

# Linkage and Legalism in Institutions:

*Evidence From Agricultural Trade Negotiations*

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## **Abstract**

In a comparative study of Japanese and European trade policy, this paper explains how the institutional context of negotiations affects political outcomes. I examine two pathways by which negotiation structure promotes liberalization: issue linkage and legal framing. Broadening stakes through issue linkage mobilizes domestic lobbying for liberalization. Use of GATT/WTO trade law in dispute settlement legitimizes arguments favoring liberalization. This study on international institutions addresses the theoretical debates in the field regarding how interdependence and the legalization of international affairs change the nature of state interaction.

I test my argument in the sensitive area of agricultural trade policy. Statistical analysis of U.S. negotiations with Japan and the EU from 1970 to 1999 indicates that an institutionalized issue linkage makes liberalization more likely for both Japan and Europe. This is the most important source of leverage for bringing major policy reform. However, the effect of GATT/WTO legal pressure interacts with the political context. I conclude that domestic political processes make Japan more responsive to pressure from trade rules than the European Union.

The powerful farm lobby long prevented liberalization of agriculture across industrial nations. Japanese farmers drove their tractors through the streets of the Ginza district to protest U.S. demands while their more radical French counterparts burned an American flag and ransacked a McDonald's restaurant in Paris. Such incidents illustrate the passion and mobilization of the farm lobby, which also commands the attention of politicians as an important voting group. Therefore it is surprising that agricultural liberalization has increased over the past decade. Why have Japan and Europe acceded to U.S. demands for greater access to their agricultural markets? In a comparative study of the past thirty years of agricultural trade negotiations, I find that package deals and trade rules offset the passionate demands of farmers to make it politically possible for politicians to accept liberalization.

Using the empirical puzzle of unexpected agricultural liberalization as a starting point, I examine the role of international institutions to promote 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, and I focus on this *negotiated policy liberalization*. On trade issues, the General Agreement on Tariffs and Trade (GATT) and its successor the World Trade Organization (WTO) form the core international institution.<sup>1</sup> However, negotiation structures can vary widely. Within the GATT framework there are comprehensive trade rounds and legalistic dispute settlement procedures (DSP). Outside of the GATT framework, negotiations include loosely structured bilateral talks and meetings of regional trade associations. I compare these different kinds of negotiations in terms of specific ways that the institutions shape the negotiation structure and thereby influence the liberalization outcomes. Understanding how the institutional context of the negotiation influences policy outcomes will shed light on the mechanism by which international institutions facilitate trade liberalization. Evidence showing that institutional context influences negotiation outcomes even in such a “least likely” case for trade liberalization as the agricultural sector

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<sup>1</sup>The creation of WTO in 1995 marked the integration of a new organization with a rule framework that represents an amended version of GATT. I will distinguish between GATT and WTO when referring to aspects specific to either the old or new institution, but otherwise use the term GATT in reference to the general framework of trade rules inclusive of both systems.

strongly supports theories about the importance of institutions in international relations.<sup>2</sup>

Historically, agriculture stands out as a sector where countries stubbornly defend domestic programs. Farm lobbies represent the classic example of an influential pressure group (Olson 1965; Hoffman and Libecap 1991). Indeed, there is a paradoxical relationship in which nearly all industrialized countries raise the levels of protection on farming as the sector's size in the economy shrinks (Hayami and Anderson 1986). Electoral districting which biases political representation to favor rural constituencies and collective action incentives that motivate farmers to organize guarantee that farmers wield political strength beyond their numbers.<sup>3</sup> As a result, while tariffs on industrial goods have fallen during the postwar period to average 5 - 10 percent, agricultural protection has remained high with tariffs averaging above 40 percent in 1998 (OECD 1999, p.33). Non-tariff barriers remained common in the agricultural sector long after they were eliminated for most industrial goods.

The costs of agricultural protection include financial expenditures, lost export opportunities, and increased trade friction. Agriculture exporters, which include the United States and developing countries, demand liberalization because protection closes off valuable markets. On the other hand, liberalization threatens the welfare of rural society in Japan and Europe where many producers are uncompetitive on world markets. Politicization and high economic stakes make for an explosive combination. 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 trade system. In the context of the GATT, agricultural issues nearly blocked conclusion of successive trade rounds and generated the largest number of trade disputes. Most recently, in December 1999 at the Seattle meeting of the WTO, member states failed to agree on beginning a new trade round and agriculture formed one of the major lines of division.

The strong opposition to liberalization in Japan and Europe makes it surprising to observe any agricultural liberalization. Indeed, agriculture remains highly protected in

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<sup>2</sup>For explanation of case study analysis and use of least likely cases for testing theories, see (Eckstein 1975).

<sup>3</sup>Moreover, few voices are raised against farm protection given the lack of organization by consumers and their belief that nationally produced food is safer. In a recent poll of Japanese people by the Prime Minister's Office, 82 percent of respondents said they preferred to eat domestic food over imported goods, with food safety listed most frequently as the reason (*Japan Times*, 8 October 2000).

comparison with other sectors. However, within the agricultural sector liberalization is evident. Over the past thirty years, trade barriers have been reduced and the share of imports in total consumption has increased.<sup>4</sup> In Japan, total imports of all agricultural products rose by more than forty times in value from 1970 to 1997. Imports by 15 European member nations more than doubled in just the twelve years from 1986 to 1998.<sup>5</sup> Amidst many negotiation setbacks, some negotiations have brought major policy changes. The Japanese government reduced the number of agricultural quotas in violation of GATT from 58 in 1970 to 5 by 1997 (MAFF 1997). In a politically difficult decision, in 1993 Japan ended its ban on rice imports and agreed to import 7 percent of domestic consumption. As part of the Uruguay Round, the EU ended its variable levy policy and agreed to cut domestic subsidies by 20 percent.<sup>6</sup> These negotiations contrast with several failed negotiations. For example, the EU refused to end its ban on U.S. beef despite retaliatory sanctions and Japanese negotiators firmly rejected U.S. demands to reduce its quotas and tariffs on fish products at a 1998 APEC trade meeting. This paper explains such variation in liberalization across negotiations.

**Overview** My argument proposes two pathways to liberalization: issue linkage and legal framing. The logic is that liberalization is more likely when the negotiation structure broadens the stakes beyond the agricultural sector through either engaging exporter interests or applying normative pressure. In quantitative analysis of negotiations, I find evidence that both pathways are important for understanding the pattern of negotiation outcomes.

