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*The Political Maneuvering and Trade Liberalisation in  
Japan*

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## **Abstract**

It is a known fact that Japan market is a much protected industry, especially the agricultural sector. Interestingly, in term of trade, all this while, Japan industrial sector, on the other hand, is very open and keen to liberalize, while the agricultural sector is heavily protected by trade barriers and subsidies. As compared to the industrial sector, the agricultural sector contributes less to Japan's economy. Due to protection created for the agricultural sector, it has made Japan to avoid trade liberalization until recently. This study aims to explore potential political maneuvering which affected the liberalization of trade in Japan. There are not many scholarly works that discuss about Japan trade liberalisation in the political dimension. Therefore, the study will explore the political causes that lead Japan to engage in Free Trade Agreements. To complete this research, it will be conducted primarily in the documentary analysis, by combining the related documents in seeking for an explanation of Japan engagements in FTA. The initial findings found that the Agricultural sector can be maintained as the wall for market liberalisation because of its influences in Japan politics, by becoming the foundation for the vote of the long-ruling party such as Liberal Democrat Party (LDP). So, they have their own representative in national politics. But the recent political events caused the agricultural sector to declined, with the changed in LDP ideal which embraced more Neo-Liberalist idea as shown in the "Maekawa Report" in 1986, the 1994 electoral reform, and the changing of power in LDP when the reformist mind faction became the party leader and hold the post of Prime Minister such as during the era of Koizumi and Abe. These political events lead to the declining of the Agricultural sector's influence in politics and paved the way for Japan economy towards Free Trade.

**Keywords:** Trade liberalisation, Political maneuvering, Japan

## **1. Introduction**

In January 2002, Japan and Singapore represented by Premier Koizumi Junichiro and Prime Minister Goh Chok Tong had signed an agreement that will liberalise trade and the economy of both countries. The agreement was known as Japan – Singapore Economic Partnership Agreement, or JSEPA, set to be the new dawn of Japan trade and economic policy.

Before JSEPA, it is widely known that Japan had been avoiding any trade liberalisation efforts due to its highly protected market, especially its agricultural sector. The agriculture sector has been protected due to the fact that its low competitive nature but with a high cost of production, so Japan tried to protect the sector by using regulations like high tariff rate or import quota to limit the inflow of cheaper agriculture product from foreign competitors.<sup>1</sup> On the other hand, Japan pursuit trade liberalisation in WTO instead of bilateral agreements or economic bloc. By that, Japan turn to multilateral trade negotiation in term of GATT.

But, the trade negotiation in GATT and WTO stage did not turn out well. In early 1990's, after GATT Uruguay round and the establishment of WTO, Japan try to pursue their trade interest through WTO's multilateral negotiation. However, the negotiation process in WTO seems to be very slow and world trade regime had changed. As Japan started to seek for a trade deal in WTO, many countries begin to form bilateral free trade agreement and established Economic bloc which, in that time, Japan is not included in any agreement or bloc. By being excluded from free trade agreement or bloc, Japan will be facing with trade discrimination. So, in the late 1990's Japan trade policy shifted from negotiation in WTO to that of pursuing bilateral trade agreement and try to engage in the forming of economic bloc.<sup>2</sup> The failure of WTO which does not meet with Japan expectation and the growing of distance between Japan and world economic trends can be seen as the beginning of Japan turn to pursue FTA.

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<sup>1</sup> Yoshimatsu, H. (1997). BUSINESS-GOVERNMENT RELATIONS IN JAPAN: THE INFLUENCE OF BUSINESS ON POLICY-MAKING THROUGH TWO ROUTES. *Asian Perspective*, 21(2), 119-146

<sup>2</sup> Urata, S. (2007). Japan's FTA Strategy and Free Trade Area of Asia Pacific (FTAAP). *An APEC Trade Agenda*, 99 - 126.

After shifting their trade strategy to FTA, the first two bilateral trade agreements are “Japan - Singapore Economic Partnership Agreement” (JSEPA) and “Japan - Mexico Free trade Agreement” (JMFTA, later Japan – Mexico Economic Partnership Agreement, JMEPA) which was negotiated in 2001 and 2002 and the deals concluded in 2002 and 2004 respectively. Also followed by a bunch of FTA with South East Asia nations (and SEA as a bloc) and other countries such as India and Australia. For JSEPA, this agreement can be seen as preparing the ground in having more trade liberalisation with the other countries in Southeast Asia and Japan believe that if they can have a successful deal with Singapore; the Southeast Asian countries will follow.<sup>3</sup> Japan engaged with South East Asia countries began with Malaysia in 2006, Thailand in 2007, the rest of ASEAN in 2008, while Vietnam was the last ASEAN countries to sign in 2009.<sup>4</sup> For the trade agreement with Mexico, the reason is not only to access the Mexican market but, also the North American Free Trade Area members (NAFTA) such as the United States and Canada which Mexico is the part of. Accessing to Mexican market means accessing into NAFTA members market as a whole.<sup>5</sup> JMEPA is all about Japan trying to compete with the economic bloc like NAFTA, without JMEPA, Japan will lose their interest and cannot compete in that market because of bloc members have more advantages than the outsider. Without JMEPA, Japan has to face with high trade barriers like tariff and will lose the competitiveness to compete with NAFTA members, and by having an agreement with Mexico, Japan can utilise Mexico which has a lower cost of production than the other NAFTA members as a production base to access into NAFTA market.

The main trade direction of Japan since the late 1990's can be understood in the way that Japan wants to expand their economy through the channel of both bilateral agreement and

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<sup>3</sup> Yoshimatsu, H. (2005). Japan's Keidanren and Free Trade Agreements: Societal Interests and Trade Policy. *Asian Survey*, 45(2), 258 - 278.

<sup>4</sup> MOFA. (2017). Free Trade Agreement (FTA) and Economic Partnership Agreement (EPA). Retrieved from <http://www.mofa.go.jp/policy/economy/fta/index.html>

<sup>5</sup> Jerzewska, A. S. (2012). The Role of Preferences in Japan's FTA Policy Formation in Asia on a Bilateral, Minilateral, and Region-wide Level: Does Japan Need a Region-wide Agreement? (PhD), The University of Leeds.

engaging in the economic bloc. Trade liberalisation with the bilateral agreement and engaging in the economic bloc will secure Japan economy from trade discrimination & exclusion. Also, Japan direction is seeking for trade liberalisation deal that will give access to Japan to expand their market and at the same time to liberalise it through deregulation that will pave the way for a good environment for Japanese business to expand and invest. As for Japanese government, in order to stimulate the structural reform, giving access to outside competitor to compete in the Japanese domestic market is needed, in order to force Japanese economic sectors to regain the competitiveness.

