농업 쪽 반발을 이겨내지 못하고 한일 FTA 협상은 중단되었다.

**주제어: : 환태평양경제동반자협정 (TPP), 한일 자유무역협정
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