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<sup>4</sup>Both Japan and Europe have experienced substantial growth in import dependency. Reduction of trade barriers as well as changes in demand contribute to this trend. In Japan, when averaging across all food products, sixty percent of domestic consumption is provided by imports. In Europe import dependency for meat rose from 15 percent in 1980 to 24 percent in 1998 and the same figures for fruit rose from 24 percent to 53 percent. Over the same period EU dependency on cereal imports however declined by three percent from 29 to 26 percent. The EU figures are from standardized food balance sheets from the Food and Agriculture Organization. The FAO compiles a single import figure for the 15 European nations.

<sup>5</sup>Figures for Japan and Europe are from the Food and Agriculture Organization FAOSTAT database on Agriculture and Food Trade. U.S. dollar values have been adjusted to real 1995 values. Beginning in the year 1986, the FAO compiles a single aggregate figure for EU trade values of the following 15 nations: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the UK.

<sup>6</sup>Although both Japan and the EU continue to favor farmers with subsidies and special programs, the trend is towards reducing such support. OECD statistics monitoring agriculture policies indicate that total support to agriculture as a share of GDP has fallen substantially. Both Japan and the EU (15 members) spent 2.6 percent of GDP on agricultural support during 1986-1988 and only spent 1.6 and 1.5 percent of GDP respectively for the year 1999. This estimate includes financial transfers from taxpayers and consumers (OECD 2000).

In a comparison of Japanese and EU negotiations with the United States over agricultural trade barriers, I examine evidence from 267 cases of commodities which were the subject of negotiations during the period 1970 - 1999. My findings confirm that issue linkage between industry and agriculture promotes liberalization in both Japan and the EU. The likelihood of major liberalization is substantially increased when the negotiation structure includes an institutionalized cross-sector linkage. By linking industrial issues together in a negotiation with agricultural issues and providing credibility for the linkage, a package negotiation structure can create economic gains and lobbying sufficient to offset the political reluctance to liberalize agricultural goods.

Comparison of negotiations with Japan and Europe reveals intriguing differences in how legal framing of the negotiation structure influences policy. While a legal ruling against a policy is the single most important factor for negotiations with Japan, it has no significant effect on Europe's decision on whether to liberalize a product. Legal framing of the negotiation exerts some moderate pressure for liberalization at the early stage of the negotiation, but there is no evidence that a judicial settlement labeling the policy as a violation makes Europe more likely to liberalize the policy.

In this paper, the first section provides a theoretical framework and the second section derives testable hypotheses. Section 3 and 4 describe the data and operationalization of hypotheses. In Section 5, I present results from ordered probit regression models explaining negotiated trade liberalization by Japan and Europe. Here, I examine how different features of the negotiation context impact the negotiated outcome. I compare institutional leverage from linkage strategies and rules pressure with bilateral threats and domestic budget pressure.

## 1 Theoretical Framework

My work addresses a disparity between the claims advanced in the theoretical literature and evidence from empirical studies of trade negotiations. International relations theories about institutions contend that institutions help states cooperate by reducing uncertainty, linking issues, monitoring behavior, and creating reputation stakes (Keohane 1984; Keohane and

Martin 1995; Abbott et al. 2000). At the theoretical level these studies tend to generalize about how institutions operate through multiple functions. However, there has been little empirical work to substantiate the causal mechanisms through which institutions exert their influence, although now some scholars are beginning to isolate particular aspects of international institutions and provide evidence to support why institutional commitments shape state behavior (Simmons 2000). This paper builds on the larger research agenda studying institutions by giving a closer examination of the means by which trade institutions promote liberalization.

In the realm of trade policy institutions, questions remain about whether and how the GATT institution influences international outcomes. Although theories about international institutions lead us to expect that GATT dispute mediation will facilitate international cooperation, two recent studies find that GATT rulings had an insignificant effect on negotiation outcomes (Bayard and Elliott 1994; Kherallah and Beghin 1998). However, these studies only include cases initiated by a U.S. Section 301 investigation, a policy contrary to GATT rules because it threatens unilateral retaliation. By excluding the many GATT dispute cases where the United States did not issue Section 301 threats, these studies are unable to evaluate the effects of the dispute settlement process. Other empirical studies that emphasize the important effects of GATT dispute procedures include the entire universe of GATT cases but do not compare GATT panel negotiations with either GATT trade rounds or with trade disputes addressed outside of the GATT framework (Hudec 1993; Reinhardt 2001; Busch 2000). These studies offer important insights into how GATT procedures work, but do not address the question of how dispute settlement cases compare with other kinds of trade negotiations.

In order to examine how institutions shape state behavior, I disaggregate institutional features. Specifically, I look at the features of negotiation structure shaped by the institution. I define negotiation structure as the agenda, rules, and procedures specific to the negotiation that regulate the interaction between states.

I examine two pathways by which negotiation structure can promote liberalization: *issue linkage* and *legal framing*. First, package negotiations link issues together in an all or nothing approach. The institutionalization of this negotiation structure credibly signals

to domestic interest groups the broad stakes of the negotiation. This creates incentives for those who gain from free trade to lobby against those who prefer protection. Broadening the stakes raises a free trade coalition to compensate for the collective action dilemma that favors mobilization by protectionist interests. Politicians can more easily accept an agreement that holds a balance of gains and losses for domestic interests.

Second, legalistic procedures in the formal GATT dispute settlement process make reputation and international obligation additional factors in the determination of trade policy. The importance of reputation is well known in bargaining literature (Schelling 1960). I argue that in addition to these reputational stakes, normative pressure is an independent source of leverage for liberalization. Legal framing of the negotiation transforms the demand for liberalization into an international obligation. This in turn lowers the domestic political costs from liberalization by legitimizing arguments favoring liberalization while placing opponents on the defensive.

Negotiations range in the level of legal framing and strength of cross-sector issue linkage. Each negotiation context provides a different mix of the two kinds of leverage. A negotiation like the Uruguay Round has strong cross-sector linkage while a WTO panel involves high legal framing and usually will have no issue linkage. Typically, *ad hoc* bilateral negotiations address a single issue with no linkage and low legal framing. My argument proposes that liberalization is most likely when there is either high legal framing or strong issue linkage; liberalization is less likely when the negotiation context lacks both features. Therefore, I conceptualize issue linkage and normative pressure as two sources of leverage.

I compare leverage from negotiation structure with alternative sources of pressure for liberalization. Top candidates for alternative theories are budget pressures and the coercive power of threats. While these factors cannot be dismissed, I argue that they play a secondary role to features related to the institutions of the trade system.

