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Structuring International Negotiation with Tactics: A Proactive Turn in Japanese FTA Policy

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1 Introduction¹

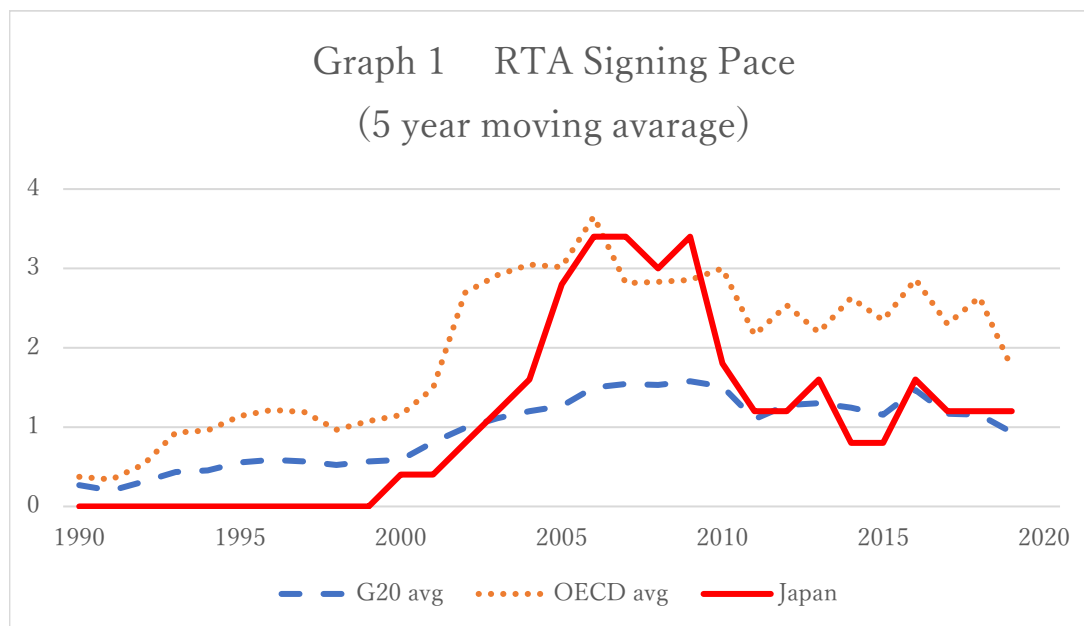
The Uruguay Round is pivotal to international trade. It led to the creation of the World Trade Organization (WTO) and facilitated a swift move towards trade liberalization. However, in tandem with these negotiations, there has been a global increase in Free Trade Agreements (FTAs) and Customs Unions, among other Regional Trade Agreements (RTAs). This trend has made preferential liberalization negotiations mainstream, a move that fundamentally diverges from the multilateralism espoused by the GATT/WTO regime.

This study reexamines the policy shift made by the Japanese government in the changing environment. Initially, the Japanese government continued to emphasize GATT/WTO norms and held a negative stance towards RTAs. However, for various reasons that will be elaborated upon in subsequent sections, Japan completely shifted its policy, ultimately leading the global trends. Given the presence of formidable veto players in its political system, the question has risen as to what has enabled this dramatic change. This study demonstrates that the tactics to negotiate agriculture and industry separately, developed through trial-and-error, has a significant impact.

1.1 The Turn in FTA Policy and Limited Liberalization in Agriculture

Let us first examine the dramatic shift in Japanese policy. As of 2000, among the 30 OECD member countries, only Japan and South Korea had not concluded even a single RTA. Japan started its race to sign RTAs from the last spot on the grid, with an agreement with Singapore in 2002. By 2020, Japan had reached more than 20 agreements. Graph 1 illustrates the moving average of the number of RTAs signed annually by the Japanese government, including now-expired agreements and service agreements reported to the WTO, to provide a relative evaluation of the pace of Japan's negotiations. The graph reveals that the average for OECD countries, where European countries constitute a significant majority, is high. This is mainly due to the EU, which has extensive experience in such negotiations and has led to the

¹ An earlier version of this paper appears as the following book chapter published in Japanese language. Kazutoshi Suzuki, “*Nihon no FTA seisaku sekkyokuka—keizai gaikou saikouchiku to kousyō senjyutu* (Proactive FTA Policy in Japan—the Structure of Interests and Negotiation Framework, when literally translated)”, in Oyane Satoshi (ed.), *Nihon no Keizai Gaiko (Japan's Economic Diplomacy)*, Keiso-Shobo, January 20, 2023, pp. 199-225. Translated and published under the permission of Keiso-Shobo.



(Source) Compiled by the author based on WTO data. The OECD and G20 averages were calculated retrospectively for member countries as of 2021 (excluding the UK).

expansion of member states, in addition to agreements with neighboring and non-member countries. The Japanese government, which has no previous experience with RTA negotiations, achieved a pace comparable to that of the EU within just a few years. While Japan’s pace slowed in the 2010s, it remained on par with the average pace of G20 countries. Moreover, the agreements concluded during this period included unprecedented inter-advanced-country agreements such as the TPP (CPTPP), EU-Japan RTA, RCEP, and the U.S.-Japan Trade Agreement. Each of these is not only significant in terms of scale but also in their complexity. Indeed, these agreements have significantly improved Japan’s RTA coverage rate (the proportion of trade conducted with RTA partner countries). Previously criticized for being too low, this rate surpasses 81% in 2020, which exceeds the EU’s rate.²

While the Japanese government has achieved notable success, the content of these agreements has been criticized. One such criticism pertains to the low tariff liberalization rate (i.e., the proportion of tariff-free items in a country’s import tariffs). Although RTAs are permitted under Article 24 of the GATT, the provision mandates the removal of barriers for “substantially all the trade.” When looking at the percentage of tariff lines (specific

² Including the Trade Agreement between Japan and the United States of America. The EU’s coverage rate for 2020 was 73.7%, including intra-regional trade. *JETRO World Trade and Investment Report 2021*, Japan External Trade Organization, p.90.

classifications of tariffs) that have become tariff-free, the RTAs that Japan has concluded are consistently in the 80% range, which is internationally uncompetitive. For instance, in the agreement with Singapore, while Singapore has a 100% liberalization rate, Japan stands at 84.4%. In other agreements that Singapore has concluded, the United States has a 100% liberalization rate, and even China has achieved a 95% liberalization rate. In the original TPP agreement signed by 12 countries, while the other 11 countries committed to a 99-100% liberalization rate, Japan alone remained at 95%.

A low liberalization rate does not necessarily violate the rules, since the interpretation of “substantially all the trade” is not established. When these agreements were concluded, the Japanese government aimed to achieve tariff-free trade with a trade value of 90%.³ This goal was largely met. However, weighting each item by its trade value can inflate Japan’s perceived liberalization rate. This is because Japan’s import barriers include items with low trade volumes as a result of currently high tariffs. Nevertheless, in many of Japan’s RTAs, this weighted “liberalization rate” remains in the low 90% range.⁴

The primary reason for this low rate lies in the insufficient liberalization of agricultural products (including fisheries and forestry products).⁵ In the TPP, owing to the

³ This target is based on the figures presented in discussions within the EU. For details, refer to Asako Ueno, “*Chiiki boueki kyoutei ni yoru kanzei jiyuuka no jittai to GATT dai 24 jyou no kiritu meikakuka ni ataeru shisa* (Tariff Liberalization in Regional Trade Agreements: Implications for Clarifying GATT Article XXIV Disciplines),” RIETI Discussion Paper Series 07-J-039, 2007, p.9-11.

⁴ Agreements where Japan has a higher liberalization rate include those with Indonesia, ASEAN, Vietnam, India, and Mongolia. Kouichi Ishikawa, “*Beikoku no TPP ridatsu to nihon no FTA senryaku* (U.S. Withdrawal from TPP and Japan's FTA Strategy),” *Posuto TPP ni okeru ajia taiheiyou no Keizai chitsujyo no shin tenkai* (New Developments in the Asia-Pacific Economic Order in the Post-TPP Era), The Japan Institute of International Affairs, 2017, p.52.

⁵ Even when calculated using three different aggregation methods, the liberalization rate for agricultural products remains low. Keiichiro Oizumi, “Economic Partnership Agreements and Trade Liberalization—An Analysis Based on New Trade Liberalization Ratios—,” *Pacific Business and Industries*, Vol. VIII, 2008, No.28. Additionally, there is a view that Japan's liberalization of agricultural products was insufficient in FTAs prior to the TPP. Mireya Solís & Saori N. Katada, “Unlikely Pivotal States in Competitive Free Trade Agreement Diffusion: The Effect of Japan’s Trans-Pacific Partnership Participation on Asia-Pacific Regional Integration,” *New Political Economy*, 20:2; Solís, *Dilemmas of a*

virtual exclusion of key items (rice, wheat, beef and pork, dairy products, sweetener crops, and items such as konjac and shiitake mushrooms), the liberalization rate for agricultural products remained at 82.30%.⁶ In the Japan-EU FTA, while the overall liberalization rate is higher than the TPP at 97%, rice is still excluded and protective measures for key items such as wheat, raw sugar, beef, pork, and dairy products are maintained.