However, the failure of WTO to cover up all of its members' interest cannot be the only factor that pushed the protectionist like Japanese government to turn into more bilateral free trade agreements, but the changing in policy direction also need political leverage. It cannot be denied the fact that political factor has influence in policymaking, even having more weight when compare to economic factor. Japan was, for a long time is a heavily protected the market, such as the agricultural sector, which protected by both tariff and non-tariff barriers. Due to low competitive nature and the high cost of production, so Japan has to prevent damages by using regulations like high tariff rate or import quota to limit the inflow of cheaper agriculture product from foreign competitors. These measures mostly come from and overseen by the Ministry of Agriculture, Forestry, and Fishery.<sup>6</sup> But, this protection is not only to protect agriculture through economic means, but it also involves a lot of political issues in it. The reason that made Japan Agricultural sector become politicize is because of farm voters is the main supporter of The Liberal Democratic Party (LDP), the political party that sits on the throne of the Japanese government for a very long time.<sup>7</sup> Beside from having the ruling power for a very long time which resulted in LDP creating a network of politicians, interest groups, and the bureaucrats, or the so-called "Iron Triangle", which is the relations of each angle depending on each other in order to preserve their interest.<sup>8</sup> The main source of power that

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<sup>6</sup> *ibid*

<sup>7</sup> Mulgan, A. (2005). Where Tradition Meets Change: Japan's Agricultural Politics in Transition. *The Journal Of Japanese Studies*, 31(2), 261-298.

<sup>8</sup> Colignon, R., & Usui, C. (2001). THE RESILIENCE OF JAPAN'S IRON TRIANGLE. *Asian Survey*,

LDP rely on is the voting power. For LDP, the people who cast the ballot and support them and made them stay in politics is mainly farmers and people in the agricultural sector. It can be said that the presence of LDP is represented by the agricultural sector interest and this is why Japan try to “avoid” the liberalisation that will harm the agricultural interest for a very long time.

At the same time when the shifted in trade policy happened, there are also many changing in Japan politics, before Japanese government and its bureaucratic led by METI began to have free trade agreement intention, in 1994, The Diet passed the bills to made electoral reform, which set the new rule for Japanese electoral politics, and resulted in changing the electoral system. By this, changing, politicians cannot only depend only some proper numbers of voting from their supporting group, but they also have to win the majority of their electoral district.<sup>9</sup> Followed by Premiere Koizumi’s administration came into power in early 2000’s, which brought the reformist idea such as liberalisation and centralizing administration power to Prime Minister office, decreasing his own LDP’s “Iron Triangle” network power.<sup>10</sup> And it seems to be connected when politics changed, trade policy also changed. After Premiere Koizumi came to power with reform agenda, first two agreement, JSEPA and JMEPA, was concluded and followed by opening the negotiation with the other. Political changing and the raising in number of FTA, both concluded and, in the process, seem to be related, the numbers of Japan FTA are raising when political changing happened. When power briefly shifted to Democratic Party of Japan (DPJ), which DPJ seems to not depend on much support from interest group like LDP, they even looking forward to joining with TPP which seem to be heavily affected to Japan market. (The agreement was concluded later when Clapback to power).<sup>11</sup>

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41(5), 865-895. doi:10.1525/as.2001.41.5.865

<sup>9</sup> Mulgan, A. G. (2005). Where tradition meets change: Japan's agricultural politics in transition. *The Journal of Japanese Studies*, 31(2), 261-298.

<sup>10</sup> Uchiyama, Y. (2010). *Koizumi and Japanese politics: Reform strategies and leadership style*. Routledge, 12 - 16

<sup>11</sup> Mulgan, A. G. (2011). *Agricultural Politics and the Democratic Party of Japan*. *Japan Studies Online*



The question arose from that, while changing in Japan domestic politic emerged, the FTA and trade liberalisation policy also emerged too, then, are there any relation between political changed and free trade policy? 4 years after electoral reform, Japanese government began the talk about free trade agreements with Singapore and Mexico, when Premiere Koizumi began to did the structural reform, FTA with Southeast Asia countries was negotiated and concluded, when power had changed to the hand of DPJ, the Japanese government announced their intention to participate in TPP, or in another word, free trade and liberalisation policy will come up when political changed happened. So, what is the political maneuvering behind the policy? How changing in domestic politic resulted in to promote and obstruct free trade and liberalisation policy?

This study will explore and investigate the relation between political change and the emerging of Japan FTA policy to explain what, why, and how political manoeuvring Japan Free Trade Policy

## **2. Literature review**

### **2.1 Trade Policy**

The trade policy and direction, from the official statement “Japan's FTA Strategy (Summary)” which stated by Ministry of Foreign Affair, Japan will be securing their economic interest by maintaining and strengthening the free trade system by engaging in FTA. MOFA stated that Japan will gain economic advantage, and both import and export market will expand with the liberalisation by engaging in a free trade agreement. MOFA also stated that Japanese government and domestic industries have to work closely together in policymaking. MOFA considered East Asia as Japan major trading partner and aim to ties the economic relationship by FTA. Liberalisation in East Asia, which account for the highest percentage of trade with Japanese products, especially Southeast Asia, will help Japanese business activities and can

be more competitive with China and ASEAN that somehow, shifted the base of the production to East Asia.<sup>12</sup>

The reason that East Asia is important to Japan strategy, in Shujiro Urata “Japan's Trade Policy with Asia”, he said that because Japan trading with East Asia greatly expand while this region also rapidly growing. This is because of economic growth rate; East Asia growth rate is higher than the others Japan trade partners like North America and EU. And the important reason behind the greatly expanded in the economic growth of East Asia is Japanese business invest in East Asia more than other regions. By becoming “World Factory” of East Asia, Japan can export products like industrial machines and industrial technology and invest in the industrial sector in East Asia for cheaper cost of production while import end goods back to Japan. Also, Japan can export from East Asia to the rest of the world by supplying intermediate goods for the East Asia market.<sup>13</sup> Urata also shows that firstly, the increasing of FTA (and FTAs) caused a lot of trade discrimination, so Japan has to secure the market for their firms by engaging and establishing FTA. Second, liberalizing market will stimulate the structural reform to Japan economic, so, the domestic firms will improve their competitiveness because of more competition from liberalizing the market. And the last one is concordantly to the MOFA official statement, Urata said that accessing to East Asia developing countries by FTA would providing benefit and business opportunities for Japanese firms. Japanese government recognized FTA as an option for achieving trade liberalization.<sup>14</sup>

Emphasizing with East Asia also seen from Ogita work. After concluding the deal with Singapore in 2002, Junichiro Koizumi, Japanese Prime minister proposed to ASEAN members to conclude

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<sup>12</sup> MOFA: Japan's FTA Strategy (Summary). (2017). Mofa.go.jp. Retrieved 10 May 2017, from <http://www.mofa.go.jp/policy/economy/fta/strategy0210.html>

<sup>13</sup> Urata, S. (2014). Japan's Trade Policy with Asia. *Public Policy Review*, 10(1), 1-31.

