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Introduction

WAVING BANNERS that proclaimed "Our life is important, our lifestyle is important—so we oppose agricultural liberalization!" Japanese farmers drove thirty-seven tractors through the streets of the Ginza shopping district of downtown Tokyo in November 1989 to protest U.S. demands for rice liberalization. By 1990 their representatives sent politicians petitions signed by nearly ten million supporters who urged the government to reject any increase of agricultural imports. In one instance, seventeen men carried over three hundred cardboard boxes full of petitions to deposit in the Diet members' office building. One year later, fifty thousand Japanese farmers filled the Tokyo Dome baseball stadium in an emergency meeting to rally support for the ban against rice imports. The focus of all this anger by farmers was the Uruguay Round trade negotiation in which negotiators from 115 countries were trying to strengthen the system of trade rules and negotiate lower trade barriers for industrial and agricultural goods as well as for services and investment.[1]

At the same time, European farmers were also protesting against U.S. demands in the Uruguay Round for European Union (EU) agricultural liberalization. French, German, Italian, and other European farmers battled with police dressed in riot gear as they demonstrated in the streets of Brussels where EU decision-makers would determine the future of agricultural policy for all EU member nations. Actions were even more radical in France. As U.S. and EU negotiators struggled to reach an agricultural trade agreement in November 1992, French farmers burned an American flag and ransacked a McDonald's restaurant in Paris. Over the year, twenty-nine bomb attacks were made against public buildings throughout France. European farm groups labeled the compromise agreement that emerged as a "death warrant" for farmers.[2]

Yet by the end of 1993 both Japan and the EU had accepted the

[1] These incidents are recorded in a publication by a Japanese agricultural interest group, Zennōrin (1997), "*Zennōrin* 50 nenshi," pp. 43–62.

[2] This description of events draws on the *Financial Times*, 4 December 1990, and a book by two European Commission officials, Hugo Paemen and Alexander Bensch (1995, 210).

Uruguay Round Agreement requiring that Japan partially open its rice market and that Europe reduce its subsidies to farmers. While the agreement represented less liberalization than the United States and developing countries had wanted, it also represented more agricultural liberalization than in any previous negotiation and a major political concession by Japanese and European leaders for the cause of free trade. Agricultural liberalization angers one of the most powerful domestic constituencies while offering little political reward. Nevertheless, amidst many setbacks over the long history of negotiations on agricultural trade, some negotiations such as the Uruguay Round have brought progress toward liberalization. Why have Japan and Europe ignored farmer protests in some negotiations when they accepted U.S. demands for greater access to their agricultural markets, and why have they risked trade wars in other negotiations by their refusal to change agricultural policies?

This question is of ongoing importance, especially because agriculture is once again taking center stage in the new World Trade Organization (WTO) trade round scheduled to end in 2005. The negotiation, which the World Bank estimates could add 2.8 trillion dollars to global economic activity, may hinge upon whether agreement can be reached on agricultural liberalization.[3] Agriculture negotiations not only are of vital concern to farmers and trade officials around the world, but they also offer insights into the study of comparative politics and international relations. Negotiations over agricultural policy typify the difficulty of balancing local interests with the pressures arising from participation in the global economy.

This book is about the politics of negotiations to open sensitive markets. In such negotiations, international pressure for liberalization meets resistance from strong interest groups, ministries with a stake in the status quo, and high levels of politicization. As governments struggle to find an agreement that both sides can accept, their interaction is constrained by the institutional context of the negotiation. Governments establish rules for international trade in order to facilitate economic cooperation, but how does an international institution like the WTO promote liberalization when it encounters opposition from strong political groups? Can features in the structure of the negotiation present the key to persuading reluctant governments to liberalize markets? Will all governments respond in the same way to similar negotiation strategies? Answers to these questions may be found by looking at the efforts by the United States to open agricultural markets in Japan and the EU.

[3] *International Herald Tribune*, 15 November 2001.

More broadly, the book is aimed to appeal to those interested in trade negotiations, the role of international institutions, and Japanese and EU politics.

Through a comparative study of the past thirty years of agricultural trade negotiations, the following chapters explain how the context of the trade negotiation can offset the passionate and well-organized demands of farmers to make it politically possible for politicians to accept liberalization. Although some agricultural liberalization has taken place through internal reforms without international involvement, much of the substantial policy change in this sector has been the subject of international negotiations. The focus here is on such *negotiated policy liberalization*. It will be shown that two kinds of negotiation structures make governments more likely to liberalize agricultural policies: when a negotiation links together agricultural and industrial issues into a package deal that makes liberalization in one area conditional upon liberalization of the other; or, when a negotiation frames the agricultural protection policy as a violation of international trade law. Issue linkage and legal framing represent distinct strategies to pursue liberalization by either broadening or narrowing the scope of a negotiation. While they apply contradictory pressures, both promote liberalization by adding to the stakes of the negotiation and changing the aggregation of domestic interests. At the same time, the effectiveness of linkage or leverage from international law interacts with domestic interests and policy processes.

When addressing disagreements over trade policies, states can utilize several different existing institutional arenas, and each setting varies in terms of the agenda, rules, and procedures that guide the conduct of the negotiation. The General Agreement on Tariffs and Trade (GATT) and its successor the World Trade Organization form the core international institution for trade issues.[4] Within the GATT framework, negotiations consist of comprehensive trade rounds or legalistic dispute settlement procedures (DSP). The former are major trade events that bring together over a hundred members to negotiate many issues. Launched with an opening declaration by members that provides an agenda for discussion of liberalization across sectors, a trade round proceeds as a mix of informal bargaining and consensus decisions that culminate in a multilateral agreement with binding commitments. Issue linkages are

[4] The creation of the WTO in 1995 marked the integration of a new organization with a rule framework that represents an amended version of the 1947 General Agreement on Tariffs and Trade. For simplicity I will use the term GATT as the reference to the general framework of trade rules inclusive of both systems. I will distinguish between GATT 1947 and the WTO when referring to aspects specific to either the old or new institutions.

integral to the process of bringing agreement among the diverse economic interests of members. In contrast, the DSP negotiations resemble adjudication. They begin with the filing of a legal complaint against a specific policy and end with an early settlement or a ruling passed by a panel of judges. The narrow focus on the legal status of a trade barrier tends to exclude linkage among issues. Outside of the GATT framework, other types of trade negotiations include loosely structured bilateral talks on either a single policy or a broad set of issues. In addition, meetings of regional trade associations share the comprehensive character of trade rounds but follow different procedures. For example, the Asia–Pacific Economic Cooperation (APEC) forum emphasizes the voluntary nature of participation in nonbinding agreements. Comparison of these different kinds of negotiations will demonstrate whether the features that shape the structure of a negotiation have an impact on liberalization outcomes.

Theories of international relations and trade policy emphasize the importance of distributional interests and coercive power.[5] However, such explanations cannot account for the variation in outcomes between the same pairs of countries over topics from one sector. If U.S. market power or alliance relations allow it to coerce liberalization by means of threats or persuasion, then one would expect most negotiations with Japan and the EU to bring favorable outcomes for the United States. On the other hand, if the strength of domestic resistance in Japan and Europe determines negotiation outcomes, then one would expect that Japan and the EU would refuse to liberalize agricultural markets. Instead, there is considerable variation in the degree of liberalization across U.S. agricultural trade negotiations with Japan and Europe. Even when controlling for interests and power, issue linkage and legal framing emerge as important factors to predict when countries will liberalize agricultural policies. This finding challenges the emphasis on economic interests and threats found in the literature while pointing to the need to give more attention to the agenda and rules that shape the negotiation process.

Agricultural Protection

Historically, agriculture stands out as a sector where countries stubbornly defend domestic programs. Even though tariffs on industrial goods have fallen during the postwar period to average from 5 to 10

[5] For studies with emphasis on the role of preferences derived from economic interests, see, for example, Rogowski (1989), Moravcsik (1997), and Milner (1988; 1997). For studies with emphasis on the structure of power and different forms of coercion in economic relations, see e.g., Gilpin (1981), Gowa (1994), and Drezner (2001).

percent, agricultural protection has remained high with tariffs averaging above 40 percent in 1998 (OECD 1999, 33). Nontariff barriers remained common in the agricultural sector long after they were eliminated for most industrial goods. Indeed, there is a paradoxical relationship in which nearly all industrialized countries raise the levels of protection for agriculture as the sector's size in the economy shrinks (Hayami and Anderson 1986).