Every major country has its own sensitive items. Even the U.S. excluded automobile-related tariffs from the original TPP agreement and the U.S.-Japan Trade Agreement. On the Japanese side, progress has been made in liberalizing agricultural products through the RTA negotiations. Notable steps include concessions beyond the WTO in an agreement with Mexico, compromises on certain sensitive items in an agreement with Thailand (such as reducing tariffs on chicken, immediate tariff elimination on tropical fruits, and renegotiating on sugary starch), and reducing or eliminating tariffs on agricultural products, including beef, in an agreement with Australia and the TPP. Undeniably, there have been unprecedented liberalizations at each point in time. However, when viewed as a whole, the relatively low rate of liberalization of Japan's agricultural products is still distinctive.

Starting from the back of the grid, Japan has advanced considerably in concluding its RTAs. However, when viewed internationally, most RTAs have a lower rate of liberalization. How can this phenomenon be understood?

What makes this issue even more intriguing are the two notable inconsistencies. The first relates to the principles of international trade liberalization negotiations. Trade liberalization is grounded in bartering the export rights of sectors with a comparative advantage. Bartering has been a standard practice even in the GATT round negotiations, which advocate for the principle of the most-favored-nation treatment without discrimination.⁷ This tendency is typically more pronounced in RTA negotiations than in

Trading Nation: Japan and the United States in the Evolving Asia-Pacific Order, Brookings Institution Press, 2017.

⁶ Based on the HS 2012 code, Japan has a total of 9,321 items, of which 2,594 are agricultural products. All of the 459 items that retain tariffs are agricultural products.

⁷ In the initial stages of GATT, tariff reduction requests were exchanged reciprocally, and negotiations were conducted to ensure equal concessions on both sides. Even when the uniform reduction approach was adopted post-Kennedy Round, various forms of bartering occurred, such as discontinuing the exception treatment for items of mutual interest through negotiations with specific countries. Kazutoshi Suzuki, "Multilateralism and Discrimination in GATT Round Negotiations," Sophia Institute of International Relations,

round negotiations given their preferential nature. However, in Japan's RTAs, the practice of bartering, accepting liberalization in sectors where Japan has a comparative disadvantage in exchange for access to foreign markets, has been limited. Consequently, there has not been significant progress in the liberalization of agricultural products, where Japan is at a comparative disadvantage. While every country has sensitive sectors, it is uncommon for such sectors to influence the overall liberalization rate to this extent. This becomes evident when comparing Japan's liberalization rate with that of other TPP signatories.

The second inconsistency lies in domestic arguments for promoting structural reform. In retrospect, 2000 may seem to be merely the onset of stagnation in the Japanese economy. However, the pressing concern at the time was navigating a way out of the "lost decade" that ensued after the economic bubble burst. The call for structural reform has become louder and more widespread. Starting with the electoral reforms in the 1990s and continuing with the Hashimoto administration's financial Big Bang and administrative reforms, the momentum for a series of structural reforms peaked during the Koizumi administration, with the government taking the lead and aiming for reforms that were not bound by existing frameworks.

In this context, vigorous discussions emerged regarding the need to reform Japan's agriculture in tandem with RTA negotiations.⁸ These discussions also gained traction within the administration. The Task Force on Foreign Relations formed under the Koizumi administration, while being mindful of the sensitivity in agriculture, concluded that "structural reform in the agricultural sector is essential" and "continuing to oppose the conclusion of free trade agreements solely on the grounds of agricultural protection might not be in the best interest of the country as a whole."⁹ Furthermore, a roundtable held around the same time to discuss the Japan-ASEAN Comprehensive Economic Partnership recommended that during bilateral negotiations with ASEAN, Japan should "actively open its market to

Working Paper Series, No.5, 2023. <https://dept.sophia.ac.jp/is/ir/wordpress/wp-content/uploads/2023/10/231017MultilateralismAndDiscriminationInGATT.pdf> In the Japanese RTA negotiations of the 2000s, which this paper focuses on, the primary method was the exchange of requests.

⁸ For discussions of that time, including those of press, refer to Hirofumi Takase, "A History of How 'Keizai-gaikou (Economic Diplomacy)' has been Discussed in Postwar Japan, 1952–2012," *Hiroshima Journal of International Studies*, Vol.19, 2013, pp.21-38.

⁹ Taigai Kankei Task Force, "21 seiki nihon gaikou no kihon senryaku (Basic Strategy of Japan's Diplomacy in 21st Century)," 2002. <https://www.kantei.go.jp/jp/kakugikettei/2002/1128tf.pdf> (Accessed on October 30, 2023)

ASEAN in all areas, including agriculture.” “In FTA negotiations, there should be no sanctuaries even when considering agricultural and fishery products... The crucial point is to improve the productivity of the sectors that have been protected thus far. We must proactively engage in free trade agreements. If imports surge after tariff removal, and damage is recognized, potential safeguards should be considered.”¹⁰

As we will see in the next section, there are various reasons for concluding RTAs. At that time, stimulating international trade and implementing domestic structural reforms were central to discussions in Japan. However, the resulting RTAs have been restrictive in liberalizing areas in which Japan has a comparative disadvantage, and domestic agricultural reforms have not achieved their initial objectives.¹¹ Previous studies generally assert that these RTAs have been pursued by excluding the politically sensitive agricultural sector.¹²

1.2 Outline of This Paper

To understand this outcome, the study proceeds as follows. In the next section, I will detail the causes of Japan’s policy shift based on previous studies, and evaluate if these factors encourage the exchange of export rights between agricultural and industrial sectors

¹⁰ The MAFF presented documents from other countries’ agreements, asserting that exceptions for agricultural products were feasible. However, the report reflects a different claim. Roundtable Discussion on the Japan-ASEAN Comprehensive Economic Partnership Concept, “Interim Report,” October 16, 2002, p.8.
<https://www.kantei.go.jp/jp/singi/asean/dai2/2gijisidai.html> (Accessed on September 3, 2021)

¹¹ To quote a METI official who was in charge of FTA negotiations, “When looking at the results of FTA negotiations that Japan concluded by October 2007, there is hardly any evidence that FTAs contributed to the realization of domestic reforms.” Yoichi Kanazawa, “*Nihon no FTA seisaku: sono seiji katei no bunseki* (Japan's FTA Policy: An Analysis of Its Political Process),” Institute of Social Science, University of Tokyo, ISS Research Series No. 26, 2008, p. 75.

¹² John Ravenhill, “The Political Economy of the New Asia-Pacific Bilateralism: Benign, Banal, or Simply Bad?” in Vinod K. Aggarwal and Shujiro Urata eds., *Bilateral Trade Agreements in the Asia-Pacific: Origins, Evolution, and Implications*, Routledge, 2006; Pekkanen, Saadia, Mireya Solis and Saori Katada, “Trading Gains for Control: International Trade Forums and Japanese Economic Diplomacy,” *International Studies Quarterly*, Vol. 51, 2007.

(hereinafter referred to as “agro-industrial barter”). The changes in various factors highlighted in previous studies generally indicate that they also promote agro-industrial bartering. This suggests the need to explain the limited agro-industrial barter from a different perspective.

Section 3 analyzes the causal mechanism by which agro-industrial barterers are limited in Japan’s RTA negotiations. It will show the development of tactics to de-link the agricultural sector through negotiations with Singapore, Mexico, Thailand, and the Philippines. In Section 4, it is argued that these tactics effectively manipulated the structure of negotiations by de-linking agriculture and industry. With vested interests segregated into separate sectors and managed by distinct ministries, cross-sector barterers were limited. By bypassing the domestic pinch point, the Japanese government succeeded in accelerating the conclusion of the RTA negotiations. While the liberalization rates of these agreements were low, they held significant political and diplomatic value. Despite the stagnation and relative decline of the Japanese economy since the 2000s, these agreements have played a role in maintaining and potentially enhancing Japan’s diplomatic influence in the region.

2 Factors Behind the Policy Shift and Effects on the Agro-Industrial Barter

Many studies have examined this shift in Japan’s RTA policies. This section reviews the factors highlighted in these studies and evaluates their impact on the likelihood of agro-industrial barterers in RTA negotiations.

