
No Longer the 'Reactive State' Japan's New Trade Policy Activism

Aurelia George Mulgan

May 2011



Center for Asian Studies

The Institut français des relations internationales (Ifri) is a research center and a forum for debate on major international political and economic issues.

Headed by Thierry de Montbrial since its founding in 1979, Ifri is a non-governmental and a non-profit organization.

As an independent think tank, Ifri sets its own research agenda, publishing its findings regularly for a global audience.

Using an interdisciplinary approach, Ifri brings together political and economic decision-makers, researchers and internationally renowned experts to animate its debate and research activities.

With offices in Paris and Brussels, Ifri stands out as one of the rare French think tanks to have positioned itself at the very heart of European debate.

*The opinions expressed in this text
are the responsibility of the author alone.*

ISBN: 978-2-86592-883-5
© All rights reserved, Ifri, 2011

IFRI
27, RUE DE LA PROCESSION
75740 PARIS CEDEX 15 – FRANCE
Tel: +33 (0)1 40 61 60 00
Fax: +33 (0)1 40 61 60 60
Email: ifri@ifri.org

IFRI-BRUXELLES
RUE MARIE-THERESE, 21
1000 – BRUXELLES – BELGIQUE
Tel: +32 (0)2 238 51 10
Fax: +32 (0)2 238 51 15
Email: info.bruxelles@ifri.org

WEBSITE: ifri.org

Ifri Center for Asian Studies

Asia is nowadays at the core of major economic, political and security issues. The Centre provides a documented expertise and a platform of discussion on Asian issues through the publication of research papers, partnerships with international think-tanks and the organization of seminars and conferences.

The Fellows publish their research in the Center's two electronic publications: *La lettre du Centre Asie* and *Asie.Visions*, as well as in a range of other academic publications. Through their interventions in the medias and their participation in seminars and conferences, the Fellows contribute to the national and international intellectual debate on Asian issues.

Asie.Visions

Asie.Visions is an electronic collection dedicated to Asia. With contributions by French and international experts, *Asie.Visions* deals with economic, strategic, and political issues. The collection aims to contribute to the global debate and to a better understanding of the regional issues at stake. *Asie.Visions* is published in French and/or in English.

Our latest publications:

Gilles BOQUERAT, "La coopération militaro-industrielle au coeur de la relation indo-russe", *Asie.Visions* 37, April 2011.

Jean-Raphaël CHAPONNIERE, « L'Indonésie face à la montée en puissance économique de la Chine », *Asie.Visions* 36, December 2010.

Takashi TERADA, « Evolution of the Australia-Japan Security Partnership: Toward a Softer Triangle Alliance with the United-States », *Asie.Visions* 35, October 2010.

ZHANG Li, "China-India Relations: Strategic Engagement and Challenges", *Asie.Visions* 34, September 2010.

Gilles BOQUERAT, "Le débat sur la gouvernance fédérale au Pakistan", *Asie.Visions* 33, September 2010.

Hyun-Gon JEONG, Hokyung BANG, « An Analysis of North Korea's Principal Trade Relations », *Asie.Visions* 32, July 2010.

Sunitha RAJU, Jaydeep MUKHERJEE, "Fiscal Deficit, Crowding Out, and the Sustainability of Economic Growth: The Case of the Indian Economy", *Asie.Visions* 31, July 2010.

Executive Summary

In late 2010, the Kan government proclaimed a very ambitious trade agenda, leaving no doubt as to its commitment to free trade. The *Basic Policy on Comprehensive Economic Partnerships* aimed to promote “high-level economic partnerships with major trading powers” and to “open up the country”, including collecting information on the Trans-Pacific Partnership (TPP) and consulting with the parties to it. These developments signalled a new level of Japanese foreign economic policy activism and an important departure from Japan’s typically “reactive state” posture. Far from merely responding to outside pressures, the Kan administration deliberately crafted a proactive free trade strategy to mitigate a range of domestic problems and pressures as well as to deal flexibly and creatively with developments in regional trade and trade diplomacy, to further ensure its resource security and to enhance aspects alliance management.

Multiple factors thus explain the Japanese government’s adoption of a pro-active free trade agenda in late 2010 and early 2011. They encompass, among others: the DPJ’s and government’s policy commitment to free trade as core strategy to ensure economic growth, the desire to avoid the economic costs of remaining outside the TPP and being left behind in the race to sign FTAs, and more immediate policy imperatives for the weakened Kan administration.

The paper also offers an examination of the March triple disaster on the farm sector, given that agriculture remains a major impediment to free trade.

Contents

INTRODUCTION	4
A PRO-ACTIVE TRADE POLICY IN PURSUIT OF FREE TRADE	6
MULTIPLE MOTIVES: FROM POLICY VISION TO POLITICAL OPPORTUNITY	9
A policy vision	9
Pressing reasons to accelerate free trade agreements	13
Immediate political considerations	18
REFORMING AGRICULTURAL POLICY: A CONDITION FOR IMPLEMENTING THE FREE TRADE POLICY	21
THE IMPACT OF THE TRIPLE DISASTER ON TRADE POLICY.....	23
CONCLUSION	25

Introduction

The month of June 2011 was to be a milestone for the Japanese government in terms of two crucial decisions on trade policy: whether Japan would formally join negotiations on the Trans-Pacific Strategic Economic Partnership (TPP), and what domestic agricultural reforms it would propose to facilitate agricultural trade liberalisation. The June date gave the government six months to complete its deliberations on an agricultural reform and assistance package designed to win over farming interests to the prospect of market opening.

In the wake of Japan's triple disaster of 11th March, the government has delayed its decision on joining TPP talks for several months beyond June. Likewise, negotiations between Australia and Japan on a possible Economic Partnership Agreement (EPA),¹ which restarted in February 2011 after a hiatus of 10 months, have been temporarily postponed. Other deliberations are also in limbo. The government has halted meetings of the council established to compile proposals for agricultural reform and adjourned the public fora designed to win support for Japan's participation in the TPP.

This paper reviews the policy commitments made by the administration of Naoto Kan (Democratic Party of Japan-DPJ) in late 2010 and early 2011 to pursue EPAs and to explore the option of joining the TPP. Although previous governments had adopted a more strategic approach to establishing a new regional trading architecture,² the Kan administration's free trade proposals signalled a new level of foreign economic policy activism and thus represent an important departure from Japan's typically "reactive state" posture.³ According to this perspective, Japan routinely adopts a passive, risk-

Aurelia George Mulgan is Professor of Politics at the University of New South Wales, Australian Defence Force Academy. Among her latest books: *Japan's Agricultural Policy Regime* (Routledge Curzon 2006) and *Power and Pork: A Japanese Political Life* (Asia Pacific Press 2006).

All translations of Japanese articles are author translations.

¹ Japan's concept of an Economic Partnership Agreement is broader than a Free Trade Agreement and encompass the free movement of labour, capital and services as well as goods

² See, for example, Japan's proposal for a Comprehensive Economic Partnership in East Asia (CEPEA) in August 2006 and its support for the establishment of a Free Trade Area of the Asia Pacific (FTAAP).

