



NATIONAL ENDOWMENT FOR THE

**Humanities**

DIVISION OF RESEARCH PROGRAMS

## **Narrative Section of a Successful Application**

The attached document contains the grant narrative and selected portions of a previously funded grant application. It is not intended to serve as a model, but to give you a sense of how a successful application may be crafted. Every successful application is different, and each applicant is urged to prepare a proposal that reflects its unique project and aspirations. Prospective applicants should consult the Research Programs application guidelines at the following URL for instructions: <http://www.neh.gov/grants/research/fellowships-advanced-social-science-research-japan>.

Applicants are also strongly encouraged to consult with the NEH Division of Research Programs staff well before a grant deadline.

Note: The attachment only contains the grant narrative and selected portions, not the entire funded application. In addition, certain portions may have been redacted to protect the privacy interests of an individual and/or to protect confidential commercial and financial information and/or to protect copyrighted materials.

**Project Title: Japan's Preferential Trade Agreements: Implications for Domestic Liberalization and Regional Integration in East Asia**

**Institution: American University**

**Project Director: Mireya Solis**

**Grant Program: Fellowships for Advanced Social Science Research on Japan**

## **Japan's Preferential Trade Agreements: Implications for domestic liberalization and regional integration in East Asia**

- *Research and Contribution*

The last decade has witnessed Japan's transformation from one of the last hard core multilateralists to an active negotiator of free trade agreements (FTAs). This striking policy shift raises the question as to whether FTAs can finally deliver substantial liberalization of the Japanese market; a goal long sought by Japan's trading partners and domestic champions of structural reform. But it also underscores the fundamental issue of Japan's contribution to the intense process of regional integration that East Asia is currently experiencing. Will Japan's FTA policy promote coherent economic integration across East Asia or will it result in a string of trade diverting agreements that fragment – rather than unite- the region?

The central concern is therefore with the quality of Japanese FTAs, and I argue that domestic political economy factors –namely, the preferences of economic actors and the political process to mediate conflicting positions- are key determinants of the substance of Japan's trade agreements. Therefore, in this research project I develop a modified demand-supply model of FTA policy. The dependent variable is the quality of Japanese FTAs operationalized with three indicators: partner selection, market access concessions, and WTO plus commitments. The simple expectation is that higher quality FTAs should generate more gains from trade by targeting large trading partners, should offer across the board liberalization, and should incorporate actionable liberalization commitments in multiple areas such as services and investment. The model employs two independent variables: 1) lobbying incentives for societal actors in the game of preferential trading, and 2) the degree of centralization of government trade policy (measured by the degree of delegation from the legislative to the executive and by the emergence of inter-bureaucratic coordination mechanisms).

The core argument advanced here is that Japan's ability to sign on to ambitious FTAs depends on the intensity of lobbying by the internationalized business sector to overcome the resistance of uncompetitive sectors; and the centralization of domestic policy-making in order to break the protectionist inertia of traditional subgovernments.

My research design makes a novel contribution to two main fields of scholarly inquiry in the humanities: general models of domestic determinants of trade policy and the politics of Japan's foreign economic policy. With respect to the first field, my model amends conventional supply/demand models of regional integration (Moravcsik, 1993, Mattli, 1999, Baldwin, 1997) in two main ways. On the demand side, I argue that FTAs create a set of distinctive challenges and opportunities that do not arise in the arena of MFN multilateral liberalization and that previous scholarship has not fully elucidated the positions of societal actors as they are confronted with the possibility of selective and discriminatory liberalization. For instance, pressing for FDI protection, vetoing specific agricultural suppliers from liberalization talks, and imposing labor standards to quell imports from developing countries are real possibilities in FTA negotiations, but are non-starter issues in the WTO agenda.

On the supply side, models of regional integration are remarkably a-institutional since for the most part they remain silent on how domestic political processes to mediate conflicting preferences influence FTA outcomes. To correct this, I rely on the literature

on veto players and principal/agent relations to tease out the implications of centralized trade policymaking. I argue that centralization is more conducive to policy change and market opening in that the Executive responds to a broader electoral constituency, there are fewer veto players likely to boycott change, and it is easier to break the stronghold of iron triangles on trade policy since the influence of pork-barrel politicians and clientelized line agencies is diminished.