The budgetary burden of protection policies can encourage policy reforms including liberalization measures.<sup>7</sup> However, in many cases liberalization brought higher budget costs rather than savings. For example, replacing the CAP variable pricing policy with direct

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<sup>7</sup>For studies that show the role of budgetary concerns as a factor influencing U.S. and EU agricultural policy reforms see (Paarlberg 1997; Orden, Paarlberg, and Roe 1999).



subsidies and tariffs reduced the trade-distortionary effect of EU farm policy, but also triggered an increase in the total agricultural budget cost due to large compensatory payments (Grant 1997, p.78). The Japanese government passed a 6 billion dollar package for rural areas in conjunction with ratification of the Uruguay Round Agriculture Agreement. Expensive liberalization packages such as these contradict the notion that budget constraints explain the trade policy reforms.

Threats have had inconsistent effects. In some case the escalation to threaten sanctions brought a breakthrough in a deadlocked negotiation, while at other times even after sanctions there is no change in the disputed policy.<sup>8</sup> While U.S.-Japan agricultural disputes have not given rise to specific sanction threats, U.S. government officials make veiled threats that concessions on agricultural trade are necessary to appease Congress and forestall protectionist legislation. Such threats also have had mixed results and Japan has at times refused to change policies even during times of heightened tension over the trade deficit and rising congressional moves toward protection.<sup>9</sup> The United States cannot dictate terms on agricultural trade through coercion alone.

## 2 Hypotheses to Explain Negotiated Policy Liberalization

Negotiations come in many different forms. I argue that the variation among these forms holds significant consequences for how Japan and Europe respond to U.S. liberalization demands. I hypothesize that the institutional context of the negotiation can lower the political costs of liberalizing farm support programs. The negotiation structure directly determines which interests are at stake and which actors have a role within the domestic policy process. Moreover, it shapes the perception of the demand and concessions made in the negotiation in the view of the domestic audience.

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<sup>8</sup>For example, in a 1992 dispute over EU subsidies for production of oilseeds, the United States threatened to place prohibitive import duties on wine and wheat products from Europe and the EU compromised to reduce the subsidies (Iceland 1994). However, threats proved ineffectual on two other prominent cases - negotiations about the EU ban against hormone treated beef and its preferential import regime for bananas.

<sup>9</sup>Japan refused to end its quota on beef imports in 1984 and balked at any concessions on fish products in 1998 despite the fact that both negotiations took place when Japanese dependence on U.S. export markets was high and the growing trade deficit raised fears of U.S. protectionism.

## Package Negotiations: Cross-sector Linkages

The clearest decision rule in a negotiation is to evaluate total gains from agreement versus losses from non-agreement. Broadening the negotiation agenda to include multiple issues may help to create a balance where both sides gain enough to accept the costs. The agricultural sector includes many issues where Japan and the EU must offer concessions, while both can gain much from liberalization in the manufacturing and service sectors. Therefore it is *cross-sector* issue linkages that bring in new stakes with potential to counter-balance agricultural interests.

The literature on institutions and international cooperation has long suggested that institutions facilitate positive linkages for *quid pro quo* exchanges among different issues (Tollison and Willett 1979; Haas 1980; Keohane 1984; Martin 1992). In this paper I focus on testing how an institution promotes liberalization through a particular kind of linkage - establishment of a package negotiation structure. Package negotiations are an institutionalized form of linkage that ties distinct issues together for joint approval or rejection. Different levels of institutionalization of the package will form a weak or strong linkage between issues. In a negotiation with a weak linkage the agenda includes multiple issues but there is flexibility for concluding negotiations on each issue at its own pace. In contrast, a package negotiation with a strong linkage explicitly mandates that the negotiation will proceed in an all or nothing approach that ties together separate negotiation deals and culminates in signing a single agreement.

A package negotiation linkage differs from other kinds of informal linkages that may arise in a negotiation. An example of an informal linkage is concern that conflict over trade issues will spill over to harm overall bilateral relations and affect security cooperation. Unquestionably top leaders make these broad connections in all of their foreign policy decisions. However, since these linkages are informal and present in nearly all negotiations, it is difficult to measure or examine variation in the pattern of linkages. Therefore this study focuses on comparison negotiations with different levels of institutionalized linkages and negotiations that lack an institutionalized linkage.

This negotiation structure gives industry lobbies and trade officials a direct interest in

agricultural liberalization. In order to achieve specific gains for industry, they must also advocate agricultural liberalization and push for conclusion of an overall agreement. A strong linkage between different parts of the negotiation increases the likelihood that big business and trade officials will mobilize in favor of agricultural liberalization. Studies on two-level games point to this dynamic when domestic allies complement foreign pressure (Schoppa 1997; Mulgan 1997b; Evans et al. 1993). An important factor that has received less emphasis is the role of international institutions to promote this dynamic for creating a two-level game favoring liberalization. The package linkage helps increase the incentives for domestic mobilization.

The credibility of a cross-sector linkage varies across different negotiations. First, the formal agenda of the negotiation establishes whether talks will address multiple sectors and whether agreements on multiple issues will form a single package. Through this agenda, countries commit themselves at the outset of the negotiation to include all of the issues and strive to bring them to a joint conclusion. Secondly, subsequent behavior by nations reinforces the linkage. For example, by obstructing discussions in one negotiating group to match the deadlock in another negotiating group, a state can force parallel progress on different issues. A country with strong interest in agricultural liberalization can signal to countries that refusal to reform agriculture will prevent its ratification of any deal and derail the negotiation in its entirety. The negotiation agenda makes it easier for countries to take these actions. Hence it is the combination of the formal agenda and the support for this agenda by at least some of the key negotiators that will create a more credible cross-sector linkage.

Next I will refer to actual negotiations to discuss the variation in institutionalization of linkages across negotiations. GATT trade rounds encompass a broad negotiation agenda including many sectors and other rules related to economic activities. The agenda for both the Tokyo Round (1973 - 1979) and the Uruguay Round (1986 - 1994) gave a mandate for talks on a wide range of issues that would be treated as a “single undertaking.” In this way the trade rounds incorporate cross-sector linkages in the negotiation structure. Nevertheless, there were differences in the strength of the cross-sector linkage. Those differences appear in terms of both the formal institutional arrangements of the negotiation structure

and the behavior of states to reinforce the linkage.