2.1 Competition for RTAs

One of the prominent factors often cited to explain Japan’s policy transition is the surge in global FTA negotiations, which began in the latter half of the 1980s. Liberalization achieved through FTAs is preferential and applies exclusively to member countries. Such an arrangement can induce a trade diversion effect, wherein intra-regional imports replace those of nonmember countries because of reduced barriers. Nonmember countries fearing these negative spillovers may join existing RTAs or create new ones to offset losses, leading to the proliferation of RTAs.¹³ In Japan, concerns emerged: “As the EU and NAFTA advance

¹³ Baldwin, Richard E., “A Domino Theory of Regionalism”, NBER Working Paper No. w4465, September 1993. However, the domino effect contradicts the fact that FTAs, which should have been prone to rapid increases, did not grow significantly until the 1990s.

economic integration, Asia could incur economic losses within the global trade system if it doesn't integrate. Furthermore, if Asian economic integration occurred (excluding Japan), it would lead to significant losses."¹⁴

Similar competitive dynamics have been identified in rule making and diplomatic contexts.¹⁵ Although the causal mechanisms behind these are distinct from the economic effects of trade diversion, they share a common thread: countries may face negative consequences if they lag behind, either by being subject to unfavorable rules or by witnessing the heightened influence of diplomatic competitors.

As of 2000, negotiations for FTAs with the United States and Europe were not realistic for Japan. Consequently, in the early stages of its policy shift, Japan primarily focused on Asia, with China being its main competitor.¹⁶ When Japan initiated a joint industry-academia-government study in March 2000 for FTA negotiations with Singapore, China began to consider the feasibility of an FTA with ASEAN.¹⁷ Chinese policy change also influenced the Japanese. At first, the Japanese government sought separate FTAs with each ASEAN country. However, in a strategic shift, China agreed to initiate negotiations with the entire ASEAN bloc in November 2001. Perceiving the potential risk of falling behind, the Japanese government accelerated its FTA discussions with ASEAN bloc.

Such competitive mechanisms tend to restrict the bargaining power of countries that enter negotiations later. Countries with many existing RTAs do not have an urgency to rush to agreements, while those playing catch-up face an increase in damage the longer negotiations drag on. In Japan's context, this dynamic should have made it more susceptible

Kazutoshi Suzuki, "*Boueki jiyuka gabanansu ni okeru takaku syugi to chiiki syugi – maruchi e-jento simyure-syon ni yoru koudou kihan no bunseki* (Multilateralism and Regionalism in Trade Liberalization Governance - An Analysis of Behavioral Norms through Multi-Agent Simulation)," in Hideki Kan, Kousuke Matsui, Satoshi Oyane eds. *Global Governance*, Houritsu-bunka-sha, 2018, pp.186-204.

¹⁴ Roundtable Discussion on the Japan-ASEAN Comprehensive Economic Partnership Concept, "Dai ikkai giji youshi (The first session, Summary)," Wednesday, April 24, 2002.

¹⁵ Mireya Solís, Barbara Stallings and Saori Katada eds., *Competitive Regionalism: FTA Diffusion in the Pacific Rim*, Palgrave Macmillan, 2009.

¹⁶ Due to China's expanding influence, there was a demand for strengthened relations with ASEAN, not limited to trade. For more details, refer to Mie Oba, *Jyusou teki chiiki to shite no ajia: tairitsu to kyouzon no kouzu* (Asia as a Multi-layered Region: A Framework of Conflict and Coexistence), Yuhikaku, 2014, Chapter 4.

¹⁷ *Asahi Shinbun*, morning edition, November 24, 2000.

to pressure to liberalize sectors in which it had a comparative disadvantage. Japan's import tariffs on industrial products, a sector in which it held a comparative advantage, had been substantially lowered. This led other countries to target Japan's agricultural tariffs when seeking new market access. Given that China and ASEAN had already agreed to the "early harvest," an immediate elimination of tariffs, on some agricultural products in their FTA negotiations, Japan's protection of its agricultural market was even more pronounced in comparison.

2.2 Diffusion of Policy Ideas

The diffusion of norms and policy ideas also explains the policy-shift process. This perspective posits that the idea of utilizing FTAs has been adopted and disseminated among policymakers in Japan. Oyane illustrates that some bureaucrats within the Ministry of International Trade and Industry (MITI) proposed leveraging RTAs in tandem with multilateral negotiations at the WTO. As this idea spread to other ministries and interest groups, it underwent an in-depth analysis and debate, leading to growing comprehension.¹⁸ Throughout the process, rhetoric emphasizing Japan's lag in the international RTA race and rising competition with an increasingly powerful China was employed. This perception of competitive circumstances can be seen to have promoted the acceptance of this new policy idea within Japan.

Whether the policy idea of employing RTAs potentially heightened the probability of an agro-industrial barter hinged on the semantic interpretation of the discourse, especially whether it included the liberalization of Japanese agriculture. Initially, to avoid a backlash from agricultural interests, the MITI refrained from overtly discussing the liberalization of agricultural products and intended to address the sector within multilateral negotiations at the WTO.¹⁹ However, given the WTO's provisions that RTAs should eliminate trade barriers "on substantially all the trade," it was clear that agricultural products could inherently be included. Hence, even during negotiations with Singapore, which did not demand liberalization of agricultural products, there was opposition from the agricultural sector in Japan. Moreover, from negotiations with Mexico onward, there were explicit demands for the liberalization of agricultural products, and the discourse that agriculture should be liberalized became more prevalent within Japan.

The concept of leveraging the agro-industry barter as a form of external pressure

¹⁸ Satoshi Oyane, *Kokusai reji-mu to nichibei no gaikou kousou* (International Regimes and the Diplomatic Visions of Japan and the U.S.), Yuhikaku, 2012, chapter 9.

¹⁹ Ibid. pp.208-209.

(*gaiatsu*) to instigate agricultural reform has also emerged in connection with this policy idea. For example, one of the key proponents of the proactive use of RTAs, Munakata, explicitly stated her intention to use RTAs to reform Japan's special-interest politics, as exemplified by the agricultural lobby.²⁰ As the policy idea of utilizing RTAs logically leads to a barter for export rights, we can think of it as a driving factor for agro-industrial barter in the Japanese case. However, the logic was also clear to the protectionist agricultural interests. To the extent that the spread of the idea summons a sense of crisis and heightens opposition, it can restrain the realization of bartering instead.²¹ Therefore, we should expect a mixed influence on the likelihood of agro-industrial barter in such cases.

2.3 Deepening Economic Links in the Region

In the early 2000s, most of Japan's FTA dealt with Southeast Asian nations. While this region was increasingly integrated economically and had strong economic ties with Japanese businesses, institutional integration similar to that in Europa did not advance. This gap may have motivated Japan's FTA negotiations.²² After the Plaza Accord, as the yen appreciated and trade friction with the U.S. intensified, industries such as automobile and electronics, which wanted to curb exports to the U.S., expanded their direct investments in China and Southeast Asia. Declining industries wishing to offset the competitive decline from a stronger yen also advanced their foreign direct investments, typically from the dominant enterprises within each industrial sector. In both scenarios, the accelerated international flow of materials, intermediates, and finished products within the region highlighted the need for FTAs.²³

Generally, as cross-border economic integration advances, the demand for the liberalization of border barriers increases. These are not just about tariffs; they span standards,

²⁰ Naoko Munakata, "How Trade Agreements Can Reform Japan," *The Globalist*, July 10, 2002.

²¹ It has been shown that such claims by agricultural stakeholders had a certain influence regarding the TPP. Megumi Naoi and Shujiro Urata, "Free Trade Agreements and Domestic Politics: The Case of the Trans-Pacific Partnership Agreement," *Asian Economic Policy Review*, Vol 8, 2013.

²² For the movements of economic entities during this period, refer to T.J. Pempel, ed. *Remapping East Asia: The Construction of a Region*, Ithaca: Cornell University Press, 2005.

²³ In a 2013 survey, Japanese manufacturers that invested in ASEAN countries sourced around 90% of their parts within the ASEAN+6 region. See Akira Kajita and Akira Yasuda eds., *FTA Guidebook 2014*, JETRO, 2014, p.98.

investment rules, competition rules, patent systems, and visa requirements, often reaching domestic policies. The WTO agreement did not cover these areas in-depth, and with the gloomy outlook after the Cancún ministerial meetings, there was a pressing need for preferential negotiations.

This factor implies increased pressure for agro-industrial barter. As regional economic integration deepens, Japan needs to negotiate with the entire region, not just bilaterally, because production processes in an interdependent economy typically entail procurement from multiple countries. This is evident in attempts to create the ASEAN Free Trade Agreement and its expanded versions, such as ASEAN+3 (Japan, China, and Korea), ASEAN+6 (Japan, China, Korea, Australia, New Zealand, and India, later called RCEP), and TPP. One advantage of RTAs for a country with strong domestic opposition is that the government can avoid countries that request liberalization of politically sensitive products. This merit is not valid when aiming for the liberalization of the entire region. Therefore, deepening economic ties in the region might force Japan to negotiate with agricultural countries, leading to a higher probability of agro-industrial trade-offs.

2.4 Declining Power of Agricultural Lobby

In the decade following WWII, Japan faced significant food shortages, which necessitated policies to secure large imports of agricultural products.²⁴ However, in the latter half of the 1950s, as rapid economic growth began and labor productivity in agriculture declined relative to other industries, a protective system for agriculture was established.²⁵ The Japanese government addressed the relative decline in the agricultural sector's income by supporting the prices of staple products such as rice until the 1990s.²⁶ Especially during the late 1980s, when the U.S. pressed Japan for market access and the Uruguay Round negotiations included agricultural products, maintaining protective measures became the focal point.