³ Kent Calder was the first to enunciate this concept. See "Japanese Foreign Economic Policy Formation: Explaining the Reactive State", *World Politics*, vol. 40, no. 4, 1988, pp. 517-541.

averse approach to foreign economic policy, which is primarily shaped by external pressures (particularly demands from the United States) rather than domestic imperatives. As this paper will show, far from merely responding to outside pressures, the Kan administration deliberately crafted a pro-active free-trade strategy to mitigate a range of domestic problems and pressures as well as to deal flexibly and creatively with developments in regional trade and trade diplomacy, to further ensure its resource security and to enhance aspects alliance management. The paper thus identifies the multiple factors behind the Kan government's adoption of a pro-active free trade agenda.

The paper's multi-factorial explanation provides empirical support for two contending theories in international political economy: the first arguing that states are inclined to demonstrate foreign economic policy activism towards countries and regions "where significant economic and strategic interests are at stake"⁴ and the second positing that "demand from cohesive domestic interests highly motivated by loss avoidance"⁵ is a trigger for foreign economic policy activism. However, neither theory offers a sufficient explanation for the Kan government's trade policy activism, given the other causal factors also at work.

In the final section, the paper concludes with a brief examination of the implications of the triple disaster in March for Japanese trade policy. In particular, it discusses how the impact of the disaster on the farm sector may feed through into trade policy given that agriculture remains a major impediment to the implementation of a free trade agenda.

⁴ S. N. Katada and M. Solis, "Domestic Sources of Japanese Foreign Policy Activism: Loss Avoidance and Demand Coherence", *International Relations of the Asia-Pacific*, vol. 10, 2010, p. 130.

⁵ *Ibid.*, p. 131. See also Leslie Wehner, "The Free Trade Agreement Negotiations between Japan and Chile: Causes for Reaching a Rapid Agreement", in *Japan aktuell*, June 2007, p. 80, where it states, "the FTA between these countries was motivated by the loss-aversion behaviour of important Japanese domestic groups".

A Pro-Active Trade Policy in Pursuit of Free Trade

In late 2010, the Kan government adopted a very ambitious trade agenda. It mounted a flurry of initiatives leaving no doubt as to the administration's commitment to free trade. The Kan administration's *Basic Policy on Comprehensive Economic Partnerships* (hereafter *Basic Policy*) of 9th November committed the government to promoting so-called "high-level economic partnerships with major trading powers"⁶ and declared its resolution to "open up the country".⁷

The *Basic Policy* commits the government to efforts to conclude ongoing EPA negotiations with Peru and Australia, to resume negotiations with South Korea and to commence negotiations with Mongolia. In addition, it refers to the realisation of regional economic partnerships such as the China-Japan-Korea Free Trade Agreement (FTA), the East Asian Free Trade Agreement (EAFTA), the Free Trade Area of the Asia Pacific (FTAAP) and the Comprehensive Economic Partnership in East Asia (CEPEA). Outside the Asia Pacific, the *Basic Policy* states that the government will "enter into negotiations with the EU at an early date."⁸ Reference is also made to facilitating "ongoing negotiations with the Gulf Cooperation Council (GCC)."⁹ In addition, the *Basic Policy* embraces the principle of making all products subject to trade liberalisation, reviewing tariffs, and where appropriate, considering a shift from border measures to fiscal ones.¹⁰

The *Basic Policy* also commits the Kan government to collecting information on the TPP and to consulting with the parties to it. It states:

Concerning the Trans-Pacific Partnership (TPP) Agreement, the only path to the FTAAP where negotiations have actually begun, it is necessary to act

⁶ *Basic Policy on Comprehensive Economic Partnerships*, November 9th, 2010, Cabinet Decision, p. 1, <http://www.meti.go.jp/english/policy/external_economy/trade/FTA_EPA/pdf/epa_20101109.pdf>, last accessed 2 May 2011.

⁷ *Ibid.*

⁸ *Ibid.*, p. 3,

⁹ *Ibid.*

¹⁰ 'Border measures' are tariffs, while 'fiscal measures' refer to direct income subsidies to compensate farmers for price falls consequent upon agricultural trade liberalisation. See also below.

*through gathering further information, and Japan, while moving expeditiously to improve domestic environment, will commence consultations with the TPP member countries.*¹¹

Immediately prior to the APEC meeting in Yokohama on 13-14 November, Prime Minister Naoto Kan met with European Council President Herman Van Rompuy in Seoul on the sidelines of the Group of 20 Summit and proposed that Japan and the EU hold talks in early 2011 with a view to an EPA. One of the chief stumbling blocks to such an agreement – Japan's regulatory systems – was covered under an assurance to review non-tariff barriers in the *Basic Policy*.¹² This commitment was specifically geared to facilitating an EPA with the EU.

The Australia-Japan EPA, on the other hand, was to be, in some respects, a warm-up for the TPP negotiations in so far as the pro-trade forces in the government, including Minister of State for National Strategy, Genba Kōichirō, judged that if good progress were made in Japan-Australia EPA negotiations, particularly with respect to agricultural trade liberalisation, it would provide a headwind for the discussion about the TPP.¹³

In later statements, the prime minister reaffirmed the trade policy initiatives announced in the *Basic Policy*. In his 2011 New Year message, he stated that one of his three aims was to “make 2011 the base year for launching a 21st-century opening up of Japan”¹⁴, meaning an era of Japanese free trade. He

*pledged to promote discussions on the Trans-Pacific Partnership Agreement and also to press ahead with talks toward economic partnership agreements with the European Union, South Korea and Australia. Japan will 'seek new possibilities in agriculture, forestry and fisheries,' while also promoting free trade.*¹⁵

¹¹ *Ibid.*

¹² It states, “While opening up the country and importing the best management resources in order to enhance its potential for growth, the Government of Japan, with a view to achieving active economic partnerships and eliminating non-tariff barriers, will decide on a concrete plan by March 2011 through the Government Revitalization Unit.” *Ibid.*, pp. 4-5.

¹³ “Nichigō EPA: Kyōgi saikai, TPP e ichirizuka, Nihon, yuzurenai nōgyō hogo” [“The Japan-Australia EPA: Negotiations reopen, First step towards the TPP, Japan cannot compromise on agricultural protection”], *Mainichi Shinbun*, 8 February 2011, <<http://mainichi.jp/life/today/news/20110208ddm008020036000c.html>>, last accessed 20 February 2011.

¹⁴ Prime Minister of Japan and His Cabinet, *Press Conference by Prime Minister Naoto Kan*, 4 January 2011, <http://www.kantei.go.jp/foreign/kan/statement/201101/04nentou_e.html>, last accessed 13 January 2011.

¹⁵ “Kan vows to open up Japanese market in New Year's Message”, *Nikkei.com*, 1 January 2011, <<http://e.nikkei.com/e/ac/TNKS/Nni20101231D3ZJFA12.htm>>, last accessed 13 January 2011.