There was a very weak linkage between agriculture and industry issues in the Tokyo Round. The negotiation culminated in 10 agreements from which nations could pick and choose *a la carte*. The agricultural group had particularly weak linkage with the rest of the round. Sub-groups for dairy, meat and grains discussed separate commodity agreements rather than general principles for agricultural policy. Countries could choose whether to join the commodity agreements regardless of their position on other issues in the round (GATT 1979, p.26). The United States tried to argue that it could not ratify the agreement without agricultural reforms. However, at the same time, the United States showed a weak resolve to reach a general agreement on agriculture because it did not put its own agricultural protection programs on the negotiation table.

In contrast, several conditions bolstered the credibility of the cross-sector linkage of the Uruguay Round.<sup>10</sup> The agenda clearly established from the beginning that all negotiating groups were part of a “single undertaking.” The United States declared that it could not conclude an agreement without meaningful reforms in the agricultural talks and put its own sensitive agricultural items on the table. Two later events were also important to strengthen the linkage credibility. First, the Latin American nations walked out of the 1990 Brussels meeting saying that they would not negotiate anything if the United States, EU and Japan would not agree to a substantive agriculture liberalization package. Then, in 1991 the GATT Director-General Arthur Dunkel independently produced a draft agreement binding all parts of the negotiations into a single text. Therefore given the credible cross-sector linkage of the Uruguay Round, one would expect more liberalization from the Uruguay Round over the Tokyo Round.

Nevertheless, the Tokyo Round represented a more explicit joint package negotiation than other negotiations. The APEC trade liberalization talks jointly address a wide range of trade sectors ranging from agriculture to automobiles, but the principles of voluntarism and flexibility let countries set their own pace for accepting agreements on any or all of the negotiations. This explicitly allows countries to delay liberalization of any particular sector. *Ad hoc* bilateral negotiations may also address multiple issues, but they do not bind them

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<sup>10</sup>For an account of these events in the Uruguay Round by one of the negotiators, see Preeg (1995)

together with a formal agenda. For both APEC and comprehensive bilateral negotiations, tradeoffs across issues in the negotiation are possible, but it is more difficult to signal to countries or business lobbies that concessions in one area are necessary for gains in another area.

Finally, many negotiations only address a single issue or sector and have no explicit linkage with other sectoral issues. While the negotiation may have implications for other trade issues, these single sector cases represent negotiations where there is not a cross-sector linkage in the negotiation structure. For example, the U.S.-Japan talks on beef and citrus in the 1980s were never tied to talks on other trade issues, and the United States and Europe have held consultations over wine trade issues during the 1990s in isolation from other trade problems. Such variation in trade negotiations allows me to test my argument that linkage among multiple trade issues is one path to liberalization and that institutionalization of linkages in the negotiation structure will enhance the credibility of the linkage.

### **Hypothesis 1 Linkage**

*The more strongly the negotiation links multiple sectors in a single negotiation, the more likely the negotiation outcome will liberalize agricultural trade barriers.*

### **Legalistic Negotiations: Reputation and Normative Pressure**

Legalistic procedures create leverage for liberalization through reputation concerns and political persuasion. Insofar as reputation and normative pressure are jointly important, one expects to see the greatest liberalization from negotiations with the highest legal framing, the dispute settlement cases. All of the dispute settlement cases are characterized by high legalization - established rules set the standards for judging outcomes and a third party mediates negotiations in their later stage (Abbott et al. 2000). This broadens the stakes for countries that refuse cooperation because they are branded publicly. However, the two mechanisms of reputation concerns and political persuasion produce different expectations about which level of the dispute settlement process provides more pressure for liberalization. In this section I explain how legal framing raises reputation concerns and why it can be useful for political persuasion and I propose two hypotheses distinguishing between the

causal mechanisms.

Legal framing provides a credible system for evaluating reputations. The third party mediation determines whether a country has defected from an agreement and publicizes the ruling. Many studies point to this kind of information role of third party mediation (Milgrom, North, and Weingast 1990; Hungerford 1991; Staiger 1995). A violation ruling publicizes that the country has policies counter to its own treaty commitments. Refusal to follow the ruling and change the policy establishes a reputation as a country that disregards the trade rules and system for mediation of disputes. Countries value their reputation because a poor reputation may lead other states to refuse to deal with the country again. A reputation for ignoring rulings also reduces leverage to pressure other states to become more liberal traders and follow the trade rules. When countries hold a general interest in free trade, a bad reputation is a liability. States benefit from the multilateral system of trade rules because it protects reciprocal exchanges and prevents the bilateral opportunism that otherwise would undermine trade (Maggi 1999; Bagwell and Staiger 1999). For the sake of their own reputation and the credibility of the trade system, one would expect countries to change policies that are designated as a violation.

The anticipation of a ruling creates incentives for early settlement before the ruling actually occurs. By the time a panel rules that a policy stands in violation, the country suffers some reputational damage. Therefore, countries that value reputation are better off if they compromise before the ruling.<sup>11</sup> After a violation ruling, countries face the choice of disregarding the ruling and harming their reputation or else accepting the ruling which will set a legal precedent with wider implications. Therefore, rather than wait for a violation ruling, countries should plea bargain in order to get the best deal and avoid adverse publicity. Those cases that actually remain for a violation ruling are likely to be the hardest issues where the government simply cannot make a change regardless of the reputational consequences. There is a screening process whereby most cases when

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<sup>11</sup>Bargaining models indicate that states are likely to try to settle early because they can gain a more favorable deal *vis a vis* the complainant country by doing so (Reinhardt 2001). Whereas prior to the ruling they can use the desire of the complainant for a quick settlement as leverage to make a good deal, after the ruling this leverage disappears. Moreover, in the GATT context a ruling by a panel is likely to make a more sweeping policy change than a bilateral settlement before the ruling. The ruling establishes a legal precedent that holds general implications for similar policies. This precedent from the legal ruling could easily lead to larger changes than would be necessary for a settlement on the single issue at hand.

the government cares about its reputation will be settled early, while the cases that the government cannot liberalize even at the expense of its reputation will have a violation ruling (Reinhardt 2001). The legal framing of the negotiation establishes reputational stakes even before entering the most legalistic stage where a panel evaluates the policy.

### **Hypothesis 2 (a) Legal framing**

*The consultation level of a GATT dispute settlement process prior to the legal ruling will have a positive effect on liberalization.*

Many GATT disputes do not end with an early settlement and instead proceed to a panel ruling. When there is a violation ruling against a policy, this represents a higher level of legal framing. While the concern for reputation should still dictate liberalization, the panel ruling also raises normative pressures distinct to this level of the dispute mediation.