Meanwhile, the agricultural sector experienced a continuous decline. In 1993, there were over 300,000 staff members in the agricultural cooperatives. This number decreased to

²⁴ Asahiko Shirakizawa, “*Sengo syokuryou yunyu no teichaku to syoku seikatsu kaizen* (Post-war Stabilization of Food Imports and Improvement of Dietary Habits),” *The Journal of Agricultural History*, Vol. 36, 2002.

²⁵ Yujiro Hayami & Yoshihisa Godo, *Nougyou Keizai ron shinpan (Agricultural Economics: New Edition)*, Iwanami Shoten, 2002, pp. 174-180.

²⁶ Masayoshi Honma, *Gendai nihon nougyou no seiji katei (Policy Process of Contemporary Japanese Agriculture)*, Keio University Press, 2010, pp. 26-30.

less than 210,000 in 2013. During the same timeframe, while the total number of cooperative members rose from 8.9 million to 10.1 million, this increase was attributed to a rise in associate members without voting rights. Notably, the number of full members, who are full-time farmers, decreased from 5.48 million to 4.56 million.²⁷ Aging demographics have led to difficulties in continuing farming and challenges associated with its succession. There has also been an increase in the number of part-time farmers in the industrial sector. Even though it has been highlighted that they retained significant political power within the electoral system and policymaking process,²⁸ it was undeniable that interest groups seeking protection were in long-term decline. Especially during the Koizumi administration, there was an intense fear that they could be targeted as “resisting forces” against the reform efforts, making them accept some concessions to preserve the whole.²⁹

When import-competing sectors seeking protection lose their clout, we expect an increased probability of an international agreement that exchanges the export rights of industries with comparative advantage.

2.5 Electoral Reform of 1994

The decline in political influence of the agricultural sector was further exacerbated by the 1994 electoral reform. Under the previous single non-transferable voting system in medium-sized constituencies, 3-5 representatives were elected from each district, making it possible for each candidate to win with a relatively low vote share. Additionally, because members of the same party have to compete for seats to secure a majority, more than a campaign pledge from the party is required. Individual appeal to voters and pressure groups is crucial. This amplified the voices of special interests through organized votes.

With the introduction of the single-member district system, where parties aiming for power need to target the support of half of the voters, Japanese political parties had to appeal to the electorate with policies that considered broader interests. This change shifted focus

²⁷ The Ministry of Agriculture, Forestry and Fisheries, General Agricultural Cooperative Statistics Table.

²⁸ Solís, *op. cit.*; Hideyuki Miura, *Nousan butsu boueki kousyou no seiji keizaigaku: Boueki jiyuuka wo meguru seisaku katei (Political Economy of Agricultural Trade Negotiations: Policy Processes for Trade Liberalization)*, Keiso Shobo, 2020.

²⁹ Sekizawa, *op. cit.*; Jemma Kim, *Nihon no tuusyou seisaku tenkan no seiji keizagaku: FTA/TPP to kokunai seiji (Political Economy of Japan's Trade Policy Shift: FTA/TPP and Domestic Politics)*, Yushindo, 2016; Miura, *op. cit.*

from sector-specific protection to the overarching goal of economic growth via efficiency.³⁰ Given Japan's prolonged recession after the collapse of its bubble economy, achieving economic efficiency through structural reforms was a pressing issue. Under these circumstances, it was easier to gain support to promote trade liberalization than to protect the agricultural sector. Furthermore, in single-member district systems, the campaign pledges of political parties and the authority to assign candidates to specific districts became more critical, weakening special interests and empowering party headquarters.

Nevertheless, there can be a broad popular support for agricultural protection, especially when it is linked to crucial issues such as food security. By redefining the issue as a matter of national security, domestic opposition towards protection can be mitigated.³¹ However, this tactic cannot be a panacea in Japan, even though low self-sufficiency in food production has been a national concern for many years. This argument does not apply to the many items protected in these RTA negotiations. For example, livestock farming is consistently on the list of sensitive items. However, the industry imports more than 70% of its feed from foreign countries at discounted tariff rates, making it almost irrelevant to food security. Specialty crops such as tea, coffee, tobacco, and premium fruits are not necessary for human survival, not to mention of cut flowers and goldfish, which were actually excluded from the FTA with Singapore. Redefining these items within the context of food security is a logical impossibility.

Overall, the electoral reform reinforced the LDP headquarters and curved the voice of special interests. This should make agro-industrial trade-offs easier.

2.6 Strengthened Mandate of the Cabinet Office

Japan's medium-sized constituency system was deeply connected to its compartmentalized administrative structure. Strengthening the prime minister's office to counteract this had a profound impact on Japan's trade policy. This bureaucratic sectionalism, when viewed more broadly, can be seen as a point of the "iron triangle" formed by respective bureaucracy, factional *zoku* politicians, and industry groups. The challenges posed by such a system have been recognized and addressed, as seen in fiscal and administrative reforms since the 1990s.

³⁰ Rosenbluth, Frances McCall, and Michael F. Thies, *Japan Transformed: Political Change and Economic Restructuring*, Princeton University Press, 2010.

³¹ Friman, H. Richard, "Side-Payments versus Security Cards: Domestic Bargaining Tactics in International Economic Negotiations," *International Organization* 47, no. 3, 1993, pp. 387-410.

Historically, this structure worked to the Japanese government's advantage when resisting the U.S. demand for liberalization in sectors where Japan was at a comparative disadvantage by inhibiting cross-industry bartering. In sectors where the U.S. demands market openness, Japan usually has minimal exports because of its comparative disadvantage. This situation limits the U.S.'s ability to impose direct pressure on the Japanese sector through the threat of import restrictions. Therefore, the U.S. has sought to exert pressure on the Japanese government by targeting export industries and attempting to create a scenario of barter between exports to the U.S. and the liberalization of Japanese import-competing industries.

Such cross-sector negotiations inherently present unique challenges compared to those within a single industry. Negotiations limited to a single sector often simplify bartering process. The fundamental pattern of Japan-U.S. trade friction, which began in the 1950s, usually involved U.S. industries that suffered from Japanese exports. The U.S. would then exert pressure, leveraging import restrictions, and disputes would ultimately be resolved through Japan's voluntary export restraints. Glen S. Fukushima, who served in the USTR from the spring of 1985 to the end of 1989, underlined this cycle, noting that he had never seen negotiations that did not reach an agreement.³² When industries profiting from trade with the U.S. became the targets of sanctions, it was relatively easy for individual industries or businesses to weigh their interests and make decisions internally.³³ Consequently, export industries with a comparative advantage typically conceded.

Starting in the 1980s, in contrast, attention began to pivot towards access to the Japanese market and its structural issues. This shift brought industries at a comparative disadvantage onto the table, thereby altering the entire negotiation landscape. Starting in 1989, the U.S.-Japan Structural Impediments Initiative targeted various structural issues within Japan, including the regulations on the retail industry, banking and securities trading, the patent system, and land tax, to name just a few. Given the extensive range of topics, while some export industries had vested interests in the status quo, issues involved sectors unrelated

³² Glenn S. Fukushima, *Nichibei keizai masatsu no seiji gaku (The Politics of Japan-U.S. Economic Friction)*, translated by Toshi Watanabe, Asahi Shimbun Publishing, 1992, p. 64.

³³ One exception was the case of textiles, which faced intense domestic opposition from the industry. The textile sector consisted of numerous relatively small-scale companies, making it challenging to bypass export restraint agreements through foreign direct investment to the U.S., unlike the automobile industry. The fact that concessions in textiles were utilized as a bargaining chip during the Okinawa reversion negotiations further amplified the resistance from the opposition.

to exports, such as distribution, retail, and suburban agriculture. When the U.S. delegation strongly demanded the abolition of the Large-Scale Retail Store Law, which had restricted large stores, the chairman of a pressure group that represented small stores expressed opposition, similar to agricultural pressure groups in RTA negotiations. “It’s unacceptable that large companies cause trade frictions with the U.S. and then push the consequences onto small and medium retailers.”³⁴

Bartering across multiple industrial sectors generates new domestic conflicts of interest, because the costs and benefits of an agreement are not concluded within the same sector. Under the sectionalist governance structure, coordination becomes challenging, as different industries not only have different supervisory ministries but also have different legislators and industry groups concerned with those sectors. Thus, cross-sector bartering materializes only under specific conditions. In the case of the U.S.-Japan Structural Impediments Initiative, it is known that the negotiations were conducted separately for each sector with different bureaucrats in charge, until the matter escalated to the top leadership level of both countries.³⁵

Drawing from these historical patterns, bolstering the administrative mandate of the prime minister’s office and easier inter-ministry coordination, coupled with the empowered authority of the LDP headquarters through electoral reforms, could make agro-industrial barter in the RTA more plausible.