High levels of agricultural protection have arisen because farm lobbies are an influential pressure group. Collective action incentives guarantee that farmers wield political strength beyond their numbers (Olson 1965). The economist Peter Lindert (1991, 63) says "the farm sector gets the most protection when it employs 3 to 4 percent of the employed labor force." He explains that as their numbers decline, farmers become better organized and have greater incentives to seek protection, and governments can more easily subsidize the small group of remaining farmers. Few voices are raised against agricultural protection given the lack of organization by consumers and their belief—true or not—that nationally produced food is safer and better. Moreover, electoral districting often biases political representation to favor rural constituencies. Once protection programs were put in place, farmers have used the backing of politicians from rural districts and the agriculture ministry to defend their vested interests in the status quo.

The costs of the resulting agricultural protection include expenditures for higher prices and taxes. Much money is wasted on inefficient programs that often do not help the farmers in most need because they reward higher levels of production rather than compensate for low income levels (Johnson 1991). In 1998 OECD nations spent a total of 362 billion dollars on their farm support policies and per capita expenditure on farm policies reached an astonishing 363 dollars in the United States, 381 dollars in Europe, and 449 dollars in Japan.[6] The most common forms of policy intervention are subsidies, price support measures, and trade barriers.

Protection also closes off valuable markets for agriculture exporters, which include the United States and many developing countries. Research by the U.S. Department of Agriculture (USDA) indicates that elimination of agricultural protection and support could increase the value of U.S. agricultural exports by 19 percent.[7] The USDA study also

[6] These figures are based on the "total support estimate" of the OECD that measures the value of all transfers from taxpayers and consumers arising from policy measures that support agriculture (OECD 1999, 88, 190–91).

[7] U.S. Department of Agriculture (2001), "Food and Agricultural Policy: Taking Stock for the New Century" (Washington, DC: USDA).

predicts that removal of global market distortions would increase global economic welfare by 56 billion dollars annually. Agricultural liberalization by wealthy countries would especially benefit many developing countries, which have been denied fair opportunities to export their goods while at the same time being forced to compete in their local markets with subsidized agricultural products from developed countries. Although many developing countries have a comparative advantage in agriculture and agricultural exports could play a major role in poverty reduction, the subsidies and trade barriers of rich countries have prevented these gains from trade.[8] At the Doha ministerial meeting in November 2001 that launched the new WTO trade round, one delegate said agricultural issues that "may lose elections in France are life and death in Tanzania."[9]

Trade friction represents another cost of agricultural protection, as these policies have given rise to a large number of controversial trade negotiations. Japan and Europe both have stood on the brink of trade wars with the United States over "food fights" that threaten the stability of the global trade system. In the context of the GATT, agricultural issues nearly blocked conclusion of successive trade rounds and generated the largest number of formal trade disputes. In December 1999 at the Seattle meeting of the WTO, when member states failed to agree on beginning a new trade round, agriculture formed one of the major lines of division. Two years later the meeting at Doha nearly ended in a similar failure as France declared that an agenda statement on phasing out agricultural subsidies was a "deal breaker."[10] Only a last-minute compromise allowed the meeting to go forward to establish the agenda for the upcoming round. This compromise included the controversial phrase on agriculture along with the qualification that the agenda would not prejudice the outcome of the negotiation.

The United States made little effort to stop the rise of agricultural protection until the 1960s. It is one of the ironies of postwar institutional development that the United States created the GATT exceptions for agricultural protection that later hindered its own efforts to promote agricultural liberalization. When Western leaders in the aftermath of

[8] A report by Oxfam International (2002, 96) condemns the double standards of developed nation agricultural protection, which have a harmful impact on the agriculture sector "where two-thirds of the poor in developing countries live and work." It cites the 2001 World Bank study, "World Development Report 2000/2001: Attacking Poverty," which provides evidence that annual welfare losses to developing countries from developed nation agricultural protection amount to $20 billion—equivalent to 40 percent the value of aid given these countries.

[9] *The Economist*, 17 November 2001, p. 65.

[10] *International Herald Tribune*, 15 November 2001.

World War II gathered to form the new economic order, their goal was to prevent the kind of competitive protectionist policies that were blamed for the economic turmoil of the 1930s. However, ambitious goals to promote liberalization in a multilateral trading system were modified by the political need to provide flexibility for domestic social policies (Ruggie 1982; Downs and Rocke 1995). In particular, Judith Goldstein (1993) explains that exceptions were closely fit to accommodate the needs of the U.S. agricultural sector. When officials negotiated the original 1947 GATT rules, U.S. agricultural policy used price supports and supply controls such that many products could not compete with imports and could only be exported with the aid of subsidies. Rather than change U.S. domestic policies, GATT rules were shaped around them. The GATT rules fully apply to the agricultural sector, but two clauses (article 11:2c and article 16:3) grant exemptions for primary products from the prohibition against quantitative restrictions and export subsidies under special circumstances.[11] This established the pattern for special treatment of the sector. Goldstein concludes that U.S. preferences shaped the GATT institution, but the institution locked in policies that were difficult to change later.

Although the United States had led the way to high agricultural trade barriers, U.S. interests shifted to favor liberalization in the late 1960s. Over the two decades following the creation of GATT, productivity gains and reformed national policies transformed U.S. agriculture into an internationally competitive, export-oriented sector.[12] By 1971 the Williams Commission, an expert group advising the president on economic problems, highlighted promotion of agricultural exports as a major part of the overall strategy to resolve the U.S. balance of payments deficit and urged the administration to pursue negotiations in GATT to address the barriers against U.S. agricultural exports.[13] Thereafter, while continuing to protect U.S. agricultural markets against imports, the gov-

[11] The conditions for granting the exemption are very specific for quantitative restrictions (quotas are justified when necessary for the function of a domestic supply reduction program), while the conditions are less specific for export subsidies. Hence panel rulings on the former have offered consistent strict interpretations of the rules, while there have been several cases where panels were unable to make a ruling on export subsidies. See Hudec (1993).

[12] See Ingersent and Rayner (1999) for an overview of changes in the pattern of agricultural policy in the United States and Europe. The major U.S. policy shift occurred through several legislative acts in the 1960s that moved farm policy away from supporting above-market price levels. Instead prices were allowed to fall to international market levels while loans and deficiency payments compensated farmers.

[13] "United States International Economic Policy in an Interdependent World," Report to the President submitted by the Commission on International Trade and Investment Policy, July 1971, cited in U.S. Senate Committee on Finance (1979b, 5).

ernment began to use export promotion as a means to support U.S. farmers.[14] The share of agricultural goods in the total value of U.S. exports rose to a high of 25 percent in 1973 (USDA 1999). Although agricultural goods in 1999 were a much smaller 8 percent of total U.S. exports, they remain a substantial export item and one of the largest contributors to the U.S. balance of trade. Among U.S. agricultural export markets, Japan ranked first and Europe ranked second as the recipients of, respectively, 18 percent and 16 percent of the 53.6 billion dollar value of U.S. agricultural exports in 1998.[15]

Japan and Europe faced a more severe agricultural adjustment problem than the United States, and this set the stage for the clash of interests in trade negotiations over agricultural policies. Table 1.1 highlights that both regions have a smaller land endowment and a larger share of the population remaining in the agricultural sector than the United States. As part of the process of postwar industrial growth and economic restructuring, Japanese and European societies experienced rapid decline in the number of farmers from levels of 20 to 30 percent of the population in 1961 to 4 to 5 percent of the population in 1999.[16] Through a combination of price support policies and import barriers, governments in both Japan and Europe intervened in agricultural markets with policies aimed to close the income gap between farmers and workers in other industries (Honma 1994; Grant 1997). Much of the agricultural sector in Europe and nearly all farms in Japan would be unable to compete in world markets without such government intervention. Consequently, U.S. demands for free trade in agriculture have been viewed as threats to the livelihood of farmers and the welfare of rural communities.

In Japan, the Agricultural Basic Law of 1961 sets forth the goals of government intervention in agriculture: to ensure food supply, preserve farm incomes at levels of parity with urban incomes, and preserve the vitality of the rural areas and agriculture (Moore 1990). Price support

[14] This does not deny that the United States also continues to protect some agricultural products. Dairy, sugar, and peanuts are a few of the most protected U.S. agricultural products.

[15] In 1998 Canada and Mexico were the next largest markets as recipients of, respectively, 13 percent and 11 percent of all U.S. agricultural exports. USDA Economic Research Service, *Outlook for U.S. Agricultural Trade* (USDA, 1999).