Legal framing at the level of a violation ruling influences domestic debate through normative pressure. Leaders calculate not only the economic costs for non-agreement but also the political costs for making an agreement opposed by an important constituency. Even when economic stakes favor liberalization, strong domestic opposition will lead to the collapse of many negotiations. Legal framing is important because it influences the level of domestic opposition. The ruling against a policy by a third party according to general principles legitimizes the liberalization demand. This lowers the political costs of supporting a liberalizing policy change.<sup>12</sup> In contrast, when a liberalization demand arises as a bilateral demand without any legal framing, the domestic audience likely perceives it as bullying and rallies higher levels of opposition (Schoppa 1997). Even within the context of a GATT dispute consultation or trade round, the liberalization demand lacks the legitimacy conferred by a violation ruling.

Once liberalization becomes an international obligation following a panel ruling, normative pressure adds to the negotiation stakes and diffuses domestic opposition. The decision on whether to liberalize becomes a decision on whether to accept international rules. This places farmers on the defensive and makes it easier for pro-liberalization groups to speak out. In such a negotiation context the country appears isolated against international norms

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<sup>12</sup>Needless to say, in cases where a non-violation ruling occurs, one would not expect any change.

if it upholds its protectionist policy. Internationalist elites and media are likely to criticize leaders who make the country a ‘criminal’ in the view of the world, and farmers will find it harder to argue that they deserve special treatment. These new political conditions make liberalization more likely.

### **Hypothesis 2 (b) Legal framing**

*A violation ruling by a GATT dispute settlement panel will have a positive effect on liberalization.*

The two hypotheses for legalistic negotiation context distinguish between the two posited causal mechanisms. The observable implication for each hypothesis points to a different level of negotiation. When reputation concerns are the primary source of leverage, countries are likely to concede before a ruling. In that case, GATT dispute consultation process would have positive effect on liberalization, but a violation ruling would not have substantial effect. On the other hand, when political persuasion is most important, then one expects that the largest liberalization will result from GATT panel violation rulings.

Specific domestic factors influence which causal mechanism is more effective. Here I will consider the conditions likely to encourage negotiating behavior that prioritizes reputation or political persuasion. First, a country that frequently uses the dispute settlement process will want to protect its own reputation in order to pressure others to comply. Second, fragmentation of the trade policy process will make it likely that strong political opposition will prevent liberalization concessions prior to a violation ruling. The addition of normative pressure will be a necessary condition for liberalization in this political context.

Comparison of the EU and Japan provides evidence of how domestic political context interacts with the legal framing mechanism. Taking into consideration both the use of the trade rules and the trade policy process, one expects that Europe would fit the reputation model and Japan would fit the political persuasion model. The EU frequently takes the complainant position in GATT dispute cases whereas Japan has only in recent years begun to make active use of the trade rules.<sup>13</sup> This means that the EU has more to gain from establishing a good reputation and encouraging early settlement of disputes by all countries.

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<sup>13</sup>Record of Dispute Settlement Activity



The trade policy process in the EU also makes it possible to settle some cases early. The EU institutions grant considerable autonomy to the commission, which acts as the ‘voice’ of the community in the conduct of trade policy (Smith 1996, p.248). Although the Agriculture Council acts as a major constraint on agricultural policy, GATT dispute settlement cases fall under the primary jurisdiction of the trade policy committee composed of national government trade officials.<sup>14</sup> The degree of autonomy granted to the Commission and influence from political opposition can vary according to the institutional procedures of the Council (Meunier 2000). One would expect that the pattern of early settlement would occur when the Commission holds greater autonomy while political opposition would prevent early settlement when the Council passes a restrictive mandate and follows unanimity procedure for Council agreement or when the European Parliament has a role in co-decision.

On the other hand, the trade policy process in Japan makes it difficult to make early liberalization concessions. The trade ministry, MITI, once legendary for its autonomy to guide industrial policy, nevertheless faces surveillance and intervention from politicians who share close ties with business and agriculture (Inoguchi 1988; Ramseyer and Rosenbluth 1993). Moreover, there is fragmentation over trade policy with divisions between the Foreign Ministry and MITI and no central coordinating council. In this sense, trade policy fits within Bradley Richardson’s (1997, p.248) description of “decentralized bargained democracy” in which Japanese political actors debate issues at different decision points rather than through centralized examination of alternatives. This process hinders Japan from making early settlement for reputational reasons. In summary, Japan has less reason to care about its reputation within GATT as a complainant than the EU, and its divided trade policy establishment delays concessions. Only after a violation ruling does normative

		Complainant	Defendant
EU	GATT(1948-89)	30	45
	WTO(1995-98)	40	30
Japan	GATT(1948-89)	4	19
	WTO(1995-98)	10	12

Sources: *European Commission, “EU Activities with the World Trade Organization”, 1999 report to the European Parliament. World Trade Organization, “Overview of the State of Play of WTO Disputes.” Hudec (1993)*

<sup>14</sup>Interviews with officials of the Secretariat of the Council and national government representatives in Brussels, July 2000. The Committee on 133 is the name for this committee of trade officials from the national governments that advises the Council on trade issues in conjunction with the Commission Directorate on External Affairs. (Recently the newly established Directorate on Trade has taken over from External Affairs.)

pressure from a ruling change the balance of domestic opposition to make liberalization possible.

The normative pressure of GATT rules carries more weight in Japan than the EU. Although both the EU and Japan are highly trade dependent economies, the common market provides European nations with a safety net against external protectionism. Indeed, not only does the common market provide alternative economic incentives, there are competing normative claims between the GATT trade rules and the Common Agricultural Policy which has been a central pillar of European integration. For Japan, there is no such regional institution creating larger market guarantees and international bargaining leverage. The GATT rules supported open markets for the trade that fueled Japan's post-war growth. Not only does this provide Japanese leaders with an economic interest in the maintenance of the system of trade rules, it augments the persuasive power of rules within Japanese society.

### **Alternative Hypotheses**

Several explanations exist for why a country chooses to liberalize. In order to evaluate the relative importance of the above negotiation structure hypotheses, I also consider alternative explanations. In multivariate regression analysis, I evaluate the independent effect of each variable when controlling for the effect of the others. By complementing statistical analysis with case study analysis, I can later in future work shed light on the operation of these mechanisms in the policy process.

### **U.S. Influence: Threats and Appeals**

In the realm of economic negotiations, one way for the United States to exercise its power over other countries is by threatening to close off access to U.S. markets through retaliation. The United States can raise the costs of protection for Japan or the EU by targeting their industries dependent on U.S. markets. This is a typical coercion game in which the party aggrieved with the status quo takes a suboptimal policy for its own interests in order to change the choices of its opponent (Stein 1980). It is a recurrent pattern in U.S. trade policy for the administration to pursue the goal of freer trade while threatening protectionism.