2.7 Summary

Shifts in the economic and diplomatic landscape around the turn of the century compelled Japan to adopt RTAs. Domestically, there was a recognized need for structural reforms, including agriculture, and political and systemic changes to support these reforms were implemented. When viewed collectively, these background factors seem to push Japan’s policy in a direction that would facilitate agro-industrial bartering. However, in practice, while Japan concluded a series of RTAs at a notable speed, the liberalization of agricultural products remained limited. Therefore, the limited impact on agriculture should be attributed to factors other than those described above.

³⁴ *Nihon Keizai Shinbun*, March 30, 1990.

³⁵ Kazutoshi Suzuki, *Nichibei kouzou kyougi no seiji katei (Political Process of the U.S.-Japan Structural Impediments Initiative)*, Minerva shobo, 2013.

3 De-linking Agriculture and Industry in RTA Negotiations

Instead of the macro-level background factors delineated above, this section focuses on micro-level tactics in diplomatic negotiations. Existing research focusing on Japan's RTA negotiation tactics emphasizes intra-sector side payments, such as foreign assistance for agricultural technology, rather than cross-sector bartering.³⁶ While this observation is accurate, it should be noted that the counterparty could still request additional cross-sector bartering in addition to intra-sector one, given the large expected gain from preferential access to the protected Japanese agricultural market. As RTAs pertain to "substantially all the trade," negotiation partners have a good reason and strong incentives to utilize the inherent link between agriculture and industry. Indeed, this behavior was observed repeatedly, as illustrated later. How could the Japanese government deflect such demands from its counterparts and continue handling agriculture and industry separately? This section traces the process of establishing these tactics through trial and error.

3.1 Learning through Trial: RTAs with Singapore and Mexico

Most FTA negotiations begin by exploring possibilities through informal interactions, such as exchanges of opinions by quasi-private organizations and private-sector study groups. Then, in joint public-private-academic research meetings in which the government also participates, an agreement is reached on the basic conditions and mandate of the negotiations, followed by an announcement of formal commencement of negotiations.

Japan initially negotiated with Singapore, which had minimal agricultural export history. Nevertheless, Japanese agricultural representatives stressed the difficulties of liberalizing agricultural products in these early meetings. Joint research sessions were co-chaired by the Ministry of Foreign Affairs (MOFA), Ministry of International Trade and Industry (MITI), and Ministry of Finance (MOF). The Ministry of Agriculture, Forestry, and Fisheries (MAFF) also participated in this study. Even though agriculture accounted for only

³⁶ Ishiguro Kaoru, "FTA/EPA Negotiation and Bureau-pluralism: Two-Level Game Analysis on JTEPA," *Journal of economics & business administration*, Vol. 201, No. 5, 2010; Ishiguro Kaoru, "Linkage between FTA/EPA Negotiations and Domestic Policy," *Journal of economics & business administration*, Vol. 205, No. 1, 2012; Takumi Sakuyama, *Nihon no TPP Kousyoushiki no Shinjitu (The truth behind Japan's Participation in the TPP Negotiations)*, Bunshindo, 2015; Kim, *op. cit.*; Miura, *op.cit.*

1.7% of bilateral trade and Singapore relied heavily on agricultural imports, the Japanese expressed reluctance, stating that they had no plans for further tariff reductions in this sector. Singapore confirmed that they understood the sensitivities involved, and the final report underscored their understanding. To emphasize further, this was reiterated. “The Joint Study Group agreed that, in the possible ensuing negotiations on the JSEPA³⁷, due consideration should be given to the need to address the problems mentioned above...”³⁸

Contrary to widespread belief, Singapore was interested in exporting agricultural products. They have also faced lobbying from the U.S. and Australia to avoid excluding agricultural products from their FTA negotiations with Japan.³⁹ In the 2006 amendment to the agreement with Japan, Singapore sought a market opening for agricultural products,⁴⁰ and subsequently, tariffs on tropical fruits, asparagus, and shrimp were eliminated. In essence, although Singapore did have an interest, it chose not to push too hard for the liberalization of low-priority agricultural products to avoid the risk of missing the opportunity to become Japan’s first FTA partner. While there were moments when agricultural liberalization reignited,⁴¹ it is fair to say that a trade-off between agriculture and industry was effectively ruled out, even before the negotiations began.

The situation in Mexico shows notable differences. The tripartite study group comprised of the governments, academia, and industries started in September 2001. In this arrangement, the MAFF served as a co-chair, along with the MOFA, MOF, and METI (which succeeded MITI after January 2001), amplifying the influence of the agricultural sector. The Japanese adopted a more assertive stance concerning agriculture, invoking a resolution by the LDP’s Research Commission on Trade in Agriculture, Forestry, and Fishery Products on September 3, 2001. The resolution stated, “the tariffs on agricultural, forestry, and fishery products are not to be further curtailed or revoked under bilateral agreements, because this subject has to be discussed at WTO, and that the same kind of bilateral agreements that will

³⁷ The Japanese government was promoting agreements that included cooperation on various issues in FTAs, referring to them as EPAs (Economic Partnership Agreements).

³⁸ Japan-Singapore Economic Agreement for a New Age Partnership, Joint Study Group Report, Section 2-4. <https://www.mofa.go.jp/region/asia-paci/singapore/section2.pdf> (Accessed on October 30, 2023)

³⁹ Ravenhill, *op. cit.*, p.37.

⁴⁰ Sekizawa, *op. cit.*, p.91, footnote.

⁴¹ Kim, *op. cit.*, chapter 3.

be negotiated in the future are to be dealt with under the same policy.”⁴²

While Mexico recognized Japan’s political sensitivity in agriculture and proposed extended timelines or delays for tariff reductions, it insisted on discussing agricultural products given their importance to Mexico. In its final report, which required a consensus, Japan failed to rule out agriculture. In addition to Japan’s stance that agricultural products are sensitive, the report expressly included Mexico’s claim that “agricultural products are indispensable in the final package of the bilateral agreement.”⁴³

The results of the preliminary talks were shaped by the specific contexts of the two nations. By this time, Mexico had finalized several FTAs with its major trading partners: the NAFTA in 1994, the EU-Mexico FTA in 2000, and the EFTA-Mexico FTA in 2001. Given that Japan reduced its tariffs on industrial goods before the 1990s, Mexico did not see an urgent need to expedite FTA discussions with Japan, especially if it insisted on excluding agricultural products. The prominence of bilateral trade in products such as pork, which constituted approximately 10% of the exports to Japan, and fruits, which accounted for approximately 5%, underscored their significance in the negotiations. Conversely, Japan was wary of the anticipated competition with U.S. and European products in the Mexican market. Due to the already agreed-upon FTAs, products from these countries were not only exempt from relatively high tariffs, averaging around 16%, but also received preferential treatment in government procurement bids. The impact of NAFTA alone had already reduced the market share of Japanese products in Mexico, and it was estimated that the delay in the Japan-Mexico agreement resulted in a loss of about 400 billion yen, or approximately 620 billion yen when considering the spillover effect within Japan.⁴⁴

The inclusion of agricultural liberalization as a specific condition for the final agreement resulted in a temporary breakdown of negotiations. When negotiations resumed, Japan, for the first time in its FTAs, committed to new reductions or the removal of tariffs on agricultural products. The process leading to this outcome is suggestive.

Negotiations commenced in November 2002 with the aim to conclude by President Vicente Fox’s anticipated visit to Japan in October 2003. However, the initial stances of both nations diverged considerably. At the outset, Japan, mirroring its approach with Singapore,

⁴² Japan-Mexico Joint Study Group on the Strengthening of Bilateral Economic Relations, Final Report, July, 2002, p.20.

<https://www.mofa.go.jp/region/latin/mexico/relation0207/part2.pdf> (Accessed on October 31, 2023)

⁴³ *Ibid.* p.20.

⁴⁴ *Ibid.* p.13, footnote.

insisted on not making further agricultural tariff cuts, while Mexico pressed for eliminating tariffs on all agricultural products within ten years. Reluctantly shifting its stance, Japan put forth a concession plan by the end of August, suggesting the elimination of tariffs on over 90% of agricultural imports, with pork being an exception.⁴⁵ However, Mexico countered, deeming the list of items in this tariff-free proposal inadequate and specifically calling for an elimination of tariff on pork.⁴⁶ Consequently, Japan committed to considering the addition of more than 70 items to the tariff elimination list, including leather goods and alcoholic beverages, such as tequila.⁴⁷

During President Fox's visit to Japan, the issue escalated from the working to the cabinet level. The Minister of Economy, Trade, and Industry, Shoichi Nakagawa, reached a tentative agreement in the industrial sector after two-day marathon of ministerial negotiations. *Following this*, negotiations led by Minister of Agriculture, Forestry, and Fisheries, Yoshiyuki Kamei, took place.⁴⁸ Although progress had been made on the key issue of pork, Mexico suddenly raised the stake by demanding a significant expansion of the duty-free import quota for orange juice.⁴⁹ Japan could not accommodate this, leading to postponement of the agreement.⁵⁰ ⁵¹ In the end, negotiations with Mexico, which insisted that the agreement should include agricultural products, broke down.⁵² Newspapers published articles questioning Prime Minister Koizumi's leadership.⁵³

The following week, Prime Minister Koizumi held a press conference stating, "In

⁴⁵ *Asahi Shinbun*, morning edition, August 27, 2003.