[16] In 1961 across the fifteen countries that are current EU members, farmers were 20 percent of the total population (West Germany and France had, respectively, 14 and 21 percent of the population active in farming). At this time in Japan, farmers were 30 percent of the population. The United States had already undergone much of the transition by 1961 when farmers were just 7 percent of the population. FAO (2001).

TABLE 1.1
Cross-national Comparison of Land and Farm Population in 1999

	Agricultural Land (million hectares)	*Per Capita Farmland (hectares)*	*Farm Population*
U.S.	418.25	1.49	2.3%
Japan	5.27	0.04	4.1
EU-15	143.02	0.38	4.5
France	29.90	0.51	3.5
Germany	17.01	0.21	2.6

Source: FAO (2001).
Note: The Farm Population is defined as all persons depending for their livelihood on agriculture, hunting, fishing or forestry (both workers and non-working dependents), and it is reported as percent of total population.

programs and import barriers maintain high farmer incomes despite inefficient production on small land plots (Honma 1994). The Japanese government supported development of a dual-structure agricultural economy with high dependence on imports of feed grains and protection against most other agricultural imports. The lack of any substantial agricultural exports simplifies the picture. Until reforms in the 1990s, the Food Control Agency and several quasi-state trading organizations managed the price-setting and wholesale purchase of several key commodities. Rice was among the most protected commodities and the government maintained self-sufficiency until 1995 with generous support policies, a government monopoly for sale and distribution, and a ban on imports (Hayami and Godo 1995).[17]

Agriculture has achieved a privileged position in Japanese politics. The powerful organizing role of the agriculture cooperatives provides farmers with a unified political voice. Their influence is also enhanced by an electoral system that gave rural votes as much as three times the weight of urban votes until reforms in 1993 partially redressed the imbalance (Mulgan 1997a, 882–883). Farmers are a key electoral base for the dominant Liberal Democratic Party (LDP), and few in Japan speak out against agricultural protection.[18] While consumers would benefit

[17] The policy not to purchase imported rice was set aside in 1993 when unusual weather produced a domestic crop shortfall and emergency imports became a temporary necessity.

[18] A majority of all LDP Diet members belong to the Agricultural Policy Committee. Within the ruling LDP's policy-making apparatus, the Comprehensive Agricultural Policy Investigation Committee has a membership including 55 percent of LDP Diet politicians, making it one of the largest among the policy committees that authorize all LDP-sponsored legislation (George 1988, 25).

from cheaper imports, opinion polls reveal little support for liberalization, and consumer organizations have actively opposed liberalization due to food safety and self-sufficiency concerns.[19] Industrial groups, especially the food-processing industry, also would benefit from lower food costs and reduced trade tensions over agricultural issues. However, for decades these antiprotection interests remained largely passive while agricultural protection programs expanded.

Agricultural protection is equally entrenched in Europe, where member nations negotiated a Common Agricultural Policy (CAP) during the process of European integration. The strength of farm groups within the member country governments is augmented by "disproportionate enfranchisement of EC agriculture" in decision-making of the Commission and Council of Ministers (Keeler 1996, 135–137). Since its establishment in 1962, CAP has taken on symbolic importance as the central pillar of European integration. CAP encompasses 90 percent of all European agricultural commodities and for most of the 1980s formed over 50 percent of the Community budget (Grant 1993, 257). The high price support policies of CAP led to chronic oversupply problems and the need to use export subsidies to dispose of the excess production. CAP transformed the Community from a net agricultural importer into a major exporter in less than a decade. In a major difference from Japan, the European agriculture economy encompasses large competitive farms as well as inefficient small farms, and agricultural policies have embraced both protection of the internal market and promotion of exports.

Although the EU is not entirely comparable to other national governments as an actor in world politics, agricultural trade is the policy area where the EU comes closest to resembling a national polity—albeit a federal-style and often divided polity.[20] Under CAP, everything from prices to production quotas is determined by the central EU policy process. Trade negotiations are also coordinated by European institutions as the European Commission acts as the "single voice" for the member states in consultation with the Council of Ministers.[21] This high level of

[19] Official of Shufuren (Housewive's Association). Interview by author. Tokyo, 9 August 1996. See also Vogel (1999).

[20] I refer generally to the European Union (EU), which became the common term upon the signing of the Treaty on European Union at Maastricht in December 1991 that changed the European Community (EC) into the European Union. When making specific references to earlier periods, I will use the term EC as appropriate.

[21] Two EU officials, Hugo Paemen and Alexander Bensch (1995, 94), write that "trade and agricultural policies are among the most integrated of all of the European Community's areas of responsibility. The Member States have transferred all their rights of action to the Community."

centralization at the EU level for agricultural trade facilitates the comparison of the EU in a cross-national study. This book treats the EU as a single entity for aggregate analysis and considers divided interests within the EU according to which national government holds the presidency of the Council of Ministers. Later, in case studies, more attention is given to the influence on EU policy by the different interests of member governments.

The strong opposition to liberalization in Japan and Europe makes it surprising to observe any agricultural liberalization. Indeed, agriculture remains highly protected compared to other sectors. However, *within* the agricultural sector, some liberalization is evident. In Japan, total imports of all agricultural products rose more than forty times in value from 1970 to 2000. Imports by fifteen European member nations doubled in just the fourteen years from 1986 to 2000 (see fig. 1.1).[22] The increasing share of imports in total food consumption provides further evidence of liberalization. Over the period 1970 to 1999, the average import dependency across the main food categories (meat, milk, fruits, vegetables, and cereals) increased from 21 percent to 42 percent for Japan, and from 18 percent to 33 percent for Europe.[23] However, there is also considerable variation by product category. For example, in contrast to growing import dependency for other products, EU import dependency in cereal grains declined as a result of CAP subsidies and trade barriers. Trade negotiations at best were able to reverse the decline slightly. Further variation is found in the aggregated categories. For example, Japan's import dependency for cereal grains exceeded 70 percent for most of the period, but its ban on rice imports guaranteed near complete self-sufficiency in rice production until 1993.[24] The reduc-

[22] The reported data are from FAO (2001). U.S. dollar values have been adjusted to 1995 prices. Since 1986, the FAO has compiled a single aggregate figure for the external trade of the following fifteen European nations, excluding their trade with each other: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the UK. Although Austria, Finland, and Sweden did not join the EU until 1995, their trade has been included in this figure since 1986.

[23] Author's calculations based on data from food balance sheets reported by FAO (2001). The import dependency for a given commodity group and year is based on the ratio of imports to total supply in terms of quantity for that commodity. The FAO calculates conversion back to the primary level for processed commodities. The aggregate figure given here is a simple average of the five commodity group ratios for the specified year and region. The FAO compiles a single import figure for the fifteen nations that form the current EU membership.

[24] Some imports were allowed into Okinawa for the production of a local variety of rice wine, but import dependency was 0.2 percent in 1992 according to the FAO data.

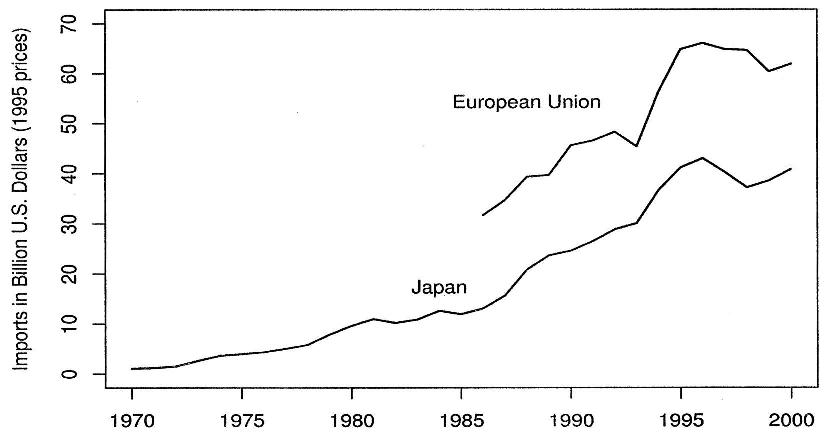

Figure 1.1: Agriculture Import Growth in Japan and the EU. Shows value of total agricultural imports in billion U.S. dollars adjusted to 1995 prices. EU figures are for trade by the fifteen EU members excluding intra-EU trade (data available beginning in 1986).

tion of trade barriers as well as changes in the structure of demand and supply account for the increase of food imports, which is evident in other industrial countries as well.