As he elaborated at the World Economic Forum in Davos in late January,

*in November last year, my government adopted a Basic Policy on Comprehensive Economic Partnerships with a view to actively promoting economic partnerships. With respect to TPP, the Trans-Pacific Partnership Agreement, last year we began consultations with the relevant nations based on this Basic Policy. The Japanese Government will continue to hold consultations with the United States and other relevant nations and will reach a decision on whether to join negotiations by around June this year. We also very much look forward to beginning negotiations this year with the EU, another important trade partner for Japan.*¹⁶

The push to sign EPAs with major agricultural exporters such as Australia and exploration of the TPP option potentially represented a major shift in Japan's agricultural trade posture given the higher level of farm trade liberalisation that would be expected. Japanese FTAs concluded so far with countries such as Mexico, Switzerland and members of ASEAN treat key agricultural products such as rice, wheat, beef, sugar and dairy products as exceptions to trade liberalisation. Moreover, because the Australia-Japan EPA would also be an agreement between two developed countries, the option to offer deals in other areas such as economic and technical cooperation and development aid to compensate for exclusions on agriculture would not be available.¹⁷

¹⁶ Speech by Japanese Prime Minister Naoto Kan Presented at the World Economic Forum, Davos, Switzerland "Opening Japan and Reinventing KIZUNA", January 29, 2011, in *Speeches and Statements by Prime Minister*, Prime Minister of Japan and His Cabinet, <http://www.kantei.go.jp/foreign/kan/statement/201101/29davos_e.html>, last accessed 4 February 2011.

¹⁷ F. Kimura, S. Hisano and K. Itakura, "Nichigō Keizai Renkei Kyōtei no Senryakuteki Jūyōsei to Nihon Keizai e no Eikyō" ["The Strategic Importance of the Japan-Australia EPA and Its Impact on the Japanese Economy"], *Bōeki to Kanzei*, vol. 55, no. 10, October 2007, p. 16.

Multiple Motives: From Policy Vision to Political Opportunity

A policy vision

Integral to government growth policy

The economic stake Japan has in particular states and regions is a crucial determinant of Kan government's free trade activism. The administration's New Growth Strategy of June 2010 committed it to considering "how to pursue economic partnerships with Asian countries and other major countries and regions"¹⁸ and to creating a Free Trade Area of the Asia-Pacific (FTAAP) by 2020 as a way of incorporating Asian growth.¹⁹ In other words, pursuing free trade in Asia is an important element of the government's economic growth strategy.

The *Basic Policy* develops the same narrative, linking Japan's economic growth to deepening "economic relationships with Asian and emerging countries, whose markets are expected to grow, and with Western and resource-rich countries".²⁰ At the cabinet meeting that formally decided the *Basic Policy*, Prime Minister Kan emphasised the importance of trade liberalisation for spurring economic growth. In his view, the policy marked the beginning of a major strategy to create a new prosperity for Japan, one that would "definitely bring benefits".²¹ He also pledged to bring Japan into the TPP, saying the trade liberalisation initiative would help Japan return to a path of robust growth.²²

The Prime Minister subsequently underlined his commitment to trade liberalisation as a factor spurring Japan's economic growth in

¹⁸ *The New Growth Strategy: Blueprint for Revitalizing Japan*, June 18, 2010, p. 26, <<http://www.meti.go.jp/english/policy/economy/growth/report20100618.pdf>>, last accessed 12 February 2011. p. 56.

¹⁹ *Ibid.*, p. 26.

²⁰ *Basic Policy on Comprehensive Economic Partnerships*, *op. cit.*, p. 1.

²¹ "Agriculture weighs on debate over TPP", *Asahi Shimbun*, 8 November 2010, <<http://www.asahi.com/english/TKY201011070130.html>>, last accessed 12 December 2010.

²² "Kan vows to bring Japan into TPP trade pact", *Nikkei.com*, 9 November 2010, <<http://e.nikkei.com/e/ac/TNKS/Nni20101109D09EE315.htm>>, last accessed 12 February 2011.

a number of speeches and statements. In his 2011 New Year message, he observed,

*Currently a significant number of countries around the world have been enjoying ongoing growth and are poised to catch up with and overtake Japan.... At the same time, I consider it necessary now for us to utilize the energy of those countries as the energy of Japan, thereby leading to growth in Japan. To achieve this I will accelerate the liberalization of trade.*²³

Later at the World Economic Forum in Davos, he explained his reasoning that accelerating the drive to open Japan to the rest of the world would act as a catalyst to overcoming its long-term economic stagnation, saying “Free trade is the best way to share prosperity with the world.”²⁴

The April 2011 Joint Statement of the Japanese and Australian governments released when the Australian prime minister visited Japan acknowledged the key link between trade liberalisation and economic growth in both countries. It declared, “The two Prime Ministers recognised that trade and investment liberalisation would be vital to...economic growth in the two countries”.²⁵

These statements implicitly reflect the acceptance by the Kan administration of the economists' creed that trade liberalisation leads to a net gain in economic welfare. More obviously, they reflect the consensus amongst Japanese business organisations and mass media that it is imperative to harness the forces of trade liberalisation to breathe new life into Japan's moribund economy. Former chairman of the Japan Association of Corporate Executives (JACE), Sakurai Masamitsu, described the country's growth strategy as “Opening up the country and then welcoming demand from Asia and the world's growth markets”.²⁶

The government mounted similar arguments to support Japan's entry into the TPP. National Strategy Minister Genba remarked,

Today Japan requires a strategy that will allow it to incorporate the demand arising from the enormous population of the Asian market, which numbers around 3.5 billion, as well as the broader Asia-Pacific market,

²³ *Press Conference by Prime Minister Naoto Kan, op.cit.*

²⁴ *Speech by Japanese Prime Minister Naoto Kan, op.cit.*

²⁵ *Joint Statement by the Prime Ministers of Japan and Australia*, in *Speeches and Statements by Prime Minister, Prime Minister of Japan and His Cabinet*, 21 April 2011, p. 3, <http://www.kantei.go.jp/foreign/kan/statement/201104/21australia_e.html>, last accessed 18 April 2011.

²⁶ “Joining TPP now holds key to Japan's growth: Business chief”, *Nikkei.com*, 4 November 2010, <<http://e.nikkei.com/e/ac/TNKS/Nni20101103D03JFA01.htm>>, last accessed 4 April 2011.

with some 4 billion people, as one part of what might be called its own domestic demand.²⁷

At a debate forum on the TPP in February, he reiterated that “[an] extremely important vehicle to ensure Japan’s economic growth is free trade agreements. Japanese people should once again look overseas’...adding that it is essential for the country to incorporate the energy of Asian countries to seek growth on its own.”²⁸ Even the DPJ in its recommendations to the cabinet regarding Japan’s participation in the TPP noted that “entry into the TPP would enable Japan to ‘tap the Asia-Pacific region’s growth and use it as a catalyst to revitalize its own economy.’”²⁹ As Endō argues, “[for] Japan where population decline is a serious problem, the TPP could be used as a trade infrastructure with Asia where growth is remarkable, and is a necessary condition for regaining economic competitiveness.”³⁰

These arguments also reflect Japan’s growing reliance on trade with Asia. Trade statistics for 2010 released by the Finance Ministry in January 2011 reveal that Japan’s total exports and imports with the rest of Asia now account for 51% of its total trade, marking the first time in recent/modern history that trade with Asia has exceeded 50% of Japan’s total trade volume. Japan’s leading trading partner is China, but Japanese companies are also heavily investing overseas, using Asia as a base for exporting to countries outside the region. They are targeting countries with FTAs such as Thailand and India, spurred on by the steep appreciation in the yen.