A threat strategy depends upon the credibility of the U.S. threat. Negotiations often become tense and threats may be cheap talk. There are several issues which affect the credibility of a threat. One could focus on the change in cost-benefit calculation to the United States. That is, the United States must weigh the harm caused to the United States by carrying out its own threat against the benefit to the United States if the other concedes (McMillan 1990). However, such unitary actor models may overlook divisions within the interests of the two countries in their calculations over preferences. One source of credibility for a threat is the domestic unity within the U.S. industry backing the demand and use of threat (Odell 1993).

A public threat or retaliation list signals the strong intention of the U.S. government to follow through on an issue. By publicly making a threat, the government raises its own costs of looking weak to the home audience if it backs down.<sup>15</sup> Bayard and Elliott (1994) consider Section 301 investigations as one way in which the government enhances the credibility of a threat by signaling that the issue is a high priority, and they go on to argue that making explicit threats further increases credibility of a threat. An explicit threat giving a deadline and list of targets will look more convincing and trigger lobbying by the targeted industries in the other country. Given that U.S. retailers and consumers are also hurt by the sanctions, there are political costs from publicizing the list. Consequently, the U.S. government cannot lightly make specific retaliation threats.<sup>16</sup> When such threats are issued, they act as a costly signal that the United States is serious. Therefore one would expect liberalization to be the most likely for Section 301 cases and those negotiations where the United States issues a specific threat involving a deadline and target list.

### **Hypothesis 3 (a) Threat**

*U.S. threats to close its markets will increase the likelihood of liberalization concessions in the negotiation. More explicit threats will have greater effect on the liberalization outcome.*

In addition to the use of threat tactics, the United States can use its alliance ties and overall friendly relations with Europe and Japan to appeal for liberalization on priority

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<sup>15</sup>In the realm of security studies where credible threats are the underpinning to deterrence strategy, much literature has turned to the use of public commitments as a way to invoke audience costs against backing down (Fearon 1994; Schultz 1998).

<sup>16</sup>Interview of USTR official, Washington DC, April 2000.

issues for the United States. Japanese and European leaders may hope to improve bilateral relations by liberalizing those products seen to have higher U.S. priority. This kind of exchange represents concessions given for the sake of diffuse, long term benefits from harmonious relations.

Economic and political considerations influence U.S. government priorities. Political importance fluctuates by subjective factors such as when a Senator from a state growing tobacco chairs the foreign relations committee, or when the trader who controls rice exports is a major donor to the Democratic party. While unable to measure these factors specifically, those items of highest priority will generate threats and follow the logic of the previous hypothesis. On the other hand, there are other factors that generate more systematic expectations about U.S. priorities. In particular, the United States will most likely try to open markets in areas where the United States holds strong international competitiveness. Items where the United States already exports substantial amounts to the world will be the most likely to succeed in a new market. These are the products where the United States holds a large comparative advantage to gain from trade. Moreover, from the perspective of balancing the U.S. trade deficit, higher value exports will go further toward reducing the trade deficit. Therefore, one might expect a pattern favoring liberalization of the products that contribute most to U.S. export earnings.

### **Hypothesis 3 (b) U.S. export interest**

*The more important the product is within U.S. total agricultural exports, the more likely it will be liberalized.*

### **Domestic Politics Hypotheses for Japan and the EU**

The difficulty for liberalization of agriculture lies in the political strength of farmers and because domestic politics influence the negotiation. As Robert Putnam (1988) has put forth in his two-level game analogy, national leaders play at both international and domestic tables under conditions where they can accept an agreement only if it satisfies key actors at both tables. A negotiator whose hands are tied by fierce domestic resistance will narrow the range of possible agreement (Schelling 1960), and may force the United States to accept

partial or no liberalization.

Therefore, political strength at home can translate into weakness at the bargaining table. When a government is firmly in power with a large parliamentary majority, it is more difficult to argue that it fears loss of elections if it angers its farm constituency. On the other hand, when the government has a weaker majority, politicians try to strengthen their base with farmers and can credibly argue that agricultural liberalization is politically impossible.

Japan provides an interesting case for testing the counter-intuitive hypothesis that a stronger majority will make liberalization more likely even when the ruling party favors farm protection. In Japan all parties support agricultural protection, but farmers have formed one of the key support bases for the conservative Liberal Democratic Party.<sup>17</sup> Nevertheless, the fact that the other parties try to outbid the LDP in their passion for farm protection makes it possible for farmers to credibly argue they would end their long-standing support for the incumbent LDP. Although the LDP held power for nearly the entire postwar period, nevertheless there has been intense competition over district seats and a continued majority was not a certainty.<sup>18</sup> In short, when the LDP majority is slim, the party leadership will find it difficult to persuade party members to consent to any kind of agreement that would inflict pain on an important constituency.<sup>19</sup> Under such conditions, the LDP negotiators at the negotiation table can credibly argue that agricultural liberalization would be politically too risky. Such statements by LDP politicians carry much weight given the U.S. interest in maintaining the LDP in power for the sake of continuity in support of the U.S.-Japan Security Treaty and base hosting arrangements.

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<sup>17</sup>For example, in the 1993 Lower House elections the LDP won 60 percent of rural seats and only 26 percent of metropolitan seats (Mulgan 1997a, p.889).

<sup>18</sup>In 1989 the LDP actually lost its majority in the Upper House. Following a split in the party in 1993, the LDP temporarily lost its position as ruling party and since then has had to forge a majority through formation of coalition governments. However, even prior to the 1989 and 1993 watershed years in Japanese politics, it was not unusual for the LDP majority to become quite slim to the point where the conversion of independents to join the LDP was necessary to attain a complete majority (Curtis 1988).

<sup>19</sup>Aurelia George Mulgan(1990, p.133) makes this claim in her 1990 analysis of the prospects for rice liberalization. Timothy Curran (1982, p.143) gives evidence that this connection between LDP weakness and farmer strength goes back to the 1970s; during the Tokyo Round beef citrus negotiations talks stalled because the LDP held its majority by only 11 seats and felt that farmer dissatisfaction over the negotiations could jeopardize those seats and thereby threaten its majority.This complements the pattern described by Kent Calder (1988) whereby the LDP compensates key support groups during periods when its power is endangered, and then during better times the LDP engages in retrenchment.