Although governments continue to favor farmers with subsidies and special programs, the trend is toward reducing such support. OECD statistics monitoring agricultural policies indicate that total support to agriculture as a share of GDP has fallen substantially (see table 1.2). In particular, market-distorting policies, such as price supports and export subsidies, are gradually being replaced by direct income payments. These changes have closed some of the gap between world market prices and the prices paid to farmers in Japan and Europe. For example, the ratio between internal and border prices for milk in Japan and the EU declined from respective levels of 7.7 and 3.3 in 1986 to 4.7 and 1.7 in the year 2000. Even where nominal protection remains large, market price support has declined. Over this period, Japan reduced market price support for rice by 39 percent and for beef by 56 percent, and the EU reduced market price support for wheat by 86 percent.[25] The variation by commodity and policy measure complicates evaluation of agricul-

[25] Figures are author's calculation based on the producer nominal protection coefficient and market price support data of the OECD Producer and Consumer Support Estimates Database.

TABLE 1.2
Reduction of Support to Agriculture

Region	*1986–88*	*1999*
Japan	2.6%	1.6%
EU	2.6	1.5
U.S.	1.4	1.0
OECD 24	2.2	1.3

Source: OECD (2000a).
Note: OECD Total Support estimates as share of GDP (percent) for Japan, the European Union, the United States, and the average of the twenty-four OECD members. The estimate includes financial transfers from taxpayers and consumers. The higher the percentage, the larger the share of national wealth used to support agriculture.

tural policy changes, but the OECD figures reported in table 1.2 show the overall reduction of support levels.

The significance of this increase of agricultural imports depends largely on the standard of evaluation. For governments trying to open Japanese and European agricultural markets, changes seem inadequate. Against an expectation that agricultural trade barriers should be reduced to the levels of industrial trade barriers, existing levels of protection of agriculture are far too high. In contrast, for farmers in Japan and Europe, their governments have conceded too much to foreign demands. Against an expectation that politically influential groups receive protection, a surprising amount of liberalization has taken place. In short, looking at the same policy outcome—for example, Japan's 1993 decision to import up to 8 percent of domestic rice consumption—one could consider this a small market share or a major political step.

Whether beginning from an expectation of zero or full liberalization, it is the variation in outcomes across different negotiations that is important. The two most recent GATT trade rounds illustrate the wide disparity in negotiation outcomes: the Tokyo Round ended with only small tariff concessions and modest expansion of import quotas in agriculture; in contrast, the Uruguay Round cut agricultural tariffs by 36 percent and domestic subsidies by 20 percent, and also converted nontariff barriers into tariff policies. In a series of negotiations, the Japanese government reduced the number of quotas on primary goods from fifty-eight in 1970 to five remaining quotas (MAFF 1997). Among these negotiations, in 1984 the Japanese government refused to end the quotas on beef and orange imports, but in 1988 agreed to end the quotas. The decision to end the rice import ban in the Uruguay Round was shortly followed by an APEC negotiation in which Japan refused to change its policies for fishery and forestry products. U.S. negotiations with the EU produced similarly contrasting outcomes. In 1986 European officials agreed to reduce duties against U.S. citrus products and to reduce export subsidies for European pasta products. However, despite retaliatory sanctions and a negative WTO ruling, the EU still refuses to modify the health regulation that prohibits the import of most U.S. beef.

In short, farmers are powerful, but not all-powerful. Some negotiations ended in deadlock with no policy change, others brought only partial changes in the level of protection, while others led to the overhaul of existing policy. This mix of liberalization outcomes within the agricultural sector challenges explanations based on domestic interest groups or foreign pressure alone. One must consider instead what factors in the context of each negotiation strengthen or weaken the relative influence of U.S. demands and political resistance in Japan and Europe.

Perspectives on Trade Negotiations

Negotiations are the most basic form of international cooperation. A negotiation can be anything from a simple conversation between diplomats over a disagreement to a formal meeting involving hundreds of countries and a broad agenda on a range of issues. Because the outcome may determine whether countries pursue war or peace and whether they open markets or close them, understanding why some negotiations are more successful than others is central to international relations. Do the more powerful states always win? Do strong domestic interests and values shape agreements? Such questions raised by the realist and liberal traditions of international relations theories address the larger forces that influence negotiations. Yet in the negotiation process, both power and interests are constrained by rules of the game that are recognized by all parties—it matters whether the negotiation takes place in an informal bartering session or in an international court. Therefore the study of negotiations should give attention not only to power and interests but also to the arena in which these forces face off against each other. Since power and interests tend to shift only slowly over time, attention to the details of the negotiation process offers more clues to explain individual negotiation outcomes and better advice for policy-makers about future strategies.

Trade policy offers a promising area for the study of negotiations. On the one hand, states can autonomously set their own commercial policies—the right to raise tariffs stands alongside the right to collect taxes as a basic function of governments. However, in order to gain access to foreign markets, states usually must grant access to their own markets. This gives rise to the need for negotiations to promote and/or restrain the forces of economic interdependence. Governments choose among different institutional fora and negotiating strategies: unilateral versus multilateral demands, threats versus legal complaints, single-sector versus multisector negotiations. The economic impact of changes in trade policies also means that political constraints at home bear directly on the negotiation. The large number of trade negotiations provides a broad sample of evidence to evaluate how these factors influence outcomes.

When explaining negotiations, different theoretical approaches emphasize the importance of the preferences of negotiating parties, the strategic interaction between governments in the negotiation, the two-level interaction between domestic groups and governments, and the institutional context of the negotiation. The next section will discuss these perspectives on the study of trade negotiations and justify the need to give more attention to the institutional context of the negotiation. The central claim is that international institutions that structure a negotiation change the balance of interests at the domestic level in a direction favoring liberalization. Counter to the expectations of both liberal and realist theories of international relations, rules persuade more than power—whether the power of politically influential interest groups or U.S. pressure.

Trade Policy Preferences

Economic interests and political institutions determine the goals put forth in each government's negotiation mandate at the outset of the negotiation. Understanding the source of preferences over trade policies is fundamental to international political economy and is the logical starting point for an examination of trade negotiations.

Economic approaches to trade policy instruct us that countries gain from trade by exporting those goods that hold a comparative advantage within the economy. The Ricardo-Viner model assumes it is difficult for factors to move (e.g., farmers are unable easily to change occupations and reallocate their assets), and therefore import-competing sectors lose from trade while export sectors gain from trade. The Hecksher-Ohlin model assumes land, labor, and capital are completely mobile so that relatively abundant factors will benefit from trade while relatively scarce factors will suffer. For land-scarce Japan, this implies that trade hurts landowners and benefits owners of capital. Political economy studies have drawn on these models to explain the pattern of social cleavages and preferences for trade policies (Rogowski 1989; Hiscox 2002). This division of the winners and losers from trade explains broad differences, such as why farmers in Japan and Europe oppose liberalization while their industrial manufacturers favor liberalization. However, what does this mean for policy outcomes? The declining share of agriculture in the economy and the losses suffered from trade weaken the sector and also strengthen its need for government intervention.

In the policy-making process, politicians consider not only the aggregate economic interests of their constituency but also the contributions and votes promised by those groups that lobby for narrow interests.[26] Many of the economic inefficiencies observed in policy outcomes are attributed to *collective action problems* that arise because groups representing a smaller segment of the population, such as farmers, have greater incentive and capacity to organize than broader groups in the population, such as consumers. Thus narrow interests are more likely to accept the costs of paying campaign contributions and organizing voter turnout in order to lobby for their policy goals. This dynamic explains why there is a political marketplace for protection even when it is not economically rational to protect that sector. From this perspective, the political organization of farmers accounts for their ability to earn more protection, and liberalization is unexpected.

Liberalization outcomes may reflect the decision to delegate to an executive representing broader interests. In U.S. politics, Congress is said to have delegated to the president in order to avoid its own protectionist tendencies and gain the benefits of liberalization (Lohmann and O'Halloran 1994). In the Japanese and European political context, some have described a policy process in which elite technocrats form a blueprint to guide economic policy according to a chosen trajectory for economic development (Johnson 1982; Haas 1958). However, for the most part, models of politicians abdicating control to bureaucrats in Japan and Europe have been dismissed. Not only do bureaucrats have interests that may diverge from objective national economic interests, but also they share influence with political actors that make decisions

[26] In the landmark study of the political forces for protection, Schattschneider (1935) says the advantage for concentrated interests over diffuse interests explained the support for the protectionist Smoot-Hawley Act. Olson (1965) offers the classic study of biased influence for organized groups in political action. For formal models of pressure group influence, see Becker (1983) and Grossman and Helpman (1994). Rodrik (1995) provides a review article of a range of studies. In an empirical evaluation of U.S. trade policy, Goldberg and Maggi (1999) show that the level of political organization and import penetration explain the structure of protection across sectors within the United States.

about when and how much authority to delegate (Cowhey and McCubbins 1995; Moravcsik 1998).