The overseas investment strategies of Japanese companies have implications for employment and economic growth in Japan. Manufacturing is the backbone of Japan’s economy and employs 11 million people. The production of cars and electronics in particular is worth about ¥100 trillion (approximately 8,3 billion euros), with more than 60% exported.³¹ A further deterioration in the competitive conditions for domestic production would impact even more severely on domestic jobs, which has been a high priority for the Kan

²⁷ K. Gemba, “Free Trade Agreements: An Urgent Part of Japan’s Agenda”, *Japan Echo Web*, no. 4, December 2010-January 2011, <<http://www.japanechoweb.jp/diplomacy-politics/jew0414>>, last accessed 18 April 2011.

²⁸ “Govt kicks off debate forums to win public backing on trade policy”, *Nikkei.com*, 26 February 2011, <<http://e.nikkei.com/e/ac/tnks/Nni20110226D26JF918.htm>>, last accessed 3 March 2011.

²⁹ “DPJ wants ‘information gathering’ before joining Pacific FTA talks”, *Nikkei.com*, 5 November 2010, <<http://e.nikkei.com/e/ac/TNKS/Nni20101104D0rJFA20.htm>>, last accessed 8 February 2011.

³⁰ N. Endō, “TPP wa kiki de wa naku kōki, Nōkyō no gyakushū ni sukumu Kan seiken” [“The TPP is not a crisis but a golden opportunity, The Kan administration that flinches from the agricultural cooperatives’ counterattack”], *Diamond Online*, no. 125, 15 November 2010, <<http://diamond.jp/articles/-/10068>>, last accessed 2 May 2011.

³¹ “Japan manufacturers, economy need TPP”, *Nikkei.com*, 9 November 2010, <<http://e.nikkei.com/e/ac/TNKS/Nni20101109D09HH286.htm>>, last accessed 21 January 2011.

government. Its growth policy places a key focus on job creation as a means of revitalising the Japanese economy.³²

The need for trade liberalisation to spur economic growth was also accepted by previous LDP governments during both the Abe and Fukuda administrations, which emphasised the importance of making progress in EPA negotiations with other countries in East Asia in order to bolster economic growth in Japan by drawing in overseas demand for goods and services.³³

A grand policy vision

Prime Minister Kan bestowed the lofty title of “Heisei opening of Japan” (*Heisei no kaikoku*) on his trade policy, likening the issue of liberalising trade to the third opening of Japan following the Meiji restoration of 1868, when Japan began its modernisation by adopting Western ideas, and after its defeat in WWII, when it followed the path of democracy and a free economy. The “third opening” would consist of Japan forging EPAs with more countries.

Prime Minister Kan also reiterated his desire for *Heisei no kaikoku*, when expressing a strong desire to see Japan join the TPP in late October 2010. His aim was to spell out his government’s intention to begin TPP talks with other countries as part of the drafting process of the *Basic Policy* in early November. The prime minister later revisited the themes of opening up the country in his speech at Davos, saying, “This spirit of opening up the nation is now called for in Japan. With this belief, this year, I have set ‘the Third Opening of Japan’ as a grand objective.”³⁴

From manifesto to mandate

The Kan government’s commitment to free trade was not an unheralded policy departure for the Democratic Party of Japan (DPJ), which came to power for the first time in August 2009. Successive DPJ election manifestoes promised that a DPJ government would pursue the cause of free trade, through both the World Trade

³² “Editorial: Pacific Rim trade pact”, *Asahi Shimbun*, 9 November 2010, <<http://www.asahi.com/english/TKY201011080252.html>>, last accessed 26 February 2011.

³³ The biggest contrast in economic thinking lies between the Abe, Fukuda and Kan administrations on the one hand and the Koizumi administration on the other. The Koizumi administration saw structural reform of the domestic economy as the key to economic growth, and trade liberalisation as an important trigger for structural reform (including in the agricultural sector). In this perspective, trade agreements become an instrument of domestic reform reflecting a neo-liberal approach, which reasons that liberalisation would force domestic agricultural producers to become more efficient in order to compete with imports. See A. George Mulgan, “Where Tradition Meets Change: Japan’s Agricultural Politics in Transition”, *Journal of Japanese Studies*, vol. 31, no. 2, Summer 2005, pp. 261-298; and N. Munakata, “How Trade Agreements Can Reform Japan”, *The Globalist*, 10 July 2002, <http://www.brookings.edu/views/articles/fellows/munakata_20020710.htm>, last accessed 28 April 2011.

³⁴ Speech by Japanese Prime Minister Naoto Kan, *op cit*.

Organization (WTO) and Free Trade Agreements (FTAs/EPAs). The 2007 manifesto declared:

*The Democratic Party of Japan will work toward maintaining and expanding domestic agricultural output while moving forward on World Trade Organization (WTO) negotiations for trade liberalization and promoting the conclusion of free trade agreements (FTAs) with individual countries.*³⁵

The 2009 manifesto elaborates this commitment, promising to,

*Promote liberalization of trade and investment through the conclusion of a free trade agreement (FTA) with the United States.....Take positive measures to promote the conclusion of economic partnership agreements (EPAs) and free trade agreements (FTAs) with countries of the Asia-Pacific region, as well as countries through the world, covering a broad range of fields including investment, labour and intellectual property....Promote liberalisation of trade and investment, in particular by exercising leadership toward the successful conclusion of World Trade Organization (WTO) negotiations through such means as improvement of the dispute settlement system and a fundamental review of agricultural and other policies.*³⁶

Given these election promises, the Kan government could arguably claim a mandate to promote a pro-active free trade agenda. Moreover, the policy consequences flowing from these manifesto commitments suggest that positive trade initiatives vis-à-vis countries of strategic and economic importance (in this case, the United States and countries of the Asia-Pacific region) can be shaped by electoral exigencies and the need for opposition parties to define a distinct and contrasting policy profile from incumbent governments.

Pressing reasons to accelerate free trade agreements

Playing catch-up

The Kan administration's free trade posture was also a strategic response to trade developments around the region, particularly the expansion of FTAs affecting Japan's important markets and major competitors. In particular, the Kan administration was concerned that Japan would be left behind at a time when South Korea and China

³⁵ *Manifesto, The Democratic Party of Japan's Platform for Government*, July 2007, pp. 31-32, <<http://www.dpj.or.jp/english/manifesto/manifesto2007.html>>, last accessed 31 January 2011.

³⁶ *2009 Change of Government, The Democratic Party of Japan's Platform for Government*, August 2009, pp. 28, 29 <<http://www.dpj.or.jp/english/manifesto/manifesto2009.html>>, last accessed 31 January 2011.

were aggressively signing FTAs. Moreover, if Japan were left out of the TPP, it would mean that an exclusive Asia-Pacific free trade zone would be formed without Japanese participation, handicapping Japan as it fought for a share of that growing market. If China also joined the TPP, only Japan would be left out among the major powers on the Pacific Rim. A new urgency was added to this line of thinking by the slippage in Japan's global economic status as it ceded the rank of "second largest economy in the world" to China.