#### **Hypothesis 4 (a) Japanese domestic politics**

*When the Liberal Democratic Party has a stronger majority in the Japanese Diet, liberalization will be more likely.*

In the case of the European Union, domestic politics and intergovernmental politics between member nations calls for playing a “three-level game” (Patterson 1997). National and European level politics both interact with the international level of the trade negotiation. For the sake of the aggregate analysis of this chapter, I will simplify the two levels by examining the national politics within the European Council. National governments lobby for their trade policy preferences within the Council, which must approve the mandate to give negotiating authority to the Commission. After receiving this mandate, the Commission acts as ‘sole negotiating authority’ for the EU as a whole. However, since the final negotiation agreement must also gain Council approval, the Council continues to play a role setting limits on negotiation agreements.

There is strong indication that the President of the Council of Ministers influences the negotiation progress. The key issue is whether within the Council structure the Council on Agriculture composed of agriculture ministers dominates decision-making or whether the trade ministers and foreign ministers meeting in the General Council shape the agricultural negotiation mandate (Wallace and Wallace 1996). Those countries opposing reform prefer to maintain control within the Council on Agriculture, while those favoring reform try to push issues to the realm of trade ministers or the General Council.<sup>20</sup> Given the fixed rotation of the Council Presidency, there is no possibility for manipulation of this agenda-setting power as a negotiation tactic. However, when holding the position of the Presidency, a country can maximize its influence through its use of different institutions within the EU policy structure.

France helped create the Common Agriculture Policy and stands as one of the strongest opponents to agricultural liberalization.<sup>21</sup> I claim that France’s ability to impose its agri-

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<sup>20</sup>Interview of German government trade official in Bonn, July 1999.

<sup>21</sup>While Ireland and other nations have larger agriculture sectors relative to the national economy, France has both the agriculture interest and it has the political weight (according to the voting rules governing the European Council after the Single European Act of 1987, France’s vote is weighted by 10 compared with Ireland having 3 and Greece a slightly larger 5.)

cultural preferences increases when it holds the Presidency of the Council. Although France and other anti-reform states will always be able to scuttle negotiations through back-door opposition, when France holds the Presidency of the European Council, it has a stronger role as agenda-setter to influence the negotiations.<sup>22</sup> For the negotiators of the European Commission, they can more credibly argue that their hands are tied when France is President of the Council. Therefore, from the perspective of national/European level politics, one would expect less liberalization when France holds the influential post of Council President.

#### **Hypothesis 4 (b) EU internal politics**

*The higher the frequency of French terms as President of the Council during the key initial or end years of the negotiation, the less likely there will be liberalization.*

#### **Budget Hypothesis**

Liberalization could occur when a government decides it no longer can afford the costs of protection both in terms of budget expenditures and inefficient use of economic resources. Robert Paarlberg (1997, 1999) in studies of the EU and U.S. agricultural reforms in the 1990s cites cost-cutting as a major motivation behind moves toward lowering agricultural trade barriers. European officials openly discuss the need to reform policies in order to reduce expenditures. The European Union devotes over half of the total budget expenditures to agriculture-related programs, making agricultural reforms an important way to reduce budget costs.<sup>23</sup> It seems less likely that budget reforms motivate liberalization policies in Japan where agriculture has a smaller share of the national budget.<sup>24</sup> Indeed, generous financial compensation has accompanied any lowering of trade barriers. Nevertheless, any analysis of agricultural policy must consider budgetary pressures. Countries may liberalize protection policies for internal budgetary reasons and then seek credit on the international stage by making the policy changes in the context of a negotiation.

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<sup>22</sup>Helen Wallace among other scholars of European Institutions attribute an agenda-setting role to the President of the Council (Wallace and Wallace 1996; Smith 2001; Sherrington 2000).

<sup>23</sup>The European Agricultural Guidance and Guarantee Fund includes both guarantee funds for market and price policy support and guidance funds for agricultural structures policy. The total of both kinds of expenditures on agricultural policies was 88.5 percent of the 1970 total budget, 70.5 percent of the 1980 budget, and 51 percent of the 1999 budget(EC 1999).

<sup>24</sup>Although protection levels are high, the Japanese government has not pursued the egregiously wasteful export subsidy policies used by the EU to dispose of surpluses.

If the costs of protection are the force behind liberalization, then one expects liberalization to occur during periods of belt-tightening when there is an overall reduction in budget expenditures. However, this makes several assumptions about the connection between overall budget spending, agricultural spending, and trade protection. One could also argue that during years with rising budget expenditure governments want to start cutting programs and would be more rather than less likely to reform agriculture policies. Therefore I only have weak expectations that budget growth will reduce pressure for liberalization and budget reduction will increase pressure for liberalization.

### **Hypothesis 5 Budget constraints**

*Reduction in government spending will have a positive relationship with liberalization.*

## **3 Agricultural Trade Negotiation Data**

The evidence for this paper is based upon an original database of agricultural trade negotiations which I have created. In this section I will give a brief description of the nature of the data and coding procedures.

My agricultural negotiation dataset includes 156 negotiations between the United States and Japan, and 114 negotiations between the United States and EU over the period from 1970 - 1999. A negotiation on an agricultural trade barrier forms the unit of analysis. I define negotiation as an exchange between two or more countries that begins with a demand for policy reform and concludes when there is either an agreement or decision to indefinitely halt talks on the issue. The length of negotiations varies from seven years for the Uruguay Round cases to a few months for some bilateral talks. The products range from high trade volume items like beef and wheat to lower volume items such as walnuts and nectarines.

When creating the database, I gave priority to maximizing the variation in the kinds of negotiations. This led me to code cases at a fine level of specificity. I designated each case as a single commodity or commodity group among those negotiated. Hence there are multiple cases in a large negotiation such as the Uruguay Round while another negotiation will focus exclusively on a single commodity. There is considerable variation within negotiations which would be hidden by aggregation of products. This is clearly



	Trade arena	Outcome	Liberalization
<i>U.S.-Japan beef negotiations</i>			
9/71 - 12/71	bilateral	expand quota	partial
9/77 - 12/78	Tokyo Round	expand quota	partial
10/81 - 4/84	bilateral	expand quota	partial
4/87 - 6/88	GATT DSP	end quota	large
9/86 - 4/94	Uruguay Round	lower tariff	partial
<i>U.S.-EU beef negotiations</i>			
9/73 - 4/79	Tokyo Round	modify tariff category	partial
1/87 - 9/87	GATT DSP	refuse panel on hormone ban	none
9/86 - 4/94	Uruguay Round	38 percent export subsidy cut	large
1/89 - 12/95	bilateral	refuse to end hormone ban	none
1/96 - 5/99	WTO DSP	refuse to end hormone ban	none

Table 1: A Closer Look at the Data: 10 cases of beef negotiations

demonstrated by the 1988 GATT dispute settlement panel against Japan which addressed a set of 12 different agricultural commodities protected by import quotas. The final panel rulings varied for each commodity and the outcomes ranged from no change to complete liberalization. Although other studies would treat this as a single negotiation, I treat it as 12 cases in order to more fully reflect information about variation in negotiation context and outcomes.