⁴⁶ *Nihon Keizai Shimbun (Nikkei)*, morning edition, September 9, 2003.

⁴⁷ *Nihon Keizai Shimbun (Nikkei)*, evening edition, October 7, 2003.

⁴⁸ Hideo Suzuki, *Shin haken kokka cyuugoku x TPP nichibei doumei (New Hegemon China × TPP Japan-U.S. Alliance)*, Asahi shinbun syuppan, 2016, p.160.

⁴⁹ *Mainichi Shimbun*, Tokyo morning edition, October 17, 2003.

⁵⁰ Although they came close to reaching an agreement with an additional concession of 500 tons, the negotiations broke down because the amount exceeded what had been pre-approved by the domestic industry. Hideo Suzuki, *op.cit.*, pp.161-162.

⁵¹ Mandarins, which are widely cultivated in Japan, tend to alternate between good and poor harvests each year. To support prices during bountiful years, agricultural cooperatives have been turning them into juice. The increase in orange juice imports would render this mechanism ineffective, which is why it was strongly opposed.

⁵² *Asahi Shinbun*, evening edition, October 16, 2003.

⁵³ *Asahi Shinbun*, morning edition, October 17, 2003; *Nihon Keizai Shimbun (Nikkei)*, morning edition, October 17, 2003; *Yomiuri Shinbun*, morning edition, October 19, 2003.

considering future FTA negotiations and agreements with various countries, we cannot avoid the issue of agriculture. Agricultural structural reforms are urgent.”⁵⁴ Displaying his determination, he dispatched the “Prime Minister’s Office Mission” to Mexico in November, led by Shotaro Yachi, then the Assistant Chief Cabinet Secretary. Additionally, in December, he established an interagency FTA committee within the Prime Minister’s Office to drive negotiations.⁵⁵ It is worth noting that upon the Prime Minister’s directive, officials from ministries such as the METI and MAFF were reportedly excluded from the Prime Minister’s Office Mission.⁵⁶ These efforts culminated in an agreement on agricultural products on March 9, 2004, *followed by* an agreement on industrial products, such as automobiles and steel, on March 10th.⁵⁷ The text was drafted and signed on September 17th. At this time, the agreement included a tariff reduction and expanded tariff quotas for contentious items such as orange juice and pork.

3.2 Establishing the Tactics: RTAs with Thailand and the Philippines

Prime Minister Koizumi, after visiting Singapore and signing Japan’s very first FTA in January 2002, presented a speech the next day with the title “Japan and ASEAN in East Asia: A Sincere and Open Partnership.”⁵⁸ Within this speech, he advocated for “an Initiative for Japan-ASEAN Comprehensive Economic Partnership.” Subsequently, Japan began separate FTA negotiations with individual ASEAN countries.

Preliminary discussions with Thailand began in September 2002 following a few preparatory meetings. As in the case of Mexico, meetings faced difficulties, and the decision to officially begin talks was delayed. Given that the agricultural and fishery sectors comprised 26% of Thailand’s exports to Japan, excluding them was hardly conceivable. Thailand, as the top global rice exporter, also had stakes in chicken and leather goods—also controversial items in the Japan-Mexico FTA—as well as sugar and starch, the exclusion of which became a focus

⁵⁴ *Yomiuri Shinbun*, morning edition, October 22, 2003.

⁵⁵ For detailed process, see Toru Yanagihara, *Nihon no FTA senryaku to kantei syudou gaikou* (Japan’s FTA Strategy and Cabinet-led Diplomacy), *Journal of World Affairs*, April, 2004, p.106.

⁵⁶ *Asahi Shinbun*, morning edition, November 23, 2003.

⁵⁷ *Nihon Keizai Shimbun (Nikkei)*, morning edition, March 11, 2004.

⁵⁸ Speech by Prime Minister of Japan, Junichiro Koizumi, “Japan and ASEAN in East Asia: a Sincere and Open Partnership, <https://www.mofa.go.jp/region/asia-paci/pmv0201/speech.html> (accessed on October 30, 2023)

in TPP negotiations. Thus, Thailand demanded complete removal of tariffs on all agricultural products.⁵⁹ During the summit on June 6, 2003, Prime Minister Thaksin Shinawatra proposed initiating negotiations on manageable items and leaving agricultural products for later. Fearing an eventual focus on agricultural goods, Prime Minister Koizumi rejected the idea.⁶⁰

In July 2003, the working group transitioned into a task force comprising industry, government, and academia, including JA Zenchu (the political branch of the Japan Agricultural Cooperatives Group). Just two weeks after the breakdown of talks with Mexico over the FTA, a third taskforce meeting was held in early November. An agreement was reached to draft a report suggesting the commencement of formal FTA negotiations during the December Summit. A pivotal factor enabling this was Thailand's softened stance, as it conveyed an understanding of the difficulties of liberalizing certain items.⁶¹ The breakdown of cabinet-level negotiations with Mexico, occurring just before the summit with Thailand's leader, highlighted the extent of Japan's internal resistance to agricultural market liberalization.

The final report included an attachment titled "A direction of agricultural agreement in JTEPA (Japan-Thailand Economic Partnership Agreement)," which was explicitly stated to "form a basis for further deliberations at the negotiation stage."⁶² It emphasized the need to adequately consider the sensitivity of agricultural products, to strike a balance between agricultural cooperation and the liberalization of agricultural product trade, and to establish an agricultural discussion framework in the form of a working group composed of agricultural representatives. The intention of these arrangements was to delineate the exclusion of agricultural products, segregate agriculture from other negotiations, and wrap them exclusively within the agricultural domain. The MAFF officials shared the perception that they had been too reactive in negotiations with Mexico, and in subsequent negotiations with Thailand, they intended to act strategically to persuade their counterparts while preventing the Prime Minister's office from leading agricultural negotiations.⁶³

Formal negotiation sessions with Thailand began in March 2004, approximately a

⁵⁹ *Nihon Keizai Shimbun (Nikkei)*, morning edition, May 31, 2003.

⁶⁰ *Yomiuri Shinbun*, morning edition, June 20, 2003; Miura, *op.cit.*, p.191.

⁶¹ *Yomiuri Shinbun*, western evening edition, November 6, 2003.

⁶² Japan-Thailand Economic Partnership Agreement Task Force Report, December 2003, page 10. <https://www.mofa.go.jp/region/asia-paci/thailand/joint0312.pdf> (accessed on October 30, 2023)

⁶³ Miura, *op.cit.*, p.185.

month before an agreement with Mexico was reached. The negotiation framework spanned 12 distinct sectors, with negotiations for industrial and mining products separated from those for agricultural and fishery products.⁶⁴ This approach effectively segregated negotiations for agricultural products from those for other sectors.

However, once the negotiations began, Thailand formally requested the removal of tariffs on rice, chicken, sugar, and starch—items that Japan had deemed “sensitive.”⁶⁵ Thailand suggested separating items for immediate tariff removal from those requiring extended consideration, starting with the former. Japan responded that rice was not a subject of extensive discussion. In October, during the ASEM (Asia-Europe Meeting) informal summit, the two sides agreed to negotiate on all items except rice.⁶⁶

According to Sekizawa, who participated in the negotiation as a METI official, from this point onward, there was a mutual understanding between the two countries to handle each item separately. In addition, the structure of the Japanese negotiation team became clear: the MAFF exclusively dealt with agricultural products, whereas the METI mainly negotiated industrial goods. Vice ministers for International Affairs from the METI and MAFF, both counterparts to the Deputy Minister for Foreign Affairs, joined the negotiation sessions, leading to the gradual dissolution of the centralized negotiation team under the Deputy Minister for Foreign Affairs.⁶⁷

In November, MAFF released its “Green Asia EPA Promotion Strategy.” This incorporated discussions on the stabilization and diversification of food imports in the context of food security debates, the promotion of exports of Japanese-branded food products, and the spread of high-level food safety standards through Japanese technical support. Additionally, it addresses poverty alleviation in Asia’s agricultural, mountainous, and fishing regions, as well as environmental conservation. The content was also based on the attachment to the task force report, “A direction of agricultural agreement in JTEPA.” In the agricultural trade, sanitary requirements and food safety regulations often act as barriers more than tariffs do. Therefore, the MAFF and Japan Agricultural Cooperatives (JA) committed to provide technical support to meet Japan’s standards. On the Thai agricultural cooperative side, there

⁶⁴ *Ibid.*, p.198.

⁶⁵ *Asahi Shinbun*, morning edition, September 11, 2004; *Yomiuri Shinbun*, Tokyo morning edition, September 12, 2004. Japanese side demanded significant liberalization of Thailand’s automobile and steel industries.