The *Basic Policy* cites as part of the case for pursuing trade liberalisation agreements the fact that "networks of high-level EPA/FTAs formed by major trading countries are expanding. Despite these developments, Japan is falling behind."³⁷ As Makabe observes,

*While the domestic discussion strays off course, the global trend toward trade liberalisation continues. Missing this chance might mean that Japan is left with an ongoing handicap, effectively dealing itself out of the game. Japan is already falling behind....As a result, Japan could drop from the ranks of leading economies....Considering the Japanese economy as a whole, it is obvious that missing the "free trade bus" is not an advisable plan. It could speed up the decline of the Japanese economy.*³⁸

The lack of a level playing field in the competition for exports has also weighed heavily on Japanese manufacturing companies. They face increasingly tough competition from China, which has beaten Japan in the race to sign an FTA with ASEAN and which is involved in free trade talks with South Korea.³⁹ They must also cope with the challenge of rapid South Korean trade liberalisation, which is threatening to give South Korean manufacturers a competitive edge over their Japanese counterparts in key markets. Of particular concern is the prospect of more severe competition in sectors such as autos and electronics, which are core industries in both countries. When South Korea signed an FTA with Chile in 2004, for example, South Korean carmakers surpassed their Japanese counterparts for the first time in terms of numbers of cars exported to Chile. It was only when the Japan-Chile EPA took effect in 2007 that Japanese carmakers regained their prime position.

In particular, the FTA between South Korea and the EU has reminded Japanese exporters of the inherent risk that FTAs raise the costs of not being involved in FTA networks.⁴⁰ The EU-South Korea

³⁷ *Basic Policy on Comprehensive Economic Partnerships, op. cit.*, p. 1.

³⁸ A. Makabe, "Kari ni TPP ga nagarete" ["For the moment, the TPP is going on"], in *Diamond Online*, no. 153, 16 November 2010, <<http://diamond.jp/articles/-/10090>>, last accessed 2 May 2011.

³⁹ In May 2010, South Korea and China completed their joint study on FTAs involving business, academic and government representatives from both countries, and increasing momentum is expected in official talks between the two countries in 2011.

⁴⁰ R. Namikawa, "Jiyūbōeki Kōtei no Dōkō to Nōgyō Seisaku - Nōgyō no Rinri to Kōgyō no Ronri" ["Trends in FTAs and Their Impact on Agricultural Policy - The Logic

FTA takes effect in July 2011, enabling Korean carmakers to enjoy duty-free shipments of passenger cars to Europe, compared with Japanese car manufacturers who will have to pay the 10% tariff. Another development of concern is the pending South Korea-US FTA. This will penalise Japanese-made flat-screen TVs with a 5% tariff and Japanese cars with a 2.5% tariff, whereas South Korean manufacturers will benefit from duty-free access. An even “wider competitiveness gap” will be created by the strong yen, compounding tariff disadvantages.⁴¹

The 11 EPAs that Japan has signed since 2002 account for just 16% of its total trade. By comparison, when the agreements with the EU and United States take effect, South Korea will have 36% of its trade covered by FTAs, giving its exports a decisive competitive advantage over Japan.⁴² With South Korea also prospectively signing an FTA with China, it will be out in front of Japan in each of these three markets. China, the United States and EU in that order are Japan's top-three markets, taking nearly 50% of Japanese exports.

Not surprisingly, business has voiced strong concerns about Japan's lagging behind in the FTA race, and sees participation in the TPP as a means to leap frog over rivals in South Korea and China. Fearful of being “disadvantaged by discriminatory arrangements”,⁴³ it has strongly supported the Kan administration's pro-active trade policy agenda with a vigorous public campaign in support of the *Basic Policy*, including Japan's joining the TPP.

Security considerations

Security concerns, including those relating to resource security, have also helped to shape the Kan government's pro-active free trade posture. The resource security dimension is particularly salient in the case of a Japan-Australia EPA.⁴⁴ Japan relies on Australia not only for a substantial percentage of its imported food but is very dependent on Australia for crucial supplies of iron ore, coal and natural gas. Indeed, Australia is Japan's largest supplier of energy goods. Australia is also a major alternative supplier of rare earths for

of Agriculture vs. The Logic of Manufacturing”], *Nihon Shokuhin Kakō Gakkaishi*, vol. 6, no. 2, June 2005, p. 5.

⁴¹ “Kan vows to ‘open up’ Japan, In pushing for trade liberalization, PM riles farmers by signalling interest in U.S-led TPP”, *Nikkei Weekly*, 15 November 2010, <<http://e.nikkei.com/e/ac/20101115/TNW/Nni20101115FESTOP01.htm>>, last accessed 31 March 2011.

⁴² Y. Ota, “Opinion: Japan's last shot at resurgence”, *Nikkei.com*, 3 November 2010, <<http://e.nikkei.com/e/ac/TNKS/Nni20101103D02JFF01.htm>>, last accessed 10 March 2011.

⁴³ J. Ravenhill, “Whither Australian Trade Policy?”, in L. Elliott *et. al.*, *Australian Foreign Policy Futures: Making Middle-Power Leadership Work*, Canberra, Department of International Relations, College of Asia and the Pacific, Australian National University, 2008, p. 32.

⁴⁴ See A. George Mulgan, “Where Foreign Policy Meets Agricultural Trade Policy: The Australia-Japan FTA”, *Japanese Studies*, vol. 28, no. 1, May 2008, pp. 31-44.

Japan in lieu of imports from China. Therefore, the bilateral relationship with Australia is critical for Japan's economic security.

The Kan administration's commitment to full-scale EPA negotiations with Mongolia in early 2011 was similarly driven by resource security considerations, given that country's deposits of rare-earth metals and uranium, and Japan's desire to reduce its dependence on China for rare earths. The end of 2012 has been set as a goal for achieving an EPA with Mongolia.

Traditional foreign and security policy concerns also underlie the push to sign EPAs with both Australia and India. Japan's EPA with India, which was officially agreed in October 2010, has followed the expansion of closer defence ties. The negotiations on an EPA with Australia have followed a similar pattern, with both India and Australia having already signed Joint Declarations on Security Cooperation (and Action Plans for their implementation) with Japan. The Kan government has become more eager to strengthen ties with India in the wake of the territorial dispute with China over the Senkaku Islands in the East China Sea, which flared up in August 2010 and which underlined Japan's vulnerability to interruptions in the supply of strategic resources, such as rare earths. Japan and India also agreed to promote the joint development of rare-earth metals.