Politicians are usually unwilling to grant autonomy when there are divided interests and high political stakes, which means that the degree of delegation varies across policy areas and issues.[27] In trade negotiations, the interests at stake and nature of the policy process varies with the context of each negotiation. This creates different incentives for delegation. In Europe, the Council of Ministers has sometimes passed a strict mandate limiting the negotiation authority of the Commission, and at other times granted considerable flexibility (Meunier 2000). The Japanese Diet passed three resolutions against rice liberalization, which restrained the freedom of the government during the Uruguay Round. In other negotiations the Diet has largely been on the sidelines waiting for the outcome negotiators bring back. Rather than an a priori level of delegation, the balance between different government actors changes for each negotiation.

Institutions or ideas can strengthen the influence of one interest over another (Alt and Gilligan 1994; Goldstein and Keohane 1993). The electoral system shapes distributive politics for who receives the allocation of benefits from trade and the supply of protection policies. For example, in Japan electoral districting has led to overrepresentation of rural areas in the Diet, and multimember districts have magnified the influence of concentrated voting groups such as farmers (Mulgan 2001). It is also possible for institutions to reshape policy choices in ways that lead to mobilization of narrow interests favoring liberalization to counterbalance those for protection (Gilligan 1997). Prevailing ideology will shape what goals are pursued and which solutions are seen as likely to prove effective. An ideological notion about food security that calls for self-sufficiency in food supply and maintenance of family farms helps to explain the form of protection policies in Japan and Europe. The sum of domestic pressure on a given policy issue will reflect economic interests, collective action, bias in the political system, and ideas about how best to achieve social welfare. However, these factors better explain the persistence of agricultural protection policies in Japan and Europe, and leave as a puzzle the variation in negotiation outcomes and the emergence of greater liberalization.

A common assumption across many political economy models of trade policy is that countries set their trade policies autonomously. Even cross-national studies attribute variation in trade patterns to industry-

[27] See Epstein and O'Halloran (1999) for a thorough review of the literature on delegation and analysis of when the U.S. Congress has been more or less willing to delegate.

or country-specific characteristics (Ray and Marvel 1984; Lee and Swagel 1997). The focus on U.S. trade policy may account for this emphasis on the single-country determination of trade policy. Sheer market size allows considerable autonomy for the United States, such that it may indeed be possible for the United States to impose its preference for open markets or to adopt an optimal tariff (Kindleberger 1986; Conybeare 1987). However, for most countries, and even the United States, it is difficult and often undesirable to pursue unilateral trade policy.

International politics constrain trade policy choices because the options for export markets and the costs of protecting imports are directly related to the policies of other countries. Given the competing trade preferences within a country, not only domestic politics and institutions but also international politics and institutions interact to favor one policy over another. Thus while understanding trade preferences is a start to the analysis of trade policy, one must look further at the international bargaining that influences which preferences will be realized.

Interstate Bargaining

Whether a country can achieve its policy goal depends on the strategic interaction between national governments in the negotiation. In their analysis of international bargaining, many studies assume that preferences over trade policy are fixed and states are unitary actors. From this perspective, material power or strategic tactics provide bargaining leverage that determines negotiation outcomes.

Realist perspectives on bargaining emphasize that national interest and material power determine the distribution of gains in negotiations (Krasner 1991; Mearsheimer 1994–95; Steinberg 2002). In this view, threats or bribes coerce countries into making compromises they would not otherwise choose. When applied to economic negotiations, the size of the U.S. economy and its role as a superpower help the United States force other states to open their markets. Many studies of U.S.-Japan negotiations portray Japan as a "reactive state" that will submit to pressure when the United States threatens to deny access to U.S. markets and alliance cooperation (Calder 1988; Lincoln 1999). This approach seems persuasive for static comparison; Japan's higher level of dependence on U.S. markets may account for its greater responsiveness to U.S. pressure relative to the EU. However, it does not fit the general trend that liberalization has increased since 1970 even though the relative dependence of Japan and Europe on the U.S. market has declined.

Strategic dependence is also an unsatisfying explanation. Some of the most controversial and least successful trade negotiations have occurred when global security tension should have enhanced the importance of the alliance. For example, in 1963 at the height of Cold War politics, the United States and the EC engaged in a trade dispute over U.S. poultry exports to Germany, the so-called Chicken War, and both sides refused to back down. Decades later as the United States prepared to lead troops to fight in the Gulf War, Japan, Europe, and the United States caused an embarrassing negotiation failure when they steadfastly refused to compromise their positions on agriculture in a December 1990 GATT negotiation in Brussels. None of the alliance partners seemed to restrain their demands or make more generous concessions in order to maintain a common front. Indeed, it is quite difficult to say whether one would expect more or less liberalization because of a strategic relationship.

Although the United States has the capacity to coerce other countries, its interests may be mixed and its resources inappropriate for the task. In economic negotiations with allies and trade partners, military power is not relevant, and the denial of access to U.S. markets harms the United States and damages important relationships. Therefore, the United States may be willing to back down, depending on its own costs and its evaluation of whether the trade partner is bluffing or genuinely cannot politically afford to offer concessions (Odell 1993; Gawande and Hansen 1999). As a result, it may be difficult to determine negotiation outcomes even when U.S. goals and power vis-à-vis an ally are clearly understood.

While preferences and power constrain states in a negotiation, states' choice of strategies depends on beliefs about what the other actor will do. The strategic bargaining literature views negotiating strategies that rely on information and commitment as the source of bargaining leverage.[28] From this perspective, uncertainty is the biggest obstacle to international cooperation. Bargaining leverage derives from which side can make a credible threat, and cooperation is possible when states can make credible commitments. This focus on credibility arises because actors have incentives to misrepresent their preferences when it can help them achieve an outcome closer to their ideal point.

The realist approach, and most bargaining models of strategic interaction, assume the state is a unitary actor. Focusing only on the national level outcomes, this assumption ignores the variation in preferences among different domestic actors and the uncertainty over which group's

[28] For example, see Schelling (1960), Morrow (1994), Fearon (1998), and Lake and Powell (1999).

interests will be reflected in policy outcomes. Treating the domestic level as a black box seems especially inappropriate for the study of trade negotiations because distributional effects create opposing interests within a country, and the potential losses to some do not threaten national survival in a way that would force national unity. Domestic factors will influence the strategies of both sides as each negotiates while looking at their own domestic audience and their opponents' domestic costs.

Domestic Politics and International Negotiations

Negotiation agreement is possible only when it satisfies both domestic and international requirements. Robert Putnam (1988) introduced the analogy of "two-level games" to characterize the observation that a leader negotiates simultaneously over domestic constraints and the international bargain. Fundamentally, distributional consequences and interest group behavior in the domestic institutional context set the parameters for negotiation outcomes (Milner 1997; Moravcsik 1998). From a tactical perspective, a restrictive mandate from a critical home audience may help to push a foreign negotiating partner to offer more concessions (Schelling 1960, 28).[29] Domestic processes are also important because they convey information about state intentions. For example, legislative involvement in negotiations may increase the likelihood of cooperation because it allows governments to commit credibly to implement an agreement (Martin 2000).[30]

The importance of examining both international and domestic levels of the negotiation has been emphasized in analyses of Japanese and European foreign policy. Several studies demonstrate that *gaiatsu* (foreign pressure) is necessary to bring change in Japan but will work only when domestic groups support the foreign demand.[31] The policy process in Europe is even more complicated. Some have pointed to the need to understand EU trade politics as a "three-level game" in which there is the national process of preference determination, and then an EU pro-

[29] See Evans, Jacobson, and Putnam (1993) for several case study applications of two-level games analysis. See Iida (1993) and Tarar (2001) for bargaining models extending Schelling's argument.

[30] Iida (1993) and Tarar (2001) argue that domestic constraints can improve distributive outcomes for the constrained side. Milner (1997) uses an alternative bargaining model to show that domestic divisions could make cooperation more rather than less difficult.