⁶⁶ *Nihon Keizai Shimbun (Nikkei)*, morning edition, October 10, 2004; *Yomiuri Shinbun*, Tokyo morning edition, October 11 and October 26, 2004.

⁶⁷ Sekizawa, *op.cit.*, p.85.

was a greater demand for agricultural technical support than for immediate access to the Japanese rice market.⁶⁸ As implied in the task force report, this was an attempt to separate the liberalization of agricultural products from other sectors, striking a balance within the sector through barter with development assistance in agriculture. The strategy turned out to be successful, particularly as the Japanese side agreed to the tariff removal of low-priority agricultural products, leading to an agreement on the agricultural sector in March 2005, *ahead of industrial goods*.⁶⁹

These agreements were provisional in nature and did not have the signature of the Prime Minister nor ratification. However, in the context of intergovernmental negotiations, this confirms that the content is indeed agreed upon by both the parties.⁷⁰ At this point, the tariff negotiations for automobiles, auto-parts, and steel were still ongoing. Because of this provisional agreement on agricultural products, a barter between Japan's liberalization of agricultural products and Thailand's liberalization of industrial products became more challenging. Should Thailand push forward agro-industrial barter, the balance of the deal in the agricultural sector would be disrupted, risking the promised agricultural technical support. Even if this was not the case, revising an agreement against the norm is a significant concession in itself. This would enable the Japanese side to sell the same liberalization at a higher price.

On the Thai side, they took advantage of Japan's limited agricultural liberalization, showing a reluctance to abolish tariffs on industrial products. Prime Minister Thaksin wrote a letter to Prime Minister Koizumi saying, "If Japan further opens up its agricultural and fishery products market, Thailand will reconsider Japanese request to eliminate steel tariffs," suggesting a barter between agriculture and industry.⁷¹ In response, on July 27th, the Minister of Agriculture, Forestry, and Fisheries, Yoshinobu Shimamura, informed the Thai Deputy Prime Minister by phone of Japan's intention to advance the tariff elimination deadlines for items such as frozen fruits, frozen shrimp, and okra, as well as to increase the tariff quota for bananas among other concessions in 10 items.⁷²

Although this enabled both parties to reach an agreement, the agro-industrial barter

⁶⁸ Miura, *op.cit.*, pp. 211-213.

⁶⁹ *Yomiuri Shinbun*, Tokyo evening edition, March 30, 2005.

⁷⁰ Yoriyumi Watanabe ed., *Kaisetsu FTA • EPA kousyō (Annotated FTA • EPA Negotiations)*, Authored by the Ministry of Foreign Affairs Economic Affairs Bureau EPA Negotiation Team, Nihon Keizai Hyoronsha, 2007, p.28, p.142.

⁷¹ *Yomiuri Shinbun*, Tokyo morning edition, May 4, 2005.

⁷² *Yomiuri Shinbun*, Tokyo morning edition, July 28, 2005.

was limited in scale. For Thai government, which was trying to advance its industrialization, steel and automobiles were considered sensitive. Japan offered assistance in improving the production techniques that the Thai steel industry desperately needed. In the automobile sector, the elimination of tariffs for most classes of vehicles was postponed for future renegotiations. This decision later influenced negotiations with the Philippines.

In October 2002, one month after initiating the task force with Thailand, a similar working group was launched with the Philippines. This evolved into the “Japan-Philippines Economic Partnership Agreement Joint Coordination Team,” comparable to a joint industry-academic-government research task force for Japan-Thailand EPA. This team investigated the economic impacts, technical issues, and political sensitivities, among other matters. In the final report, the Japanese side elaborated on the sensitivity of items such as leather products, bananas, and pineapples, and expressed a desire to exclude fish. Drawing parallels with the negotiations with Thailand, they asserted that there should be a balance between tariff reductions and aid within the agricultural and fisheries sectors.⁷³

There were also differences. The report for Japan-Philippines EPA did not provide specific details about sensitive items such as rice, sugar, and chicken, which are also produced in the Philippines. While only 14% of exports from the Philippines to Japan consisted of agricultural and fishery products, there were hardly any tariffs on Japanese imports of industrial products. This made the liberalization of agricultural and fishery products an important issue for the Philippines. Additionally, there was significant interest in Japan’s developmental assistance measures and the acceptance of Filipino nurses and caregivers. Given that remittances from Filipinos working abroad comprised about 10% of the country’s GDP, the transnational “movement of natural persons was one of the most important issues”⁷⁴ for the Philippines.

Negotiations with the Philippines proceeded under the leadership of Chief Representative Ichiro Fujisaki, the Deputy Minister for Foreign Affairs. In addition, there were joint chairmen from four ministries: MOFA, MOF, MAFF, and METI.⁷⁵ As with the negotiations with Thailand, there were instances in which vice ministers from other ministries,

⁷³ Japan-Philippine Economic Partnership Agreement Joint Coordinating Team Report, December 2003. <https://www.mofa.go.jp/region/asia-paci/philippine/joint0312.pdf> (accessed on October 30, 2023)

⁷⁴ *Ibid.* p.17.

⁷⁵ Ichiro Fujisaki, “Nippi EPA oosuji goui madeno Michinori: kousyouno saizensen kara (The Road to the Japan-Philippines EPA Framework Agreement: from the Forefront of Negotiations),” *Gaikou Foramu*, April 2005, p.87.

holding a rank equivalent to the Deputy Minister, were responsible for joint chairmanship. However, in sessions led by the chief representative, Mr. Fujisaki maintained consistency by making all the remarks himself. Particularly in the later stages of the negotiations, meetings with a limited number of members from each side were held repeatedly.⁷⁶ At first glance, this approach appears to conflict with the strategy of having separate negotiation tables.

However, in negotiations with the Philippines, agricultural products were separated temporally rather than physically. The Japanese team initiated negotiations by first focusing on primary agricultural products, then other products, moving on to the service domain, and, ultimately, to industrial goods. It adopted a policy to refuse proceeding until each sector was settled.⁷⁷ Under this approach, even if discussed on the same table, it becomes difficult to use the previously agreed-upon agricultural tariffs as bargaining leverage. An agreement on agricultural products was reached on the night of November 13, 2004. Negotiations for the service sector took place on the 14th, and details regarding industrial goods began on the 15th. By then, the MAFF officials who had pinned down their part of the agreement had already returned to Japan. Deprived of the possibility of cross-sectoral barter, the remaining negotiations for industrial goods, mainly on elimination of Filipino tariffs on steel and automobiles, could not be settled. Negotiations at the ministerial level were eventually held through the APEC platform, leading to a commitment to liberalization.

A distinctive feature of the agreement with the Philippines, compared to Thailand, is the lack of significant assistance measures in agriculture.⁷⁸ One reason for this was that most of the agreement was already reached before the MAFF's announcement of the "Green Asia EPA Promotion Strategy," in which varieties of assistance measures are listed to appease Thai agricultural interests. Although preliminary discussions with the Philippines began later than those with Thailand, negotiations reached a critical juncture in November 2004, achieving a basic agreement before Thailand. This was because of the smooth progress of the initial negotiations.

Despite being the world's eighth-largest rice producer in 2005, the Philippines has been a regular importer since the end of the 1990s.⁷⁹ In September, they hinted at dropping

⁷⁶ *Ibid.* p.88.

⁷⁷ For detailed process below, *ibid.*, p.90.

⁷⁸ Yurika Suzuki, "Firipin: jiyuuka to sangyouikusei no jirenma (Philippine: the dilemma between liberalization and industrial development)," in Shigeki Higashi ed., *FTA no seiji keizai gaku (Political Economy of FTA)*, Institute of Developing Economies, 2007, p.121.

⁷⁹ In the Philippines, rice was the primary crop in terms of production value and cultivated

their requests to Japan to liberalize rice imports.⁸⁰ The focus then shifted to sugar, bananas, pineapples, chicken meat, and fish. Agreements were reached through the elimination of tariffs, allocation of duty-free or low-tariff quotas, or commitment to renegotiate in the future. There were offers to enhance market access for specific banana types grown by small-scale farmers,⁸¹ mirroring the themes in subsequent agreements with Thailand that emphasized rural poverty countermeasures. Still, Japan maintained its overall protective scheme, and barter within the agricultural sector through aid was limited.

For industrial products, some tariffs on steel were lifted, whereas those on automobiles were completely abolished by 2010. During the negotiations, the Filipinos expressed their desire to hear from the Japanese industrial community that their domestic industries would not suffer due to liberalization. In response, major Japanese industry representatives, including those from the automotive and steel sectors, traveled to the Philippines to outline their “views on future investments” directly to the Filipino industry representatives.⁸² The approach centered on liberalizing advanced products that would not compete with Filipino industries, ensuring benefits through foreign direct investment, and achieving mutual interests within the sector.