Given that deeper economic ties may serve to strengthen security relations, the TPP may also be seen to have a security dimension. The Kan government is aiming to build stronger links with the United States and US allies, many of whom are in the TPP. In this context, consideration of the TPP option should be seen as one facet of Japan's China policy and as part of a broader strategic move to counterbalance China's growing influence in East Asia.⁴⁵ Not only would participation help to reduce Japan's growing trade dependence on China, but "the multilateral trade arrangement includes Australia, Vietnam, and other countries that keep a certain distance from China."⁴⁶ Prime Minister Kan's announcement that the government would consider joining the TPP was regarded in some circles as "a veiled attempt to check Chinese influence on Japanese economic security".⁴⁷

Moreover, the TPP would help to neutralise China's strategy of exercising sway over Asia through the ASEAN+3 (China, Japan and South Korea), which is its preferred option for a regional trade architecture. If Japan joined the TPP with the United States as a key partner, it might have the effect of drawing China in as well, which

⁴⁵ I. Hirata, "TPP talks test Japan's resolve on food security, other farm issues", *Nikkei Weekly*, 8 November 2010, <<http://e.nikkei.com/e/ac/20101108/TNW/Nni20101108OP4HIRAT.htm>>, last accessed 4 April 2011.

⁴⁶ "Kan faces bumps on road to trade pacts", *Nikkei.com*, 20 October 2010, <<http://e.nikkei.com/e/ac/TNKS/Nni20101020D19JFA25.htm>>, last accessed 2 May 2011.

⁴⁷ *Ibid.*

would reduce China's influence over the rest of Asia and improve access to the Chinese market.⁴⁸ Japan could also use the bloc as leverage against China, in particular demanding reform from China in the area of intellectual property protection.

The US factor

The many-stranded bilateral Japan-US relationship has been another factor in the Kan government's trade calculus. The administration has been mindful of the need to improve ties with Washington in light of the deterioration in relations over the relocation of the US Futenma base in Okinawa. By demonstrating willingness to join the TPP, the Kan administration was hoping to appease the United States over the base issue.

While not subjecting Japan to overt external pressure (*gaiatsu*) to join the TPP, the Office of the US Trade Representative (USTR) has positively encouraged the Japanese side to come on board. In November 2009, when visiting Japan, President Obama announced that the United States would join the TPP, prompting a comment from one of Kan's senior policy aides that Washington "surely expects Japan to participate as well."⁴⁹

If Japan joined the TPP, it would be tantamount to signing an FTA with the United States. For Japanese carmakers and other companies exporting to the United States, the TPP holds the prospect of access to a tariff-free market, with an estimated 2.4% increase in car sales and a 1.6% rise in electronic sales annually.⁵⁰

In the context of TPP negotiations, the Japanese side could expect heavy pressure from the United States to open specific markets, given the effectiveness of past *gaiatsu* on market access issues.⁵¹ In fact, the United States has made it clear that their TPP goals "exceed" those of past FTAs,⁵² and potentially amount to what has been called "*an extreme Japan-US FTA*".⁵³ For example,

⁴⁸ A. Nakayama, "TPP throws Japan into hot debate", *Nikkei Weekly*, 15 November 2010, < <http://e.nikkei.com/e/ac/20101115/TNW/Nni20101115FR5TPP01.htm>>, last accessed 17 May 2011.

⁴⁹ "Cheap rice hurts Kan's free trade push", *Asahi Shimbun*, 15 October 2010, <<http://www.asahi.com/english/TKY201010140285.html>>, last accessed 2 May 2011.

⁵⁰ "TPP boils down to Japan-U.S. free trade pact", *Nikkei.com*, 10 November 2010, <<http://e.nikkei.com/e/ac/TNKS/Nni20101110D09JFA2e.htm>>, last accessed 23 February 2011.

⁵¹ A. George Mulgan, "The Role of Foreign Pressure (*Gaiatsu*) in Japan's Agricultural Trade Liberalization", *The Pacific Review*, vol. 10, no. 2, 1997, pp. 165-209.

⁵² "TPP talks bring Japan to economic crossroads", *Nikkei.com*, 19 January 2011, <<http://e.nikkei.com/e/ac/TNKS/Nni20110119D19HH240.htm>>, last accessed 26 February 2011.

⁵³ T. Mitsuhashi, "Kōzu 'seizōgyō vs. nōgyō' no mekuramashi kōka: Mondai wa '24 bun no 2' ni waishōka nokori 22 kōmoku no giron o kiita koto ga aruka" ["The trivialising effect of the 'manufacturing industry vs agriculture' construct: With the issues concentrated in 2 of the 24 [negotiation working groups], have you heard about the discussions of the other 22 [groups]?"] *Nikkei Business Online*, 7 March

information leaked from the 5th round of negotiations amongst existing and prospective TPP members in Chile in February 2011 suggests that the United States is proposing to include all items without exception on their list of liberalisation of trade in goods.⁵⁴

On agriculture, the United States wants an end to Japan's age-restrictions on beef imports. It also seeks access to Japan's markets for financial and insurance services, and possibly for postal services. The latter has been made more difficult owing to the pending bill reversing the privatisation of postal services, which raises the spectre of unfair competition posed by the government-backed Japan Post Holdings Co.⁵⁵ As Mitsuhashi points out, as part of its interest in getting Japan to join the TPP, United States wants the abolition of Japanese non-tariff barriers for the benefit of US domestic employment. That is, the United States wants Japanese deregulation.⁵⁶ This would amount to *gaiatsu* for Japanese structural reform, reminiscent of the Japan-US Structural Impediments Initiative of 1989, the 1993 Japan-United States Framework for a New Economic Partnership and subsequent to that, the US-Japan Regulatory Reform and Competition Policy Initiative.⁵⁷ The United States is also trying to make liberalisation of investment part of an expanded TPP and has its eye on participating in the Japanese government's procurement market.⁵⁸

Immediate political considerations

Kan's political travails

A political survival strategy also propelled the Kan administration's foreign economic policy activism at a time of great political travail and uncertainty. In late 2010, Prime Minister Kan was in dire need of a fresh policy initiative to demonstrate his capacity as leader, shore up his political fortunes and break the psychological and political deadlock presented by the stalemate between pro- and anti-Kan forces in the DPJ and pro-DPJ and anti-DPJ forces in the Diet.

The *Basic Policy* and associated policy commitments had all the hallmarks of a major policy enterprise crafted for popular

2011, <<http://business.nikkeibp.co.jp/article/topics/20110303/218708/?P=1&ST=money&rt=ocnt>>, last accessed 4 April 2011.

⁵⁴ S. Hattori, "TPP Kōshō 'Buppin Jiyūka': Reigai no Yochi Nashi 'Buppin igai' no Bunya: Amerika wa Jikoku no Rigai/Ito o Zenmen ni Dasu" ["The TPP Negotiations: 'Liberalisation of the trade in Goods': No Exceptions to be Admitted, in Areas 'Other Than Goods': The United States Will Put Their Own Interests and Intentions Forward"], *Nōsei Undō Jyōnanaru*, no. 96, April 2011, p. 10.

⁵⁵ "Agriculture, postal ops, immigration still hurdles", *Nikkei Weekly*, 8 November 2010, <<http://e.nikkei.com/e/ac/20101108/TNW/Nni20101108FE4TPP05.htm>>, last accessed 3 April 2011.

⁵⁶ Mitsuhashi, *op cit*.