<sup>14</sup> Urata, S. (2007). Japan's FTA Strategy and Free Trade Area of Asia Pacific (FTAAP). *An APEC Trade Agenda*, 99 - 126.

FTA similar with JSEPA himself. Koizumi's government saw that JSEPA can stimulate the ASEAN members to follow the same trade agreement as Singapore.<sup>15</sup>

## **2.2 Political Maneuvering and Free Trade Policy**

To understand the political maneuvering behind the policy, it should begin by looking at the Basis of Japan policymaking. This can be the first hint about the relation between politics and the making of policy.

Tokiko Yamamoto Bazzell explained that Japan policymaking process begins in the government body like in ministry, the ministry's bureaucrats propose drafted a bill to intra-ministry organs to review the bill. When the bill gets approved, the bureaucrats will form an official advisory commission as a study group, which also, the commission will be working with the ruling party policy committee and expertise in the area of policy. After finishing the study in the commission, the bill will pass to the cabinet legislation bureau (CLB) to check on its legality, and this bureau will also be working on pooling support from ruling party Diet members. When the bill passes CLB, the bill will have presented in a cabinet meeting and if the cabinet approves and support it, the bill will go to Diet and will go through several processes before the full Diet discussion and vote.<sup>16</sup>

By the process that policy bill has to pass LDP (as the ruling party) PARC, Mulgan argue that the PARC function can allow the politicians who participate to be influential in policymaking. All of the policy bills must be submit to PARC to review, discussion, and approve, before passing to cabinet and Diet, PARC can veto the bill even it does not have legal status. The function of PARC also provides the discussion and debating ground for LDP members, which can shape the bill to be in their favor. Then, by the informal power to approve or object the

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<sup>15</sup> Ogita, T. (2002). *An Approach Towards Japan's Fta Policy*. APEC Study Center, Institute of Developing Economies, JETRO.

<sup>16</sup> Bazzell, T. (1998). *Accessing Japanese Government Documents - Policymaking Process and Document*.

bill, the LDP members can influence the policy to serve the favor of the interest group that they represent. They can reshape, approve, or oppose the policy that will be affected what they represent. In return, they can get both political and financial support. The interest groups that LDP members represented are vary from farmers to industrial companies, which mean they represent widely interest. So, the members who participate in PARC are divide into “zoku” (tribe) depend on what they represent for. From this, Mulgan points out that the policymaking process becomes politicize by the PARC, which provides the ground for the politicians to involve. This work also showing that even the bureaucrats are the one who has recognized as the dominating power in policymaking, but with this system, the one who decides that the policy bill will live or die is the politicians.<sup>17</sup>

Also, in Muramatsu and Krauss work, they Krauss stated that the triad ruling model is only concerned the top – level or elite bureaucrats and politicians, they suggested that actually, the triad ruling model should also account the whole bureaucratic system, not only the elite. Anyway, their work showing the evidence that the policymaking process is influenced by a political factor. The bureaucrats are not the only main policymaker, but also the ruling party politicians and the interest groups, as the triad ruling model. This triad ruling model working by the interest group support the politicians both political and financial in exchange for the politicians will represent their interest, and the bureaucrats will work closely with both politicians and interest group “to assure conservative policies” and preserve the connection and network between each other.<sup>18</sup>

However, some scholars argue that the domination of the Triad Ruling model or the Iron Triangle over policy-making and the channel for politicians to influence in policymaking are declining when the political atmosphere changed.

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<sup>17</sup> Mulgan, A. (2013). Party-bureaucratic government. In *Japan’s Failed Revolution: Koizumi and the Politics of Economic Reform* (pp. 129-176). ANU Press.

<sup>18</sup> Muramatsu, M., & Krauss, E. (1984). Bureaucrats and Politicians in Policymaking: The Case of Japan. *The American Political Science Review*, 78(1),

Hiroki Takeuchi explained that the changing in electoral system from Single non-transferable vote or SNTV in 1994 which allowed politicians to have only some proportion vote in the district to get elected into the mixed-member majoritarian (MMM) electoral system which consisting of single-member districts (SMDs) and the proportional representation (PR) electoral that make politicians can be elected by winning the majority not only some proper vote portion like in SNTV system that allowed Politicians to just gather some proper portion of vote to be elected, this transformation caused the big change. This changing cause the declining of triad ruling model power, especially LDP politicians in PARC. So, it seems to be the system that made politicians can represent the interest group was broken up because the interest group can have their own representative in the political stage only with SNTV electoral system. It also brings another change in Japan politics. The electoral reform which decreasing the influences of triad ruling model also caused the raising of executive power. The Hashimoto government responded to the declining of triad rule model by reinforcing the power of the Prime Minister office (Kantei), creating the council of economic and fiscal policy (CEFP) and start to restructure cabinet's ministries, this is the beginning of top-down policymaking.<sup>19</sup>

Another big change in Japan politics and policymaking after the rule was changed by electoral reform is the regaining and centralizing of power to the executive. Uchiyama explained that when Koizumi came to power in the early 2000's, he began to move away from relying on the traditional framework of LDP politics and end the thing that Uchiyama call "1995 system". By trying to centralize the power into his own inner circle, he brought the principle of "Kantei – Directed", which made the Prime Minister have the authority over the central government organ in term of policymaking. Also, he decreases LDP factions' power to prevent them from interfering in administration for their interest by using and appointed his own people to the important post, then, the influences of LDP Zoku had been declined because the Kanei – Directed made the politicians who represent the interest groups in zoku (tribe) and the influential PARC to be excluded from policymaking process. Even though, changing from the bottom – up to top-down policymaking process cannot fully wipe the influences of politicians

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<sup>19</sup> Takeuchi, H. (2016). *The New Trend in Japanese Domestic Politics and Its Implications*

in policymaking because in the end Koizumi still needs LDP, but Koizumi success in term of minimizing the power of LDP zoku and PARC to intervene in policymaking, causing their declining of power.<sup>20</sup>

Some scholar also showing that not only changing in electoral reform and policymaking priority, but the shifting of political power from ruling party to another party also seems to be one of the political factors that related to the birth of FTA policy. In “The Impact of Rural Votes in Foreign Policies: The FTA Policies under the DPJ Government in Japan”, Hiroro explained that the free trade policy is hard to be done when LDP is the government, because of the influences from zoku and Agricultural sector, even their power is diminishing, but still have some that strong enough to intervene. However, when ruling power shifted to DPJ in 2009, DPJ seems to be more active in pursuing FTA, even one of the cabinets stated that the Agricultural sector should sacrifice for the Japanese economy. DPJ also be the first Japanese government that showing the intention to join TPP. Despite the fact that actually, there is no FTA concluded during the DPJ era, but on negotiation during that time was concluded just after the ruling power shifted again in 2012. This happened because actually, DPJ main supporter is not the farmer, but the urban area voters, which mean DPJ did not represent the interest of Agriculture, so they can issue the policy that not served the interest of the main liberalisation opposition. This work showing that the policymaking also depends on who is in charge and who support the one who in charge, the farm voters are not DPJ supporter, so the DPJ will not represent their interest in the policymaking process.<sup>21</sup>