[31] Mulgan (1997b) applies this argument to the study of agricultural trade negotiations. Mikanagi (1996) and Schoppa (1993, 1999) examine the effectiveness of foreign pressure in U.S.-Japan bilateral negotiations.

cess for aggregating these national policies into a single EU position, and finally an international negotiation for coordinating international policies (Moyer 1993; Patterson 1997). However, since the EU Council of Ministers brings together national representatives to form a single negotiating mandate, it is possible to consider a two-level analysis of the EU politics in the Council of Ministers and the international bargaining level that parallels the domestic-international balancing act of other governments participating in trade negotiations.[32]

When studies relax the unitary actor assumption in order to address the complexity of domestic politics and its effect on international cooperation, they often generalize about the international level. For example, in a study of domestic politics and international relations, Helen Milner (1997) argues that the distributional consequences of cooperation for domestic interest groups and the domestic institutions that filter the influence of these interests will determine when international cooperation occurs. However, she treats the international negotiation as an undifferentiated bargaining arena.[33] This disregards the possibility that factors related to the international level could change the costs of cooperation for domestic actors.

In another important study, John Odell (2000) finds that negotiations are likely to achieve better outcomes when negotiators pursue integrative strategies that present gains for both sides. He examines how market conditions, beliefs, and domestic politics influence these strategies. However, the options available to negotiators are also influenced by constraints in the negotiation context, and any individual state has limited freedom to restructure those constraints.

This leads to the question, *what if the negotiation context affects the domestic distributional consequences of the negotiation outcome*? When governments choose among mixed domestic preferences, they consider the influence of international level constraints. Not only do governments evaluate the bargaining constraints, but also different domestic actors respond to the stakes created by the international negotiation. Both mobilization by interest groups and the policy track for decision making change according to how the negotiation frames the issues.

For example, the institutions of the Uruguay Round trade negotiation established a comprehensive package for the negotiation of a single

[32] See Meunier (2000) for an example.

[33] Milner (1997, 70) writes, "The international game adopted does not have a well-defined institutional structure; politics on that level are assumed to be anarchic, and international negotiations are generally conducted without a constitutionally mandated sequence of moves."

agreement for agricultural, industrial, and service market liberalization. Linking different issues had important implications for the distributional consequences of the negotiation, as liberalization desired by some industrial groups was made conditional on liberalization opposed by agricultural groups. At the same time, the broad agenda of the negotiation expanded the policy jurisdiction to give trade ministers more access to influence agricultural policy decisions. If there had not been any constraints created by the negotiation structure, Japan and Europe could have bargained over industrial trade liberalization separate from agricultural trade liberalization. Under such a scenario, export-oriented industry groups would lobby for the industrial goods negotiation and ignore the agricultural goods negotiation, while autonomous agriculture ministries and strong farm group lobbying would dominate the decision making for the agricultural negotiation. Clearly the credible linkage between the two different trade issues that arose in the negotiation had important implications for the distributional consequences of the negotiation on interest groups and for the constraints of domestic institutions on state policies. This example points to the need to examine more closely the negotiation context.

The Institutional Context of the Negotiation

Negotiations do not occur in a vacuum. International institutions act as the rules of the game that provide the context for bargaining among states and among domestic actors. This book emphasizes the influence of the institutions specific to the negotiation—the agenda, rules, and procedures that regulate the interaction between states in the policy dispute. The analysis builds on a wider literature about the role of international institutions while deepening understanding of how institutions influence negotiation outcomes.

Douglass North (1994, 60) defines institutions as "the humanly devised constraints that structure human interaction. They are made up of formal constraints (e.g., rules, laws, constitutions), informal constraints (e.g., norms of behavior, conventions, self-imposed codes-of-conduct), and their enforcement characteristics. Together, they define the incentive structure of societies and specifically economies." The WTO forms the principal institution for trade, although it operates alongside many other economic institutions, including bilateral trade agreements, regional trade associations, and other organizations such as the OECD. The WTO is a multilateral organization with a secretariat based in Geneva and a membership that had grown to 144 countries and customs unions by the end of 2001. As an international institution, it consists of rules for trade policies that form the core of international trade law, procedures for dispute settlement, and a forum for negotiations on new rules and commitments.

The present international trade system finds its roots in the planning of the United States, United Kingdom, and other allies during World War II. Leaders sought to create an economic system that would prevent the kind of economic turmoil that had contributed to developments leading to war. The historic 1944 Bretton Woods conference focused on monetary and banking issues and also endorsed the need to regulate trade. Governments proved unable to reach consensus on an International Trade Organization, but in 1947 twenty-three governments signed as contracting parties to the GATT, which was a "provisional" arrangement that became the de facto trade rules for nearly half a century. This multilateral agreement contained schedules of individual tariff commitments that were generalized to all members by the obligation of most-favored-nation treatment. The GATT rules guided the conduct of trade by prohibiting discriminatory treatment and regulating the use of different kinds of trade policies.[34] The GATT also provided a forum with formal procedures and mediation for the resolution of disputes over trade issues related to these rules. Periodic trade rounds among all members brought new tariff reduction commitments and amendments to GATT rules. In 1994 the Uruguay Round established the WTO as a formal organization that would thereafter encompass both the obligations of the GATT 1947 system and the new agreements of the Uruguay Round.[35]

In his functional theory of institutions, Robert Keohane (1984) describes an array of functions performed by institutions such as the GATT that help nations cooperate. Building on the transaction cost economics literature, Keohane argues that international institutions lower transaction costs by providing information, linking issues, and making commitments more credible.[36] Transaction costs arise because of the risk from uncertainty and the time investment for deal making. For example, two countries may be unable to make a trade agreement because each has incentives to refuse to comply with the liberalization of its

[34] The general rules of GATT articles 2 through 17 apply to all products and address the following policy areas: antidumping and countervailing duties, valuation of goods for customs purposes, procedures for customs administration, marks of origin, quantitative restrictions, subsidies, and state trading monopolies (Jackson 1997, 51–52).

[35] This brief overview draws on Jackson (1997). For more on the WTO, see also Krueger (1998).

[36] Keohane highlights that international institutions perform functions that create the conditions necessary for voluntary agreements as specified in the theorem by Ronald Coase (1960): legal framework, perfect information, and zero transaction costs.

sensitive products. A commitment to abide by an agreement is more credible when there is a system for monitoring compliance and punishing violations. International institutions engage states in an ongoing process of repeated negotiations and provide information about reputations. Transactions will be less risky—and hence more likely to take place—if there is an external source of information, such as a neutral third party who can maintain records on past behavior (Milgrom, North, and Weingast 1990). International institutions also increase cooperation by linking issues to create mutually beneficial agreements—more quids make it easier to reach agreement in quid pro quo deal making (Keohane 1984, 91).

Norms and legitimacy are another mechanism by which institutions can favor some policies over others. Alongside the material context of the negotiation is the social context.[37] Some policies will appear more legitimate than others, and a foreign demand to change a policy will encounter more resistance if the domestic policy is held to be legitimate and the foreign demand unjustified (Bhagwati and Patrick 1990; Chayes and Chayes 1995). On the other hand, a judgment that a policy violates international law undermines the legitimacy of the policy if leaders and the public attribute value to having policies congruent with accepted international norms.[38] As states continue to participate in the international institution, socialization makes it more likely that leaders and the public will prefer cooperation. At the same time, the interest a state has in the continued integrity of the system of rules also motivates decisions to follow rules.

Institutional theories often aggregate together these multiple functions to explain the general pattern of cooperation. However, to understand the causal process it is necessary to examine variation in specific features of institutions. Recent studies point to the need to consider how international institutions such as the WTO create fora for bargain-

[37] See Schoppa (1999) for a discussion of social context influencing U.S.-Japan negotiations. For a broad theoretical review and analysis, see Johnston (2001).

[38] Theoretical models have shown that the presence of a sense of international obligation motivates countries to follow GATT rulings (Kovenock and Thursby 1992). This use of legitimacy does not require abandoning a rationalist framework. Keohane (1984, 89) refers to possible retaliation, reputation damage, and linkage with future agreements as some of the costs associated with taking illegitimate actions. From the standpoint of utility maximization, it is possible to view "duty" as part of preference ordering. For example, Downs (1957) included in his model of voting turnout a term, D, to represent citizen duty. Subsequent analysis of the calculus of voting has also used a sense of duty to explain why people take the trouble to vote even when their single vote has almost no chance of changing the outcome and providing gains in the traditional sense of utility optimization. See Aldrich (1993) for a discussion of different approaches in the voting literature.

ing and shape outcomes (Morrow 1994; Fearon 1998). This involves looking more closely at institutions to show which rules and norms influence behavior, and how they create incentives that favor particular policy outcomes over others.[39]

Despite the central role of negotiations in shaping the international political economy, little is known about institutions specific to negotiation structure. The tendency has been for scholars to analyze one particular kind of negotiation in isolation, such as negotiations initiated by unilateral U.S. trade policies (section 301 cases), GATT dispute settlement cases, GATT trade rounds, or the structured bilateral talks between Japan and the United States.[40] However, few studies examine the differences between negotiations conducted in a GATT trade round versus a GATT dispute settlement proceeding versus bilateral talks or a regional trade forum.