⁵⁷ *Ibid.*

⁵⁸ *Ibid.*

consumption. In short, they served an important political as well as policy purpose. As a “grand vision” or “grand project” impacting on the future of the country, the prime minister was preparing the ground for surviving the parliamentary session that would take his administration through to June 2011 and beyond. The political value of the government’s pro-active free trade agenda could be seen in the sloganeering accompanying the announcement of the *Basic Policy*, particularly Prime Minister Kan’s pet mantra of *Heisei no kaikoku*.

The Ichirō Ozawa factor was also weighing heavily on Kan at the time, especially after the bruising battle with his main political rival in the 14th September DPJ leadership election. It was soon after Kan’s re-election as party president and prime minister in mid-September that he first declared that he would aim for *Heisei no kaikoku*. Then in his 1st October policy speech he abruptly announced that Japan would consider joining the TPP.

Demonstrating trade policy leadership through “host diplomacy”

The timing of the *Basic Policy*’s announcement on 9th November was crucial to the Prime Minister’s desire to demonstrate trade policy leadership at the meeting of the Asia-Pacific Economic Cooperation (APEC) forum scheduled to be held in Yokohama on 13-14th November. On 8th October 2010, Prime Minister Kan instructed relevant ministers to draw up a basic policy on forming comprehensive economic partnerships prior to the Yokohama summit, which was due to discuss how to form a region-wide free-trade area.. This preparatory process culminated in the *Basic Policy*, which was thus timed to provide a major new policy initiative for the APEC meeting, enabling the prime minister to display “host diplomacy” by signalling to the Asia-Pacific community the strength and sincerity of the Japanese government’s commitment to pursuing trade liberalisation. In Kan’s view, “As the chairman of the APEC meeting, my responsibility is to promote free trade, which will enable the region to enjoy sustainable growth and reduce the income gap to the extent we can”.⁵⁹ He declared that his government would “discuss participation in the TPP negotiations with the countries concerned”⁶⁰ and revealed publicly his intentions regarding individual EPAs with Australia and the EU.

⁵⁹ Y. Hayashi, “WSJ: Kan launches Japan free-trade push”, *Nikkei.com*, 8 November 2010, <<http://e.nikkei.com/e/ac/TNKS/Nni20101109D29HH268.htm>>, last accessed 4 April 2011.

⁶⁰ K. Yamashita, “Beikan FTA ketchaku ga Nihon ni semaru hassō no tenkan. TPP wa nōgyō no hakaishin ni arazu, kyūseishu Minshutō • Kobetsu shotoku hoshō no sekkei misu o tadasu kōki da” [“The US-Korea FTA pressures Japan to switch its approach. The TPP is not a destructive God but a savior for agriculture. A good opportunity to correct a design fault in the DPJ’s individual household income support”, *Diamond Online*, no. 19, 6 December 2010, <<http://diamond.jp/articles/-/10335>>, last accessed 23 March 2011.

In proclaiming the trade policy undertakings made in the *Basic Policy*, the Prime Minister was adopting a pro-active position on trade liberalisation. In the past,

Japan's significant diplomatic decisions have only been made under pressure of necessity. It has made decisions whether to accept a deal or not only when it has been cornered at the last moment. At the time of the GATT Uruguay Round negotiations...it was really at the last minute, the day before the negotiation deadline, that Japan decided to accept the content of the agreement, including the partial liberalisation of the rice market. Even though Japan is not yet cornered at the present time, the Prime Minister himself has been on the front foot with his remarks on the international stage.⁶¹

Indeed, far from being pushed into a corner by other negotiating parties or responding to pressure from other states, Prime Minister Kan's pro-active trade liberalisation stance at APEC declared to an international audience a series of important policy commitments that represented a notable departure from the status quo and an important break with Japan's usual "reactive state" behaviour.

⁶¹ *Ibid.*

Reforming Agricultural Policy: A Condition for Implementing the Free Trade Policy

The Kan administration's agricultural reform plans focused on measures to boost agriculture's competitiveness by consolidating farmland, relaxing restrictions on corporate entry into agriculture and expanding farm exports. This was in line with the *Basic Policy's* emphasis on the importance of fostering a stronger and more sustainable agriculture to prepare the ground for market opening.

However, the government was proposing on-going government intervention to support agriculture in order to facilitate trade liberalisation agreements. In particular it envisaged the construction of a comprehensive safety net of direct income subsidies to protect all farms (including small-scale, inefficient farms, which are in a majority) from the downside of increased market access. Income compensation would protect farmers from price falls when agricultural tariffs were removed.

In Kan's mind, the safety net was an integral aspect of opening up the country. As he stated at a meeting of cabinet ministers involved in FTA policy, "It is essential to prepare substantial safety nets in various areas, including agriculture, in opening up our country".⁶² This safety net would impede structural reform of agriculture, although it would make agricultural trade liberalisation more politically feasible.

Moreover, domestic reforms would have to be carried out first, before substantial agricultural trade liberalisation could be contemplated. For example, the commitment to promoting EPAs in the *Basic Policy* was accompanied by the simultaneous commitment to "first press ahead with fundamental domestic reforms in order to strengthen the competitiveness it will need for economic partnerships of this kind...the Government of Japan...will first promote appropriate domestic reforms with respect to areas of the agricultural industry" (emphasis added).⁶³ What this meant in practice was that there would be no comprehensive market opening in Japan before agriculture was

⁶² M. Tanaka, "Farmers take Japan's place at TPP bargaining table", *Japan Times*, 7 November 2010, <<http://search.japantimes.co.jp/cgi-bin/nn20101107x3.html>>, last accessed 3 April 2011.

⁶³ *Basic Policy on Comprehensive Economic Partnerships*, *op. cit.*, pp. 1, 3.

sufficiently competitive to withstand it. The envisaged reforms might take 5-10 years to bear fruit, making it imperative to slow down the pace of tariff reduction so that it did not leave non-competitive farms exposed.

There was, therefore, a disjunction in the timing between the two processes: signing trade agreements was on the government's immediate policy agenda, whereas agricultural reform, including the long-awaited structural adjustment of the farm sector, would be a gradual, government-guided process. As MAFF (Ministry of Agriculture, Forestry and Fisheries) Minister Kano Michihiko said in September 2010, "We should designate the next 10 years or so as a transition period and move in a direction that will enhance farmers' productivity."⁶⁴ In particular, the TPP was moving too fast for Japan's snail-paced agricultural reform.

This approach to agricultural trade liberalisation affects the Kan administration's ability to embrace EPAs and the TPP. It is conceived as a "balanced" process, with Prime Minister Kan offering the reassurance, "As Japanese prime minister, my important mission is to achieve a balance between reform of the domestic agriculture sector and further liberalization of trade".⁶⁵

However, if the opening of Japan's agricultural market were tied to domestic reform, it would retard the pace of trade liberalisation considerably. Government-led agricultural reform is notoriously incremental, and subject to both budgetary and political constraints. Constrained in this way, the Kan government's pro-active policy on free trade might end up merely as a statement of rhetorical goals combined with minimalist concessions at the negotiating table in practice.

⁶⁴ "Farm subsidies should aim for greater productivity", *Nikkei.com*, 22 September 2010, <<http://e.nikkei.com/e/ac/TNKS/Nni20100922D21JFA01.htm>>, last accessed 10 December 2010.