### **3. Methodology and Theoretical framework**

This research will conduct mainly as a documentary research. By applied this methodology, the sources like contents and statistics will be used to study and analyze the political

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<sup>20</sup> Uchiyama, Y. (2010). Koizumi and Japanese politics: Reform strategies and leadership style. Routledge, 12 - 18

<sup>21</sup> Sasada, H. (2013). The Impact of Rural Votes in Foreign Policies: The FTA Policies under the DPJ Government in Japan. Asian Journal of Political Science, 21(3), 224-248.

maneuvering behind the Japan Trade Agreement. This paper will study the changing of Japanese domestic politics and the political maneuvering that shape and effect to the outcome of Japan Free Trade Policy and Free Trade Agreement. Seeking of explanation of the relationship of political changing and FTA policy will be based on two theories, the theories of Neo – Institutionalism and Neo-Liberalism will be the main theories in this study, these two theories will be used to explain the changing in Japanese politics that affected to Trade policy.

### **3.1 Neo – Institutionalism**

The Neo – Institutionalism or New Institutionalism is an approach which combines sociology, economic, and politics together to explain how institute interact and affect the society. The behavior of related institutions is the main factor that shapes how society or political and economic goes. The leading founders of Neo-Institutionalism, James G. March and Johan P. Olsen, argued that analyzing on institution is a must in order to understand the behavior of each actors that will influences to society or the whole structure, why their behaviors are like that and what is the causes of that behavior, which in the end resulted to their actions or decisions.<sup>22</sup>

Then, the equation of this theory is the way that institution interact with society, will result in shaping how society looks like, in another word, if the institution changes their behavior, how society looks like will also change. Rule of the game is set by the institute, both informal social norms and the formal legal rules, institute can be a constitution, law, government, political party, social – private organization, and culture for example, when one of these change no matter which way, will affect the society or each individual (which can be also another institute) that they interact with. The policymaking, the institutes that set rule of the game are the one who their interest overlapped. The policy is the resulted of the institutes' behaviors interact with each other.

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<sup>22</sup> March, J. G., & Olsen, J. P. (1989). *Rediscovering institutions: The organizational basis of politics*. New York: The Free Press.

### 3.2 Neo-Liberalism

The idea of Neo-Liberalism is the economic theory which argues that the more state intervention, the more worsen to economic performance because state intervention will distort market mechanism. Neo-Liberal advocate that the free market will stimulate more economic growth and market will be more efficient, that is to say, Neo-Liberalism supports economic liberalisation. By reducing the role of government and encourage the private sector to take more role in the economy, also support free trade, deregulation, and privatization.<sup>23</sup> Market mechanism and less intervention from government, as Neo – liberalists believe, will eliminate trade barriers, price control, and capital market will be deregulated.<sup>24</sup>

In “The Handbook of Neoliberalism”, Neo-Liberalism has been defined as “At a base level we can say that when we refer to 'neoliberalism', we are generally referring to the new political, economic and social arrangements within society that emphasize market relations, re-tasking the role of the state, and individual responsibility. Most scholars tend to agree that neoliberalism is broadly defined as the extension of competitive markets into all areas of life, including the economy, politics and society.”<sup>25</sup>

Free trade is the part of Neo-Liberalism idea, by reducing trade barriers and deregulation, free trade will bring the market mechanism to adjust things. The demand and supply will meet the equilibrium without distorting from barriers.

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<sup>23</sup> Goldstein, Natalie (2011). Globalization and Free Trade. Infobase Publishing. p. 30.

<sup>24</sup> Taylor C. Boas, Jordan Gans-Morse (June 2009). "Neoliberalism: From New Liberal Philosophy to Anti-Liberal Slogan". Studies in Comparative International Development. 44 (2): 137–161.

<sup>25</sup> Springer, Simon; Birch, Kean; MacLeavy, Julie, eds. (2016). The Handbook of Neoliberalism. Routledge. p. 2



## 4. The brief history economic, trade policy, and political changing

### 4.1 Miracle era and the “Maekawa report”

From the ruins to modest, Japan was recovered from a scrap of World War II to be the most developed country in Asia and world economic superpower. To dig themselves out of ashes, Japanese government resurrect Japan economy with the policy that some scholars describe it as “Miracle”. The well-planned policy and the leading of the Japanese government are the key to this miracle.

The Post-war era, from 1945, was the crucial time for the Japanese government to bring back Japan. After the war, Japan faced with a lot of socio-economic problems, losing population around 3,100,00 both civilians and military combined<sup>26</sup>, Industrial production index nearly drops down to zero and the total assets of National wealth were loss around 25%, which caused a lot of damage to Japan economy. The lost in National wealth assets included 34.2% of industrial machinery and 24.6% of the structure.<sup>27</sup> Japanese government needed the solution that can save Japan from economic collapse.

Firstly, during the U.S. occupied period, the Japanese government was tried to stabilize the economy, which facing the problems of inflation and output shortage. Because the government wants to cope with the output shortage due to industrial damaged and unemployment problems, so they decided to print more money to support Japan financial market, also, the government printed money in order to support Recovery Financial Fund (Fukkin) that gave loans to needed priorities industries. But, in the end, the Japanese government still unenabled to stabilize Japan economic. So, by the help from Washington,

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<sup>26</sup> Ishikida, Miki (2005). *Toward Peace: War Responsibility, Post-war Compensation, and Peace Movements and Education in Japan*. Universe, Inc. (July 13, 2005). p. 30 (figures of Japanese Ministry of Health and Welfare)

<sup>27</sup> Ohno, K. (2006). *The Economics development of Japan: The path traveled by Japan as a Developing Country*. GRIPS Development Forum.

Joseph Dodge, American banker presented so-called “Dodge line” policy, which aims to stop the subsidies and financial support loans, improve the taxation and stop expanding, trying to make a budget surplus, reducing the intervention, and etc. Dodge line alongside with the beginning of Korea war in 1949, Japan became the supply base for forces in Korea peninsula, increasing of demand. This made Japan post-war economy stability was restored and the miracle or high growth era began.