In addition to comparison across negotiations, a closer examination of the negotiation process is important. Many claim that institutions matter because incentives created by institutions influence state preferences (Krasner 1983a). Yet little is known about how this feedback process operates. Studies focus on either state-to-state interaction or government-to-private-sector interaction without looking at both. The literature on international institutions introduces greater complexity to models of international politics while still assuming that states are unitary actors.[41]

Integration of the study of international institutions and theorizing about two-level games offers new insights into how international institutions lower transaction costs, not only at the international level but

[39] See Abbott and Snidal (2000), Simmons (2000), and Koremenos, Lipson, and Snidal (2001) for examples.

[40] See Bayard and Elliott (1994), Kherallah and Beghin (1998), and Zeng (2002) for studies of U.S. trade negotiations initiated under section 301 of U.S. trade law, which includes comparison of section 301 negotiations in GATT mediation with all other section 301 cases. GATT dispute cases are given separate treatment in analyses by Hudec (1993), Reinhardt (2001), Busch (2000), Maggi (1999), and Kovenock and Thursby (1992). U.S.-Japan bilateral talks are the focus of analyses by Yumiko Mikanagi (1996) and Leonard Schoppa (1997). For studies of the Tokyo Round, see Jackson, Louis, and Matsushita (1984) and Winham (1986). For a study of the Uruguay Round, see Croome (1995). Josling, Tangermann, and Warley (1996) give a historic overview of how GATT trade rounds have addressed agricultural issues. In one of the most comprehensive negotiation studies to date, John Odell (2000) examines ten negotiations in different negotiation contexts, presenting a framework to examine the effect of market conditions, culture and belief, and domestic politics on negotiation strategies and outcomes.

[41] See, for example, Keohane (1984), Fearon (1994), Bagwell and Staiger (1999), and Maggi (1999).

also at the domestic level. The literature on international institutions focuses on how international institutions correct for market imperfections that result from lack of certainty and enforcement of contracts in an anarchic world system.[42] Yet transaction costs are also incurred at the domestic level, and these may be harder to overcome than those at the international level (Moravcsik 1999, 301). Imperfections in political markets due to collective action problems and lack of information are often used to explain the rise of protection policies.[43] Even after an international institution has reduced international transaction costs, if obstacles to cooperation at the level of domestic politics remain, liberalization will be unlikely. Changing this domestic balance is a fundamental aspect of how international institutions promote cooperation. Governments must form a coalition to support a liberalization policy, and doing so requires committing to compensate some groups and convincing other politicians they will not be blamed for giving in to foreign demands. International institutions are important because they reduce transaction costs between states and also *within* states.

Overview of Argument

International institutions make liberalization more likely when they compensate for the collective action problems and segmented policymaking that support protection policies. Where trade politics are often dominated by narrow interests demanding protection and bureaucratic actors with a vested stake in the status quo, new negotiation stakes and information provided by an international institution can increase the lobbying for liberalization and break down the walls of bureaucratic jurisdiction. In particular, agricultural liberalization is most likely when the lobbying for protection by farmers and the policy autonomy of agriculture ministers is counterbalanced by a free-trade coalition and broad policy jurisdiction.

Two kinds of institutional arrangements for trade negotiations can help establish these conditions necessary for liberalization. The first negotiation structure links agricultural issues in a comprehensive negotiation package with other sectors. The second places the single policy within the legal framework of trade rules. While each represents a distinct causal mechanism and arises in a different kind of negotiation,

[42] In addition to Keohane (1984), examples of other studies that focus on transaction costs within anarchy to explain state cooperation include Yarbrough and Yarbrough (1992), Martin (1992a), Frieden (1994), and Weber (2000).

[43] See, for example, Simmons (1994) and Krueger (1996).

both rely upon the larger GATT institution to reinforce the credibility of the negotiation structure that places agricultural issues in a larger context of interests.

The study of issue linkage is prominent in both American politics and international relations. Cross-sector issue linkage is the focus of this book. When the agenda and procedures of a negotiation bind together negotiations for market opening across multiple sectors into a single package deal, this broadens the economic stakes of the negotiation. This kind of all-or-nothing approach forces a choice between preferences for protection of one sector and liberalization of another. Institutionalization of this negotiation structure increases the credibility of the linkage. Once there is a credible issue linkage, it motivates those who gain from free trade to lobby against those who prefer protection. The wide scope of the agenda also brings in more policy actors and reduces the autonomy of representatives for any single interest within decision making. Politicians can more easily accept an agreement that holds a balance of gains and losses for domestic interests.

In contrast to issue linkage, legal framing relies on narrowing the scope of the negotiation agenda. Evaluating a single policy issue in the context of international trade law introduces reputation and international obligation as additional factors. Adjudication of disputes publicly brands those who violate their commitments in terms of a specific policy measure. To the extent that countries fear that a bad reputation may reduce their ability to negotiate future liberalizing agreements or their leverage against discriminatory policies, this kind of negotiation will bring early settlements. A legal ruling against a policy legitimizes demands for liberalization, and this strengthens arguments favoring liberalization while placing opponents on the defensive. The normative pressure of international law has political utility to persuade domestic audiences. At the same time, the rules hold implications for material interests because of their role to promote trade. As the combination of these normative and trade interests, international obligation represents a new stake in favor of liberalization.

The political economy of agricultural trade in Japan and the EU represents the classic example of how a well-organized lobby and biased political system can produce high levels of protection. Liberalization of such sensitive policies requires broadening interests and lowering political costs. The negotiation structure can facilitate this process, although the relative effectiveness of different negotiation structures is conditioned on the domestic political context. The contention that the GATT/WTO institutions have promoted agricultural liberalization in trade rounds and dispute settlement proceedings over the protests of farm groups counters the argument that states will not cooperate on issues when they face opposition by powerful domestic interests. Indeed, linkage and law provide more leverage to open markets than do threats of retaliation.

Studying variation within and across trade institutions offers new insights into how institutions affect state behavior. First, the disaggregation of the number of issues, rules and norms, and the number of actors reveals the relative influence of distinct features in the negotiation structure. Second, the examination of the domestic level effects of international institutions demonstrates the causal mechanism by which international institutions promote cooperation.

Methodology and Organization

In the following chapters, a combination of quantitative analysis and comparative case studies is used to examine agricultural negotiations between the United States and Japan and Europe from 1970 to 1999. Over this period, U.S. advocacy of liberalization and foreign protectionist lobby resistance to liberalization of the agricultural sector have both remained fairly steady. Five hypotheses are compared in order to study the effect on negotiated policy liberalization resulting from two negotiation structures, cross-sector issue linkage and legal framing, and to consider the alternative influence from threats, domestic politics, and budget pressures. Focusing on negotiations where Japan and Europe are on the receiving side of U.S. demands for agricultural market liberalization facilitates analysis of variation in negotiation structure while partially controlling for the primary alternative explanations of trade policy: U.S. interest and power, on the one hand, and protectionist lobby interest and power, on the other. Moreover, evidence that institutional context influences negotiation outcomes even in such a least likely case for trade liberalization as the agricultural sector provides a strong test of institutional theories about international relations.[44]

First, the effect on liberalization from different negotiation features is evaluated in quantitative analysis of an original dataset, which includes over 250 products that were the subject of U.S. negotiations with Japan and Europe from 1970 to 1999. A negotiation on an agricultural trade barrier forms the unit of analysis. “Agricultural products” include fishery, tobacco, and alcoholic beverages in addition to raw and processed

[44] For an explanation of case study analysis and the use of least likely cases for testing theories, see Eckstein (1975).

foodstuffs.[45] Negotiations range widely in terms of agenda and procedures, including the following kinds of negotiations: GATT and WTO dispute settlement cases, which are legalistic proceedings initiated by a formal complaint; GATT trade rounds, which are comprehensive talks on rule making and tariff bargaining; ad hoc bilateral talks; and regional talks such as the APEC sectoral trade liberalization negotiation.