⁶⁵ Y. Hayashi, "WSJ: Kan launches Japan free-trade push", *Nikkei.com*, 8 November 2010, <<http://e.nikkei.com/e/ac/TNKS/Nni20101109D29HH268.htm>>.

The Impact of the Triple Disaster on Trade Policy

The triple disaster of 11th March has made trade concessions on agriculture extremely unlikely in the short term, thus retarding the government's trade goals further. Japan's agricultural sector has sustained serious damage, and this indirectly impacts on the government's trade policy in several ways. Firstly, the government is in no position to challenge entrenched interests in the agricultural sector, which have limited agricultural trade concessions in the past, when it has its hands full with more pressing issues of disaster relief and reconstruction. Trade liberalisation predicated on economic reform will, therefore, inevitably take a back seat in such a policy environment.

Secondly, the farmers in the affected areas will be looking to government rescue packages and measures to ease their losses and to allow them to get back to producing and marketing their produce. To impose any kind of an EPA on farmers looking to recovery and rehabilitation measures would be like adding insult to injury. Although some in the Kan administration are seeking to use agricultural reconstruction as an opportunity to encourage large-scale farming, the emphasis will inevitably be on assistance to the farm sector, not on reforming it. There are widespread perceptions that EPAs with major agricultural producers such as Australia and Japan's participation in the TPP entailing increased market access for US agricultural exports, would come at great cost to Japanese agriculture. This argument would carry a great deal more weight in the present circumstances than previously. Trade policy, particularly a free trade policy would become an even more politically charged issue in this environment. It would be too great a political risk for Kan's administration to broach such initiatives at this time.

Thirdly, it is possible that income subsidies to farmers may be cut back owing to changed fiscal circumstances. They may be revised or frozen as part of the reordering of the government's fiscal priorities and the search for budgetary savings in less essential areas. As direct income subsidies for farmers were the government's safety net to facilitate agricultural market opening, they represented a vital support to the government's free trade policy. Hence, any fiscal squeeze will indirectly undermine moves to liberalise trade by diverting government funds into reconstruction and revival projects.

Fourthly, one of the big selling points of the government's interlinking of agricultural reform with free trade agreements was the prospect of increased agricultural exports. However, a number of countries have either banned or are restricting food imports from Japan, including major export markets such as China and South Korea, and the likelihood is that Japanese agricultural exports will be viewed internationally as carrying increased risk of radioactive contamination. In these circumstances, the argument that agricultural reform would lead to greater food exports no longer applies.

Fifthly, the food security argument as a justification for maintaining high levels of agricultural protection will again arise in the wake of the current disasters, which has reminded the Japanese of the importance of food.⁶⁶ This is not because Japan is suffering a major production deficit (there is an ample supply of rice, for example), but because the triple disasters precipitated a distribution crisis, with food disappearing off the shelves of many stores. A food crisis may occur in Japan where, even though the public has sufficient funds to buy provisions, food becomes unobtainable in shops because of a breakdown in logistics.⁶⁷ This possibility will reawake in the minds of the Japanese public a sense of how domestic or international disasters of one kind or another can disrupt vital food supplies. In the event of critical interruptions in food imports Japan cannot feed itself.⁶⁸ An emphasis on restoring agricultural production in devastated areas will, therefore, be prominent in government agricultural policy.

⁶⁶ K. Yamashita, "Shokuryō kiki wa 'sōteigai' ka -- Shinsai ato no butsurū tozetsu ga shimeshita Nihon no jyakuten to nōsei kaikaku no matta na shi" ["Is a food crisis 'beyond imagining'? The breakdown in the distribution of goods after the earthquake has shown Japan's weak points and the inevitability of agricultural reform"], *Diamond Online*, no. 20, 13 April 2011, <<http://diamond.jp/articles/-/11848>>, last accessed 28 April 2011.

⁶⁷ *Ibid.*

⁶⁸ *Ibid.*

Conclusion

This paper has identified a number of causal factors at work in the Japanese government's adoption of a pro-active free trade agenda in late 2010 and early 2011. They encompass:

- the connection in the government's mind between harnessing growth in Asia through free trade and Japan's own economic growth
- Prime Minister Kan's grand policy vision incorporating the central idea of a "third opening of Japan"
- the DPJ's earlier commitment to free trade in election manifestoes
- the government's desire to avoid the economic costs of remaining outside the TPP and being left behind in the race to sign FTAs by key regional actors
- the strong push from Japanese business to level the competitive playing field and to maintain its share of important overseas markets
- security considerations, including those relating to resource security concerns and traditional security interests
- factors relating to management of the alliance with the United States and prospective trade negotiations on the TPP
- the domestic political imperative for Prime Minister Kan to rescue his administration at a time of great political uncertainty and instability
- Prime Minister Kan's motivation to conduct host diplomacy at APEC by taking the initiative on trade liberalisation.

In short, no single-factor explanation can adequately account for the Kan administration's trade policy. Many factors precipitated the government's adoption of a free trade agenda. Moreover, the pro-

active nature of this agenda represented a notable departure from Japan's customary 'reactive state' posture, reflecting a new level of foreign economic policy activism. Far from acting under duress from other states, the Kan administration assumed a pro-active trade policy stance, seeking to advance trade liberalisation in both bilateral and multilateral contexts.

Japan is currently experiencing a short- to medium-term hiatus in trade policy-making. It is not precisely known when the government will design a new trade policy and whether it will evince the same level of commitment to free trade. In the meantime, government has re-opened discussions on its New Growth Strategy with a view to redesigning five strategic areas, one of which is the TPP.

At a minimum Prime Minister Kan has reaffirmed his government's pledge to conclude a bilateral FTA with Australia and to resume talks between the two countries at the earliest possible opportunity. The Joint Statement by the Prime Ministers of Japan and Australia formally avowed that the "two countries would conduct further negotiations leading to a conclusion of a comprehensive and mutually beneficial bilateral FTA/EPA".⁶⁹ The Prime Minister has also expressed his willingness to enter talks with the EU on a possible trade pact. These statements are indicative of basic continuity in the Kan administration's trade policy directions.

In some respects, the triple disaster makes Japan's free trade efforts all the more urgent, particularly if Japan is to have a constructive input into the discussions on tariff levels and trade rules governing the TPP. As Chief Cabinet Secretary Edano Yukio acknowledges, "The global march toward free trade will not wait for Japan to recover from the quake".⁷⁰ The informal deadline is November 2011, given that the nine countries participating in the TPP negotiations aim to reach a final agreement at the November APEC summit in Hawaii. In the absence of any firm commitment to join, it may be Japan's fate to remain a mere spectator of the changing economic landscape in the Asia-Pacific region.

⁶⁹ *Joint Statement by the Prime Ministers of Japan and Australia, op cit.*
last accessed 20 May 2011.

⁷⁰ "Disaster places tax reform, trade talks on back burner", *Nikkei.com*, 30 March 2011, <<http://e.nikkei.com/e/ac/tnks/Nni20110329D29JFA24.htm>>, last accessed 14 April 2011.