The economic miracle or high growth era seem to begin around 1950’s and last until the late 1980’s or early 1990’s. Japan government, by the Ministry of International Trade and Industry (MITI), is the main actor that guided Japan economy by what Chalmers Johnson called “MITI’s high growth system”. MITI provide the suitable environment and supportive of growth for the industries, by importing the technology for selected industries that MITI want to support and control the foreign exchange in order to control the price of export and import. MITI also have the power to control taxes which can provide tax break and prevent outsider to compete in the domestic market.<sup>28</sup> Also, under Ikeda administration, Bank of Japan (BOJ) control the financial sector by lending the loans to commercial bank which commercial bank will issue the loans to the industries, so, in the end BOJ became the financial supporter and creditor to the private sectors, which private sector in the post-war era contain around 80 percent of capital from bank loans.<sup>29</sup> It can be said that the Japanese government and MITI shape Japanese economic in the way they want through guided policy and intervention, by financial support, tax shelter, and protection, the private sectors were forced to follow the path that government needed in order to secure support and subsidies. From -50 percent of real GDP growth rate, the guided economic policy, and heavily intervention bring Japan back to very high growth rate nearly 30 years. Since 1946, Japan GDP growth rate usually above 5 percent every year, even reach above 10 percent for many years, reaching 12.87 percent in 1968.<sup>30</sup>

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<sup>28</sup> Chalmers A. Johnson (1982). *MITI and the Japanese Miracle*. Stanford University Press. P.199

<sup>29</sup> *Ibid* P.203

<sup>30</sup> Maddison, Angus. 2003. *The World Economy: Historical Statistics*. OECD Publishing, Paris.

The model that the Japanese government used to archive the high growth era can be described as the “the developmental state”, state-led macroeconomic planning.<sup>31</sup> By intervene directly and indirectly, like financial support, regulation, price control, providing public spending that will support growth like infrastructure, and etc., Japanese government can choose which sector need to be develop and strengthen their competitiveness and also can distort the market mechanism for the sector that cannot compete in order that sector can remain strong and prevent the market mechanism to weaken the sector. MITI provides support so the industrial sector can reach their maximum productivity alongside with promoting economic growth. For the other sector like the Agricultural sector, the guidance and support came from other bureaus like the Ministry of Agriculture, Forestry, and Fisheries (MAFF).

To maintain the continuity of the policy, the continuity of the government is needed. Fortunately, the government that brought the developmental state model to Japan can hold the ruling power 38 years. The Liberal Democratic Party (LDP or Jiminto) rose to power from 1955 to 1993, which range from the early year of high growth era until the last. The 38 ruling years of LDP means that the policy can be carried on without any interruption from political factors like changing the regime. In another word, luckily, the developmental state model, planned economy, and guided policy resulted in the economic boom, so, in return, the LDP can get political support to be ruling party in order to maintain the policy.

However, the high growth era only remains around 30 years. In the early 1980's, the GDP growth rate started to drop below 5 percent. In 1990, the GDP growth rate is 4.89 percent and in 3 years, the growth rate dropped down to -0.52 percent, and to -1.13 percent in 1998. This slow growth and economic stagnation occurred by “Japanese asset price bubble” in the late 1980's and brought Japan to the era of “Lost decade”, from 1990's to 2000's. The bubble burst caused by the appreciation of Yen in 1985, which resulted in the diminishing of Japanese export. BOJ response by easing the money and lowered the interest rate of short-term to

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<sup>31</sup>Chang, Ha-Joon. 1999. "The Economic Theory of the Developmental State." in Meredith Woo-Cumings (ed.), *The Developmental State*. Ithaca, NY: Cornell University Press. p. 182-199

stimulate domestic demand because of the capital already flow out to investment in expanding businesses and real estate, but BOJ easing too much money to back the real estate loans alongside with the recession, BOJ cannot tighten the money and stop the increasing of asset price. When expanding of businesses and real estate did not return the benefit, the stock market started to collapse and the asset price that heavily increasing in the late 1980's fall down, the loans became non-performing assets loans and financial institutions like bank began to face with difficulties and be illiquid.<sup>32</sup> Krugman explained the bubble burst that "Japan's banks lent more, with less regard for the quality of the borrower, than anyone else's. In doing so they helped inflate the bubble economy to grotesque proportions."<sup>33</sup>

The bubble burst followed by "The Lost Decade" in 1990's to early 2000's, the lost decade can simply describe the cause with the low domestic demand, Japanese people saving too much and less in spending. The low of domestic demand caused the deflation in Japan economic. BOJ cannot lower the nominal interest rate because is already really close to zero during the bubble burst, or simply understand as "liquidity trap".<sup>34</sup> Without domestic consumption and financial institution illiquidity to lend more loans because of the debt crisis, Japan economy start to halt because bank stop lending the money, the businesses and needed industries did not have money to invest.<sup>35</sup> All of this caused the long-term recession and lost decade to Japan.

However, the Japanese government was already warned and suggested the resolutions. In the years of Nakasone's administration, Maekawa Haruo, former director of BOJ was appointed in 1986 to be the chairman of "The Advisory Group on Economic Restructuring" for designing economic reform to be the new growth strategy. The economic reform from this committee is recognized as "Maekawa report", which recommended Japanese government to decrease

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<sup>32</sup> Kunio Okina, Masaaki Shirakawa, and Shigenori Shiratsuka (February 2001): *The Asset Price Bubble and Monetary Policy: Japan's Experience in the Late 1980s and the Lessons*

<sup>33</sup> Krugman, Paul (2009). *The Return of Depression Economics and the Crisis of 2008*. W.W. Norton Company Limited.

<sup>34</sup> *ibid*

<sup>35</sup> Yoshino, N., & Taghizadeh-Hesary, F. (2017). *Japan's Lost Decade*. Springer.

the dependence on export-led economic and promote domestic demand instead, also recommended Japanese government to deregulation the private sector and more rely on the market mechanism. The report stated that despite Japanese government balance of payments surplus was high and the ordinary income in 1980's has grown to the 3.6 percent of GNP, from the development point of view, these can be a crisis situation and can be the cause of the slow or negative growth.<sup>36</sup> The key goal of the Maekawa report is to reducing surpluses by increasing more imports and expanding domestic consumption and demand. Followed by policy propose for stimulate domestic demand by increasing public investment and bringing tax cut for support disposal income, reform the industrial sector by support more inward foreign direct investment and expand more import of agriculture, or in the other means, liberalising the agricultural sector. Maekawa report also proposes to having the policy that will deregulate market by based Japanese market with more market mechanism, liberalise financial market and be more flexible with monetary and fiscal policy.<sup>37</sup> By all of this proposal, the committee believes that the strategy from the Maekawa report will be suit for Japan economic in order sustain the growth and economic prosperity, and this should be replace the model that had been used since 1950's which seem to be not suited for the situations anymore.

The Maekawa report can be seen as the first attempt from the government to shift from a state-led economic planning model to be less intervene and liberalise the economic. This also can be recognized as the root of Neo-liberalism idea in Japan economic, which state step back and let the market mechanism do the work. Unfortunately, since the report was published and propose to the government, it takes nearly a decade for the Japanese government to embrace the idea from the Maekawa report.