Then, comparative case studies are used to examine the process by which the institutional context of the negotiation influences the policy outcome. The goal is to explain whether issue linkage works through the connection with export interests and whether leaders perceive that accepting the authority of legalistic settlements holds legitimacy that will reduce their political costs. Attention is given to decisions that shape the negotiation agenda, rules, and procedures. How do interest groups respond to changes in the negotiation context? Which policymakers have the lead role and what do they say to justify their decisions? How well does the policy outcome fulfill different policy objectives? By answering these questions, we move closer to understanding the logic of liberalization. Supporting evidence is based on interviews with government and interest group officials and is supplemented by documents, media reports, and secondary materials.[46]

Some of the chapters examine a series of repeated negotiations on the same agricultural policy issue. These cases offer an opportunity to analyze the changes in domestic political behavior corresponding to different negotiation structures when the same agricultural issues are at stake. Other chapters compare different agricultural products in order to reflect the variation in political sensitivity even within the sector. Political sensitivity will vary according to the share in total agricultural production and labor, the political strength of the region where it is produced, and public interest in the issue. For example, rice holds a prominence in Japanese society that overshadows all other agricultural issues. By comparing cases of highly sensitive agricultural products, such as rice in

[45] Agricultural commodity refers to the definition typically used in trade negotiations to mean agricultural products: the harmonized system (HS) code chapters 1 to 24. This includes fish, alcohol products, and tobacco within the definition of agriculture. In addition, I include starch products and some other processed food products (HS chapter 35). Some negotiations, such as the Uruguay Round, may separate fish into a different negotiating group from other agricultural goods, but I include as *agricultural* all negotiations on fish trade issues. I do not include negotiations related to territorial boundaries and fishing rights.

[46] I conducted over one hundred interviews in Japan during August 1996, July 1997–July 1998, and January 2000, and in Europe during July 1999 and July 2000. I interviewed U.S. officials both in Washington, DC, and in the U.S. embassies in Tokyo, Brussels, and Geneva.

Japan, with relatively less sensitive products, such as fish, the qualitative analysis of the case chapters takes into account these political differences.

Negotiated Policy Liberalization

This study evaluates negotiation outcomes by the degree of policy change to lower trade barriers that is mandated in the terms of the negotiation settlement. In the long run, implementation policies and markets will determine the negotiation's economic impact. However, the most important political decisions revolve around the commitments written in the agreement, and this *negotiated policy liberalization* will most directly reflect government choices about the acceptable degree of market opening.

The focus on the policy agreement differs from other studies that use economic measures of liberalization, such as trade flows, import penetration ratios, and price differentials.[47] One drawback of these economic measures is the difficulty to distinguish between changes that result from national tastes, vagaries of weather conditions, and shifting world demand and supply, on the one hand, and changes that result from political decisions about trade policy. Furthermore, the interaction between prior trade levels and the policy decision to liberalize means that studying trade levels alone is inadequate.[48] Therefore, the empirical economics literature often examines policy variables for comparison of patterns of protection across sectors (Ray 1981; Ray and Marvel 1984; Lee and Swagel 1997). This requires a uniform policy measure of annual level of tariff and nontariff barriers for a given commodity group, which limits the available data. For this book, it is more important to match closely the specific negotiation topic with the direct policy outcome.

Negotiated policy liberalization is also distinct from success for U.S. exports. Some studies evaluate negotiation outcomes in terms of whether the United States achieved its negotiation objectives.[49] This ap-

[47] For studies with such measures in agricultural political economy, see, for example, Lindert (1991), Ames, Gunter, and Davis (1996), and Abbott (1998).

[48] In a model of endogenous protection, Trefler (1993) illustrates that the impact on imports is actually underestimated by ten times when considering only change in trade after the exogenous policy change.

[49] This is the approach adopted by Bayard and Elliott (1994, 59–64). A combination of interviews with U.S. negotiators and business representatives and analysis of U.S. market shares provides the evidence for Bayard and Elliott to judge whether the negotiation was a U.S. success. The authors admit that success may include a discriminatory deal favoring a

proach may underestimate liberalization because U.S. demands strategically call for more than could be expected and thereby produce a shortfall in the outcome from the initial objectives. Moreover, the absence of a rise in U.S. sales following a policy change does not necessarily mean that the negotiation outcome was insignificant—for example, exports of other countries may increase their market share or local producers may adapt to maintain their market share.[50] Therefore this book emphasizes the change in policy rather than the market outcome for the United States. While full implementation and improved market access are important, they are conditional upon first reaching the political agreement in the negotiation.

Chapter Overview

Part 1 presents the core of the argument about the importance of negotiation structure. Chapter 2 analyzes two kinds of negotiation structures that characterize the institutional context of negotiations: issue linkage and legal framing. It posits the causal mechanism by which these institutional variables in the negotiation structure promote liberalization by changing domestic level politics. After discussing expectations for liberalization in different kinds of negotiations, a final section of the chapter addresses the question of interests and the choice of negotiation structures.

Chapter 3 presents hypotheses and statistical evidence to support the importance of negotiation structure when controlling for alternative factors such as budget conditions, economic growth, political variables, and whether the United States issued a threat of retaliation.

Parts 2 and 3 present the case study analysis of U.S.-Japan and U.S.-EU negotiations. First, chapter 4 provides the background for understanding the protection policies and important domestic actors in Japan. The case studies of U.S.-Japan negotiations in chapter 5 are a sequential comparison of three negotiations on the same set of agricultural prod-

U.S. company and not fall under genuine liberalization. Leonard Schoppa's (1999) analysis of U.S.-Japan negotiations uses the same data.

[50] For example, a 1994 deal to allow the import into Japan of U.S. Red Delicious variety of apples brought American apples into Japanese grocery stores but failed to produce a substantial market increase for the United States because Japanese consumers rejected the product. Marketing failure by U.S. companies and a poor match between the product and Japanese consumer demand were cited as the causes of the failure (Kajikawa 1999, 112). New Zealand exporters were more successful, and Japanese producers maintained their niche for high-quality apples.

ucts in different negotiation contexts. The negotiations on beef and other products began in the Tokyo Round, were renewed in bilateral talks, and were finally resolved in a negotiation shaped by GATT dispute settlement proceedings. This offers a controlled comparison of how similar demands by the United States on the same set of domestic constituents in Japan led to different domestic political debate and negotiation outcomes depending on the negotiation context.

Chapter 6 addresses the most difficult agricultural negotiation for Japan—ending the ban against importing rice. Through examination of the different phases of the Uruguay Round trade negotiation, the case study shows that increases in the institutionalization of the issue linkage in the negotiation agenda led to increased mobilization by exporter industries and persuaded leaders that liberalization was necessary. Then, in a comparison with another cross-sector negotiation, this chapter discusses how the fishery and forestry lobbies were able to resist liberalization during a 1998 APEC trade negotiation because the voluntary nature of the institutions provided weak leverage for U.S. demands. Although rice farmers are much more politically influential than fishermen and foresters, a strong issue linkage in the Uruguay Round led to concessions on rice while the weak institutional linkage in APEC let fishermen and foresters resist any concession.

Shifting to the study of European agricultural policies in part 3, chapter 7 provides the background on the protection policies and interests for EU agricultural policy. Chapter 8 compares the failure of the Tokyo Round with the success of the Uruguay Round. While both were major GATT trade rounds with U.S. demands to reform CAP, the procedures differed in ways that had important implications for the conduct and eventual outcome of the negotiation.

The resistance of the EU to legalistic pressure is explored in chapter 9, which provides an overview of reasons for the tension between GATT and CAP. In a case study of a controversial failed negotiation, this chapter looks at the issue of hormone-treated beef, which united European consumers and farmers against American beef imports. The EU ban against this meat led to a U.S. complaint to the WTO and a ruling against the policy as a violation of EU commitments. The refusal to follow this ruling highlights the process by which EU institutions and norms prevent successful adjudication of agricultural policies.

Chapter 10 offers comparative perspectives on Japan and the EU reaction to different negotiation structures. In particular it extends the analysis of why Japan is more responsive to legalistic pressure than most countries and why the EU is more resistant. It concludes with suggestions of broader implications and future research.

This chapter introduced the puzzle that agriculture negotiations have brought widely different results, including some of the most dramatic negotiation failures as well as substantial concessions in an area of highly sensitive domestic policies. Against the background of consistently strong U.S. pressure and equally strong domestic resistance by farm lobbies in Japan and Europe, the major difference lies in how the negotiation structure frames the issue. The analysis of agricultural trade negotiations in the subsequent chapters will show how these differences in the context of the negotiation influence liberalization outcomes. By pointing to the domestic level effects of international institutions, the book integrates the international institutions literature with theorizing on two-level games. The results show that seemingly minor issues such as the agenda and procedures of a negotiation determine whether decision-makers listen to farmers protesting outside their doors or whether they weigh the broader interests of the economy and international obligation.