The combination of Japan’s limited liberalization of agricultural products and the Philippines’ removal of tariffs on automobiles and steel had repercussions on another contentious issue, the movement of people. After internal coordination between the Ministry of Foreign Affairs and the Cabinet Secretariat, Japan agreed to accept nurses and caregivers.⁸³ Despite its primary jurisdiction over the industrial sector, the METI undertook educational

area. However, due to the country’s high population growth rate the volume of rice imports became the highest in the world between 2005 and 2010. Kouichiro Akashi, “*Firipin: Sekai yusuuno kome yunyuu koku* (Philippine: One of the Largest Importer of Rice),” in *Heisei 20 nendo kantori-repo-to* (FY 2017 Country Report), Policy Research Institute, Ministry of Agriculture, Forestry and Fisheries, 2018.

⁸⁰ Fujisaki, *op.cit.*, p.89.

⁸¹ Asako Nagano, “*FTA/EPA kousyuu ni okeru nourinsuisan bunya no torikumi ni tsuite* (Approaches to Agriculture, Forestry, and Fisheries in FTA/EPA Negotiations),” *Syokuryou to Anzen (Food and Security)*, Vol. 10, No. 2, February 2005, p.57.

⁸² Fujisaki, *op.cit.*, p.89.

⁸³ Yuri Hosono, “Negotiation Process for Accepting Nurses and Caregivers with Reference to the Japan-Philippines Economic Partnership Agreement: Political Dynamics of Policy Decision of Japan and the Philippines,” *Yokohama Journal of Social Sciences*, Vol.15, No.6, pp. 67-89.

responsibilities. As one high-level Japanese official explains, “Given that Japan’s industrial products already had minimal tariffs and the prospects for agricultural liberalization seemed slim, we had to offer a significant incentive to get the Philippines to join the discussion.”⁸⁴ This perception embodies the balance of the agreement, which was not a barter between agriculture and industry, but was offset by the freer movement of people.

However, this equilibrium was fragile. In negotiations with the Philippines, various renegotiations took place after the agreement, especially with tariffs on automobiles and parts, which saw a significant rollback. This was influenced by lobbying from U.S.-based auto manufacturers to the Philippine government. In addition, after the agreement was reached, Japan made a significant concession in its talks with Thailand, prompting the Philippines to seek similar terms.⁸⁵ Despite these amendments, there was backlash in the Philippines, arguing that the deal was skewed towards Japan. It took over two years from signing to finally secure ratification in October 2008, and only by the narrowest of margins.⁸⁶

4. Acceleration of RTA Negotiations by De-linking

Let us examine the de-linking tactics employed by the Japanese government. In preliminary investigations and collaborative sessions across industries, academia, and government bodies, there was a common move to exclude certain sensitive items as preconditions for negotiations. These so-called pre-negotiations, which lay the groundwork by establishing the participants and setting the agenda, are essentially negotiations in their own right.⁸⁷ Japan’s tactic of excluding agricultural products worked well with Singapore, which had minimal agricultural exports, and was keen to conclude a trade agreement with Japan. However, this approach faced challenges with Mexico, which not only had agricultural exports to Japan but had also concluded FTA talks with its major trade partners, such as the U.S. and the EU.

When it was difficult to exclude agricultural products, the Japanese government aimed for a preliminary agreement that considered political sensitivity. This also had the effect of impressing on the other party that liberalizing certain agricultural products was challenging.

⁸⁴ Interview with a negotiator for Japan-Philippines EPA. April 26, 2021.

⁸⁵ Yurika Suzuki, *op.cit.*, pp.123-127. Michitaka Nakatomi, “Development of Japanese FTA Negotiations: Lessons and Directions for the Future —Analyses of negotiations with Mexico, Philippines and Switzerland—,” *Cosmopolis*, No.16, 2022.

⁸⁶ Hosono, *op.cit.*, p.84.

⁸⁷ Fred Charles Iklé, *How Nations Negotiate*, Harper & Row, 1964.

In pre-negotiations, parties typically set their own benchmarks such as the resistance point (a point where, if the outcome worsens, it would be better to abandon the negotiation) and BATNA (the best alternative to a negotiated agreement). They simultaneously estimate the same benchmarks for opposing parties too.⁸⁸ Through this process, predictions are made regarding where concessions from the other side might be expected, shaping the negotiation strategies of both countries. Giving the impression to the other side that the agricultural liberalizations will “come at a high cost” is rational, even if not certain.

During formal negotiations, the Japanese government procedurally separated agricultural products onto a different table. However, this alone did not establish complete segregation. Some negotiators from the opposing side managed both the agricultural and industrial sectors, showing a strong interest in agro-industrial barter. Thailand’s Prime Minister Thaksin personally proposed such bartering, and in ministerial-level negotiations with Mexico, Economic Minister Luis Ernesto Derbez was in charge of both agriculture and industry, demanding an agreement that included agricultural products.⁸⁹ This misalignment led to the temporary breakdown of negotiations with Mexico and the additional liberalization of agricultural products in subsequent sessions when negotiations resumed. In the October 2003 discussions with Mexico, after an initial consensus on industrial items, the debate shifted to agricultural products. This meant that the final agreement hinged on Japan’s concessions on agricultural items. From Mexico’s perspective, this situation suggested that if they piled on more demands towards the end, Japan would likely yield. However, within the Japanese administration, MAFF and METI handled issues separately. This led to a breakdown of the negotiations, as the expected level of agro-industrial barter that Mexico hoped for did not materialize.

After this incident, the Japanese government not only separated the negotiations for agriculture and industry but also sought to reach an agreement on agricultural products before the other issues. In talks with Mexico, even after negotiations resumed under the leadership of the Prime Minister’s Office, conflicts persisted, centering on agricultural and leather products on the Japanese side and steel on the Mexican side. However, Japan ultimately managed to tentatively agree on agricultural tariffs before industrial ones.⁹⁰ In negotiations with both Thailand and the Philippines, Japan firmly maintained the policy of separating agricultural discussions, either on a different table or in a different time, and in both cases,

⁸⁸ Roy J. Lewicki, Bruce Barry and Davide M. Saunders, *Essentials of Negotiation*, Sixth Edition, McGraw-Hill, 2016, Chapter 4.

⁸⁹ Hideo Suzuki, *op.cit.*, p.160.

⁹⁰ *Nihon Keizai Shimbun (Nikkei)*, morning edition, March 12, 2004.

reached a tentative agreement on agriculture first. In talks with Thailand, some agro-industrial barterers were observed after the tentative agreement. Retracting agreed-upon terms and opting for renegotiations was against the norm in international negotiations and, in itself, a significant concession that inevitably limited the scope of the trade-off.

A common feature of bureaucratic organizations is that crucial issues that remain unresolved until the final stage are left to top decision-makers. This is because, at the executive level, where authority spans multiple domains, it becomes possible to weigh and balance vested interests across sectional divisions.⁹¹ By achieving an agreement in agriculture first, the Japanese government intended to avoid a situation in which issues escalated to the highest level and agriculture became the subject of political compromise, as seen in the resumed negotiations with Mexico.

What stands out is that this approach was shared not only by the MAFF but also across other ministries and even at the top leadership. In the negotiations with Thailand, it was not the MAFF but Prime Minister Koizumi himself who rejected the proposal by Prime Minister Thaksin to push sensitive issues to the end and start negotiations with easier ones. In negotiations with the Philippines, Chief Representative Fujisaki, a senior foreign affairs official, insisted on concluding the agricultural agreement first. Although Japan's FTA negotiations are often depicted as a battle between groups pushing for agricultural liberalization and those resisting it, a shared understanding was widely observed in the government's stance during the negotiations, aiming to accelerate discussions by limiting barterers of sensitive items.

As described above, the de-linking strategy continued to influence Japan's approach to FTA negotiations, notably in the TPP negotiations. Upon its initiation, Japan and the United States agreed to exclude sensitive issues such as agricultural products for Japan and automobiles for the U.S. The repeated use of this strategy has led to a low liberalization rate of Japan's FTAs. However, the concluded FTAs still held significant impacts in terms of rule-making in new industries and political and diplomatic competition against rival states. Japan's early agreements with Southeast Asian nations enabled it to counter China's ASEAN+3 proposal by using the concept of ASEAN+6. The subsequent standoff relaxed when Japan, after reaching pre-agreements with the U.S. on crucial exclusions, joined the TPP talks, leading China to soften its stance and resulting in the RCEP. The EU, initially reluctant about an FTA with Japan, shifted its stance and compromised on auto parts tariffs upon seeing the TPP become feasible, leading to the conclusion of an FTA. Despite its low liberalization rate, the political and diplomatic impact of FTAs cannot be overlooked.

⁹¹ Kazutoshi Suzuki, "Political Process..."

At a crucial juncture when the Doha Round negotiations virtually stalled, and with the Japanese economy in relative decline, Japan exerted a significant influence on the global trend toward mega FTAs. Given this, Japan's policy shift, achieved through skillful tactics to manipulate the structure of negotiations, can be regarded as a proactive turn in economic diplomacy, rather than merely liberalizing trade.