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<sup>36</sup> Maekawa, Haruo; Special Committee on Economic Restructuring. (1987). Maekawa Report (The Report of the Advisory Group on Economic Restructuring).

<sup>37</sup> Tokuoaka, K. (2010). Rebalancing in Japan: The Role of Private Consumption (No. 10-293). International Monetary Fund. P.6-10

## **4.2 1994 Electoral reform**

The resulted of economic poor performance and declining of growth caused the big change in Japan politics. The power of the longtime ruling power of LDP had been shaken due to the economic problems and lead to the first time that ruling power shifted from LDP to the other.

By the corruption scandal that ruling party politicians involve with and the distrust in government because of the failure in economic policy that affected from the recession and the bubble burst which was raised by the coalition of LDP oppositions, LDP and the ruling party coalition was split and resulted in defeated. The political reform issue was called and mainly aim to reform the electoral system. Reforming the electoral system means that power structure in Japanese politics will be change, in terms of the relation between the politicians and the voter, and the politicians and the interest groups that they represent for.

The 1st non-LDP government, Hosokawa Morihiro's administration from Japan new party (Nihon Shinto – JNP) came to power in 1993, during the early of the lost decade and after the political scandal which resulted in LDP defeated. In 1994, new administrator introduced the new electoral system by enacting “the Act on Partial of the Public offices Election Act” to the House of Representatives.<sup>38</sup> The electoral system has changed from the “Multi-Member-districts” system (MMD) with the “Single non-transferable vote” (SNTV) to “Single-Member electoral district” (SMD) with “Proportion Representation” system (PR).<sup>39</sup>

The new SMD system that introduced in 1994 had changed the way how candidates elected. From the system that allows more than one representative in one district, SMD changed the system to only one candidate can be elected in the district, only the one who gets the most vote. Then, the proper vote is not enough for a candidate to be seated, they need to win the election. The candidates cannot represent the interest of the group of supporters anymore,

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<sup>38</sup> Iwasaki, M. (2014). Party System Change and Electoral Reform in Japan.

<sup>39</sup> Sakamoto, T. (1999). Explaining Electoral Reform: Japan versus Italy and New Zealand. *Party Politics*, 5(4), 419-438.

they need to represent more vast interests to get support from the whole district. For the PR, the voter can vote for the party parallel with the SMD candidate, but the voter will give the vote for the party in the region, and in the end, each party will be given the seat followed by the number of votes received, prior to the candidate that they ranked.<sup>40</sup>

This reform causes the changing in Japan politic which affected to all level. The relationship between politicians and supporter had been changed, politicians tend to be more “representative of everyone” rather than only some interest group. This made the influences of interest groups that supported the politicians before the decline because the politicians are need votes from everyone in the district. Especially for the Agricultural interest group, which support and gather voters for the LDP politicians before, their influences are declining, later that, the declining of the influences can be seen from the LDP’s policy in the next decade.

### **4.3 Years of Koizumi and the emerging of FTA**

In 1996, 2 years after the electoral reform, LDP came back to power again, which this time brought some changing to Japan politics and economic. The most interesting thing is Japan began the structural reform and, the first free trade agreement emerged after the return of LDP.

By reforming the electoral system in 1994 and the look for economic problem solution, LDP, by the declining of the influences from the main interest group that support LDP like Agricultural sector, Japan economic and trade policy began to shift to be more liberalise. Before that, even in the GATT Uruguay round, the Agricultural sector and their representative in LDP like Agricultural tribe (Norin Zoku) are the obstacles for Japan trade policy to liberalise

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<sup>40</sup> Reed, S. R., & Thies, M. F. (2001). The causes of electoral reform in Japan. *Mixed-member electoral systems: the best of both worlds*, 152-172.

trade. Interestingly, many free trade agreements were beginning to negotiate and signed when the reformist mind Koizumi Junichiro was Prime Minister.

Beginning in 1998 and 1999, during the years of Obuchi's administration, the process of studying the FTA with Mexico and Singapore began. This will be the first two trade liberalisation agreement for Japan. The negotiation with Singapore began first in 2001, followed by Mexico in 2002. The "Japan – Singapore Economic Partnerships Agreement" (JSEPA) was signed in 2002 and the "Japan – Mexico Free Trade Agreement" (JMFTA – later, Japan – Mexico Economic Partnerships Agreement, JMEPA) was signed in 2004. It took longer for the deal with Mexico than with Singapore, because with Singapore, Japan can exclude the liberalisation of Agricultural product, while Mexico was needed to include, so Japan has dealt with the domestic agricultural sector before concluded the agreement.<sup>41</sup>

Another in Japan politics big change happened when Koizumi Junjiro came up with power, he won the election and stepped up as prime minister in 2001 by promising the Japanese with the structural reform. The main goal is to liberalizing Japan economic, and reforming his own LDP. To archive the economic structural reform, Premiere Koizumi must diminish the power of the zoku in his party first, which zoku represented the interest from their supported group, and the zoku, as diet members, usually interfere with the policy-making process. He replaced the system that LDP zoku and the bureaucrats must review the policy beforehand to the administration by centralising the policy-making the process to the administration instead, changed the bottom – up policy-making process to top – down. This reform seems to happen because electoral reform in 1994 made the politicians less dependent on the vote from the interest groups, so the power of the interest groups that project through the politicians have been decline.<sup>42</sup>

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<sup>41</sup> Yoshimatsu, H. (2006). The politics of Japan's free trade agreement. *Journal of Contemporary Asia*, 36(4), 479-499.

<sup>42</sup> Uchiyama, Y. (2010). *Koizumi and Japanese politics: Reform strategies and leadership style*. Routledge, 12 - 16



Premiere Koizumi success in emphasize market mechanism to Japan economic and less intervention from the government. He successfully reforms the financial sector, cut down the central government subsidies program, and privatize postal service, also aim to bring market mechanism to Japan market. As for the Maekawa report, Premiere Koizumi policies also can be recognized as the embracing of the Neo-Liberal idea, or in another word, this seems to have some root from what the Maekawa report proposed. Koizumi's reform brought the engaging with FTAs to Japan, by less interfere from Norin Zoku and aim to liberalise Japan. It can be said that Koizumi's reform is one of the main drives for Japan to pursue FTA in order to liberalising the market. FTA will bring the market mechanism to the sector that cannot compete and force that sector to regain their competitiveness without intervening from the other force.<sup>43</sup>

#### **4.4 DPJ era**

After Premiere Koizumi step backed from the throne in 2006, his successors, Abe Shinzo, Fukuda Yasuo, and Aso Taro was failed to maintain LDP ruling power and in the end, defeated in the 2009 election. The winner, Democratic Party of Japan (Minshuto – DPJ) came into the power. When the shift happened, public hope that DPJ will be more reformist than LDP, but what happened is DPJ seems to be more passive and did not bring much change to the government policy.