My model offers a novel framework to understand the implications of political changes in Japan for market opening. It assesses under what conditions Japan will be able to transition from the status quo of party-bureaucracy decision-making to a system of either Executive initiative (with Prime Minister leadership, but inter-bureaucratic infighting) or Executive dominance (with an assertive Premier and a Cabinet Agency capable to rein in inter-ministerial conflicts) in trade policymaking. Moreover, it traces the fragmentation of powerful umbrella associations that hitherto had dominated lobbying activities in agriculture and industry with the growing saliency of intra-sectoral divisions.

This project, therefore, seeks to make a contribution to theories of trade policymaking and FTA negotiation, and to advance the social science scholarship on Japan by tracing the impact of new patterns of lobbying by societal actors and the evolving interplay of the Executive, party politicians, and bureaucrats. This assessment facilitates a deeper understanding of the prospects of structural reform in Japan and the direction of regional integration in East Asia.

- *Methods and Work Plan*

I am applying for a twelve month fellowship from NEH to start in September 2010. During this period of time I will complete the second stage of my book manuscript (namely chapters 5 through 7, plus the conclusion as detailed in the chapter outline below). My work plan during the period of the NEH fellowship comprises three central tasks:

- 1) Two short research trips (each of 2 weeks duration) to Tokyo and Jakarta (headquarters of ASEAN's Secretariat). The purpose of these trips is to carry out interviews with policymakers, academics, and other participants in FTA negotiations, as well as to collect research materials not available in the United States.
- 2) Write up of chapters 5 through 7, plus the conclusion. In addition, editing of other chapters will most likely be necessary in light of later findings.
- 3) Search of a publication outlet at a high quality press.

The final book project will be organized as follows:

Chapter outline

One. A domestic political economy model of Japanese FTA policy

A modified demand/supply model of regional integration to ascertain how domestic political institutions condition Japan's behavior as a preferential trader.

Two. From Passive Multilateralist to Preferential Trader

A look at Japan's evolving trade policy from passive multilateralist in GATT, proponent of informal legalism in APEC, convert to multilateral legalism in WTO, and preferential trader in the embrace of FTAs.

Three. Clash of titans: agriculture vs. industry in the battle for market opening

Polarization of trade policy demands from industry and agriculture at a time when the two lobbies are experiencing significant challenges in their mobilization capabilities.

Four. Political institutions and trade policy: the demise of iron triangles?

Discussion of whether recent attempts to centralize policymaking in the Cabinet Office and rein in bureaucratic factionalism can yield significant policy reform.

Five. FTA negotiations with Mexico

Emergence of Japan's defensive FTA policy as NAFTA's trade and investment diversion effects first mobilizes Japanese industry to support the trade policy shift.

Six. FTA negotiations with ASEAN

Analysis of Japan's ability to reconcile previously negotiated bilateral agreements with Southeast Asian nations into a minilateral FTA capable of boosting Japan's bid to become the leader in the regional integration effort.

Seven. FTA negotiations with Australia

Analysis of the protracted battle to launch FTA negotiations with one of the largest agricultural suppliers to the Japanese market.

Conclusion. Japan's FTA diplomacy: free or preferential trade agreements?

Assessment of three fundamental issues: a) Sources of change in Japanese trade policy; b) prospects for market opening in Japan, and c) Japan's influence on Asian regionalism.

- *Skills and Materials*

This research project requires advanced language competence in Japanese, English, and Spanish to carry out interviews during different fieldwork trips. I am a native speaker of Spanish, possess near-native fluency in English, and I am capable of undertaking advanced research tasks in oral and written Japanese. The project will also require the creation of a dataset benchmarking the quality of Japanese FTAs by quantifying tariff cuts, and classifying the nature of WTO plus commitments incorporated in these agreements (noting for instance if they generate hard law commitments or not). I have already developed a methodology to undertake this task with my research assistant at AU.

- *Final Product and Dissemination*

The aim of this project is to produce a high quality academic book and peer-reviewed articles analyzing the most striking departure in Japan's trade policy in the postwar period (the negotiation of preferential trade agreements) and the likely contribution of Japan to the unprecedented process of formal economic integration in East Asia. The research findings should be of interest to policymakers and to academics and students in the fields of international trade and investment, regional integration, and the political economy of Japan and East Asia. I intend to disseminate the results by participating in academic conferences, submitting selected portions of my research to high-quality academic journals, and publishing a single-authored book on the subject.

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