DPJ had been recognized as the urban party, rely on support and represent the interest for the urban voter, unlike LDP that usually rely on the rural voter. Since 1998, DPJ advocated themselves as more liberalist, promote economic liberalisation and FTA, also promote income support program for farmer instead of price support. However, what DPJ advocated before they won the election seem not to be delivered. There is not much change in DPJ years, Hatoyama Yukio, Kan Naoto, Noda Yoshihiko, three DPJ Prime Minister during 2009 – 2012,

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<sup>43</sup> Yoshimatsu, H. (2006). The politics of Japan's free trade agreement. *Journal of Contemporary Asia*, 36(4), 479-499.

cannot bring about the change that public expected.<sup>44</sup> The era of DPJ did not have much different from traditional LDP, there is no FTA negotiation with Japan major trade partners, only two FTA with India and Peru (Japan – India Comprehensive Economic Partnership Agreement and Japan – Peru Economic Partnerships Agreement), the DPJ government also reluctance to participate in Trans-Pacific – Partnership (TPP) negotiation.

So, it can be said that the shifting of power in 2009 until the return of Abe in 2012 did not mean policy direction changed. One of the reasons that made DPJ acted the same as traditional LDP is the changing of DPJ voting target. From the party that represents urban's interest, instead, DPJ tried to “catch-all” the vote, both from the urban and rural area, which mean they tried to represent the different interest of both urban and rural area. DPJ won the seat in a rural area equal to LDP in 2009. This made DPJ policy direction be not in the proper order. For example, DPJ, by the secretary-general Ozawa Ichiro, tried to a compensated farmer with income subsidies program while tried to promote the Agricultural liberalisation by FTA, but, both policy still cannot harmonize the liberalisation and the needed of Agricultural sector.<sup>45</sup> The DPJ's catch-all made DPJ's ruling time hard to find the middle ground because they have to please both interests.

The regime changed from LDP to DPJ seem to not bring much change to Japan economic and trade policy, no significance reform or promoting of the important FTA. The reformist idea must decrease the priority when they began to replace LDP in the rural area. Another interesting point during the DPJ era is, no matter how the electoral reform in 1994 decrease the influences of interest groups in politics, the politicians still need to consider the Agricultural interest group, because they still are the one of the biggest group of voters in electoral politics.

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<sup>44</sup> Lipsy, P. Y., & Scheiner, E. (2012). Japan under the DPJ: The paradox of political change without policy change. *Journal of East Asian Studies*, 12(3), 311-322.

<sup>45</sup> Mulgan, A. (2011). Agricultural Politics and the Democratic Party of Japan. *Japanese Studies Online*, 2, 22-30.

#### **4.5 Return of LDP and Abe reform**

LDP became the ruling party once again after the victoried in 2012 general election and Abe Shinzo also returns to the Prime Minister post again too after he was elected in 2006 and left the office in 2007. As the successor of Koizumi, Abe is a reformer as well. When Abe took office, Japan is still facing a recession and was affected by the Hamburger crisis. To save Japan economic, Abe proposed the reformist policy, which later well-known as “3 Arrows” policy or so-called “Abenomics”.

Abenomics consists about the “3 Arrows” policy, Monetary easing, Fiscal stimulus, and Structural reforms. The first arrow, Monetary easing, concentrate on the role of Bank of Japan to inject the liquidity to Japanese economic which facing deflation for very long time, can be seen as unorthodox monetary policy. Followed by the Fiscal stimulus, which begins with 20.3 trillion yen “Emergency Economic Measures for The Revitalization of the Japanese Economy”, focusing on building the infrastructures and facilities that damaged from the 2011’s incident, and aiming to create work and stimulate employment. The last one, Structural reforms, Abe’s government planned this arrow for long-term, aiming to draft new regulation for businesses, liberalising Japanese market, etc. The main goal is to revive the competitiveness of Japanese economic.<sup>46</sup>

So, the Abenomics 3 arrows can be shown that, since Premiere Koizumi, LDP’s administration embraced the idea of Neo-liberalism, changed from state-led “developmental state” mind to be less intervene and let the market mechanism do the work. For Trade Liberalisation and FTA, Abe’s administration can conclude a very long time negotiated FTA with Australia, one of Japan’s major trade partner and world leader of Agricultural exporter which launched the negotiation in 2007 and enter into force in 2015. Also, Since Abe came back to power, many FTA began to launch the negotiation process, which consist many important Japan’s trade

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<sup>46</sup> McBride, J., & Xu, B. (n.d.). Abenomics and the Japanese Economy. Retrieved January 25, 2018, from <https://www.cfr.org/background/abenomics-and-japanese-economy>

partners, like European Union, the Trilateral Trade Agreement between Japan-China-Republic of Korea, and Regional Comprehensive Economic Partnership, which are included the ASEAN members plus China, Australia, New Zealand, and Republic of Korea. Abe's administration also joined the TPP, which during DPJ's era, the DPJ administration reticent to participate in.

Abe also is the first Japan Prime Minister that can success to limit the power of the political force that obstructs Japan liberalisation policy, the Agricultural sector interest group. In 2013, Abe's administration started the program of Agricultural Cooperative (JA) reform, which completed in 2017 and will take effect in 2019. In summary, the new law will decrease the power of Central- Union of Agricultural Cooperative (JA- Zenchu) to control the local Cooperative, which means the local cooperative can have more freedom to operate, and also, JA-Zenchu will be faced with the difficulties if they try to use local cooperative in a political way, for example, using the local cooperative as the vote-gathering machine for their own candidate in election.<sup>47</sup>

The returning of LDP led by Abe brought a lot of changed to Japan, it also can be seen that he succeeds what Koizumi tried to do, the structural reform. Abe now trying to bring the market liberalisation to Japan by using FTA as a force, he also archives the agricultural reform, in term of decreasing of their political power that is the main Japan's liberalisation obstruction. Premiere Abe seem to gradually lead Japan with the idea of Neo-liberalism, less intervention and more market mechanism, which seem to succeed in doing it. It took around 20 years from Maekawa's report first proposed for Japan to begin the changing.

## **5. Conclusion: The Changing of Institutional behaviour and ideal**

Even it can be seen from the history that Maekawa report should be recognized as Japanese government as institution trying to change the behaviour, from developmental state mind to

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<sup>47</sup> Mulgan, A. (2016). Much ado about something? The Abe government's reform of Japan's agricultural cooperatives (JA). *Japanese Studies*, 36(1), 83-103.

Neo-Liberalism mind, but the essential point that caused the institution behaviour changing to embracing of Neo-Liberalism idea succeeded and followed by trade liberalisation is the 1994 electoral reform. Without this reform, the FTAs could not have happened, because the electoral reform surprisingly resulted in decreasing the power of trade liberalisation main obstacle, Agricultural sector political power.

The electoral reform caused the declining of Agricultural sector political power by changing the way politicians get elected. By less relying on Agricultural interest group vote gathering (or, farm voter), the Agricultural sector became having less represented politicians, which resulted in less bargaining power in terms of policymaking. Before that, the Agricultural voters are well organized by the interest group so-called “Central Union of Agricultural Cooperative” (JA or JA-Zenchu or Nokyo) which represents the interest of Agricultural sector, which seem to be the one who rallies support to LDP political campaigns. By working as the civilian cooperative body under the Ministry of Agriculture, Forestry, and Fishery (MAFF) and the cooperative organization of the Agricultural sector, JA seems to be the middleman between government and farmers. With the voting power from its members and relations with the bureaucratic, JA can influence politicians and bureaucrats who involve with policymaking in exchange for JA political support.<sup>48</sup> JA as the representative of the Agricultural sector with the political instrument in their hand is the one who opposes Japanese government free trade policy, which they see trade liberalisation as the harmful policy to the Agricultural sector. The influences of the Agricultural sector can be seen from how Japan select their partners or how Japan architect their policy and agreements, for example, JSEPA with Singapore, the agricultural products are excluded from liberalisation from the agreement and using the tariff rate under WTO basis instead.<sup>49</sup> Also, followed by JMEPA, it struggled for a very long time before it can concluded the agreement by the opposing from the Agricultural sector, in order to protect the market from Agricultural products from Mexico, in the end, only some products

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<sup>48</sup> Mulgan, A. (2000). *Organisational politics The Politics of Agriculture in Japan*. London: Routledge.

<sup>49</sup> Fukunari, & Mitsuya. (2008). *Japanese FTA/EPA Strategies and Agricultural Protection*.

were liberalised and introduced import tariff quota to some products like pork.<sup>50</sup> However, the influence of JA to involve in policymaking becoming less and less.

The Declining of Agricultural sector leads Japan trade policy to be more liberalise because government and politicians tend to less influences by Agricultural interest group. Japan began to liberalising trade, even with the Agricultural export countries such as South East Asia countries, Australia, or in the joining of massive economic bloc like TPP that will lift the Agricultural barrier away.

The 1994 electoral reform also affected the changing in institutional behavior, for example in the Koizumi era. The era of Koizumi can be seen as the biggest change in the institutional behaviour. Premiere Koizumi drastically changed the government and policy structure, by centralizing the power into Kantei or Prime Minister office, Koizumi get rid of the force that will intervene in his administration and policy-making process, decreasing the influences from his own party politicians who represent the interest from the interest group such as the Agricultural sector, so those politicians are less involved in the administration and policy-making in order to protect the interest for the group that supports them. The government since Koizumi's years change the behaviour from being the middleman who will follow the other actors like the bureaucrats or ruling party politicians to the only one that leads policy making and decisions. For example, Koizumi established "Council of Related Ministries and Agencies related on FTAs" (FTA Kankei Shocho Kaigi) under his Kantei for pulled all government organs that related to FTA policy and negotiations to be under his control.<sup>51</sup> The causes that made Koizumi unenabled to centralize the power and bypass LDP Zoku is also the declining of Agricultural sector political power that resulted from the 1994 electoral reform, the most powerful Zoku such as Norin Zoku is not that powerful enough to obstruct Koizumi anymore.

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<sup>50</sup> Ibid.

<sup>51</sup> 'Za Sankuchuari: Jimintô "Nôrin Zoku"' ['The Sanctuary: LDP "Agriculture and Forestry Tribe"'], *Sentakû*, Vol. 30, No. 2, February 2004, p. 58.

However, the institutional changing is not happened only with the Japanese government, in this case, it can be seen that the other institution also changed the way they behave which is less resistance to the liberalisation, caused by the political changing, the electoral reform.

Anyway, whether what happened in politics, another thing that has to be a concern is the embracing of the new ideal. From Maekawa report and Koizumi legacy, the idea that moving around behind is obviously the Neo- Liberalism idea. Promoting deregulation, less government intervention, and advocating of trading without barrier are the part of Neo- Liberalism core idea. In term of Japan, it can be seen from both Maekawa report and years of Koizumi that the Japanese government began to step back and emphasizing the market mechanism in their economic. The Neo- Liberalism idea behind the Maekawa report is this report tried to propose deregulation, reducing of government spending, and more market mechanism. For Koizumi, what he promoted in his structural reform was based from Neo- Liberalism idea, Koizumi structural reform embrace the needed dimensions such as more market-oriented, small but efficient government, privatization, and trade liberalisation.<sup>52</sup> As can be seen when Koizumi succeed in privatizing Japan Postal service or the FTAs that many deals began the negotiations and concluded during his time in office, like mentioned before JSEPA and JMEPA conclude during Koizumi' years and followed by the opening talk with South East Asia countries.

Both Institutional behaviour changing and Neo- Liberalism idea in the Maekawa report and Koizumi legacy was inherited by Abe' s administration. The core idealism behind Abenomics' 3 arrows, especially structural reform emphasizing more on deregulation, less intervention, market-oriented economy and trade liberalisation. But due to the reforming will clash with the other like politicians and interest groups in term of conflict of interest, the centralizing of government power, especially to Kantei which Koizumi already paved the way, is one of the main keys. Neo- Liberalism alone is not enough, it needed the tool that can make it happen,

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<sup>52</sup> Mulgan, A. (2013). Japan's failed revolution: Koizumi and the politics of economic reform. ANU Press. P.3

and Koizumi's Kantei – Direct is that tool. Same as Koizumi, Abe's administration can less influence from the "Iron Triangle".

In summary, what this study can find from exploring through the history of Japan Free Trade policy and political changing gave that the political maneuvering behind Japan trade policy is that the declining of Agricultural sector political power who is the main liberalisation obstacle leads to the shifting of Japan Trade Policy from protected and avoiding the bilateral negotiation and joining economic to be leaner on free trade. The 1994 electoral reform is the most important event, causing the declining of Agricultural sector power and resulted in supporting Japanese government, specifically, Koizumi's government, to be more powerful and can prevent the interfering from the Agricultural sector. Also, the political institution such as government themselves changed the behaviour from leading Japanese economic with the developmental state to be more Neo-Liberalism mind. Japan began the structural reform, seeking for more market mechanism, deregulation, and less state intervention in order to let market mechanism adjust everything, it is very different from what Japanese government always did, guided economic in order to steer Japan into the direction that already planned. The Japan FTAs are the fruit of political changing, Institutional behaviour changing, and the embracing of Neo-Liberalism combine.



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