I also separate out multiple negotiations on a single commodity when there is a clear initiation and end to one negotiation and a second initiation for the next negotiation. For example, there was a U.S.-Japan negotiation on beef in 1978 carried out in the context of the Tokyo Round, and when that agreement expired there was a second negotiation in 1983-84 that was strictly bilateral. In the third negotiation in 1988, the issue was addressed in the GATT dispute settlement process, and finally there was a negotiation on beef as part of the Uruguay Round. I code these as separate cases, and introduce a count variable for the number of the particular negotiation in the sequence of negotiations on the same product. The count variable allows me to consider the special nature of such repeated talks on similar issues. These repeated negotiations offer some of the best cases for qualitative analysis tracing how the process changes in each respective negotiation. Table 1 shows examples of the negotiations on beef, which have been among the most numerous and

Trade arena	Japan (156 cases)	EU (114 cases)
Tokyo Round	18.6%	10.5%
Uruguay Round	13.5	22.8
GATT DSP	29.4	36.9
Bilateral	34.0	29.8
APEC	4.5	—

Table 2: Negotiation Context: Kinds of Trade Arenas Included in the Data Set

controversial for both Japan and Europe.

Table 2 gives a description of the kinds of negotiations included. The Tokyo Round (1973 - 1979) and Uruguay Round (1986 - 1994) represent two comprehensive GATT trade rounds. Each involved over one hundred countries and 15 negotiating groups on issues ranging from industrial tariffs and agriculture to rules for subsidies. The Uruguay Round brought in new issues such as services, investment, and sanitary regulations. GATT DSP refers to cases addressed at any level of GATT dispute settlement procedures. This formal process begins with a request for consultations and ultimately may lead to establishment of a panel and ruling by three neutral judges on the compliance of the policy with GATT trade rules.<sup>25</sup> Bilateral cases are those *ad hoc* negotiations outside of the GATT multilateral framework. For Japan, a final category exists for the regional trade organization Asia Pacific Economic Cooperation (APEC), which has addressed food and fish trade issues along with other sectoral issues.<sup>26</sup> In summary, the data includes a comprehensive survey of the agricultural trade negotiations of the United States with Japan and the EU.

## 4 Operationalization of Hypotheses

This section outlines the coding of variables that I use to test the above hypotheses against evidence from the data set on agricultural trade negotiation cases.

<sup>25</sup>In later analysis, I distinguish between the levels of GATT DSP mediation, but for the purposes here, a case is categorized as GATT DSP whether agreement was reached after consultations or following a final panel ruling.

<sup>26</sup>The APEC cases are from the Kuala Lumpur Ministerial of November 1998 when APEC talks began to address trade with sufficient specificity to count as cases for this data set.

## Dependent Variable: Policy Liberalization

This study examines negotiated policy liberalization, which is defined as the reduction of explicit trade barriers through agreement in negotiation. Therefore, the dependent variable measures the degree of policy liberalization agreed upon as the outcome of an international negotiation. I categorize negotiation outcomes into three levels of liberalization for none, minor, or major degree of policy change.<sup>27</sup>

## Independent Variables

Below I explain the operationalization of independent variables in the base model as shown in Table 3. In addition, I combine some of these variables for analysis of interactive effects between them.

**Cross-sector linkage** I use a four level ordinal scale to code this variable for the strength of cross-sector linkage. While any negotiation that addresses both industry and/or service goods issues together with agricultural issues qualifies as a cross-sector linkage, there are different levels in the institutionalization of the linkage between the parallel negotiation areas. I give the highest cross-sector linkage value of three to cases drawn from either the Uruguay Round or GATT dispute settlement mediation cases that involve industrial and agriculture issues in a single complaint. The Tokyo Round receives the next level of cross-sector linkage strength coded as two. Finally, I code as one all loosely tied multi-sector negotiations such as the APEC talks or bilateral talks. Negotiations on agricultural issues alone are coded zero. This variable tests the theory that the strength of the linkage between sectors in a negotiation will influence liberalization in agriculture.

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<sup>27</sup>Below is the coding of the three categories.

1. No liberalization: status quo or nominal change
2. Minor liberalization: partial change in the size or coverage of quota category, modification in the use of quarantine standards, reduction in subsidy levels
3. Major liberalization: tariffication of quantitative restriction, change in the nature of safety and quarantine restriction, tariffication of variable levy when accompanied by substantial tariff or subsidy reductions.

**Legal framing** Here I code two dichotomous variables, both of which measure the level of GATT dispute mediation. The first variable represents cases that involve a formal GATT complaint and reach settlement during the consultation process that precedes a panel. The argument about reputation predicts a strong positive effect from this variable. The second variable related to legal framing measures whether there was a GATT violation ruling on the policy. These are the cases which continued through the entire dispute settlement process until the panel delivered a violation verdict. A positive impact on liberalization by violation rulings would indicate the importance of normative pressure. This is critical for the evaluation of the argument that normative pressure helps to lower the political costs that prevent liberalization.

**Threat** I code a threat variable to measure the degree of specific and public commitment behind the threat of retaliation issued by the United States during a negotiation. While coding cases, I recorded any mention of retaliation made in connection with the negotiation. The government annual reports on agriculture included descriptions of negotiations that became acrimonious with target lists for sanctions. There are also lower level threats when U.S. officials in the administration or Congress addressed the need for a concession on an issue in order to forestall rising protectionism in Congress. Such cases often involve hints that there will be a potential rise in protectionism as a result of deadlock on the case, although no specific target list or date is given.<sup>28</sup> I mostly relied upon newspaper accounts to find mention of these instances. I divided the kinds of threats into four categories for the increasing severity of the threat.<sup>29</sup>

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<sup>28</sup>For Europe there are not the general 'trade deficit' and Congressional protection complaints seen so frequently in U.S.-Japan relations, while on the Japan side there are no cases where an agriculture dispute led to implementation of sanctions.

<sup>29</sup>Below are the four categories in more detail:

1. Non-threat cases: no public record of official in U.S. executive branch or Congress making threat in connection with the negotiation.
2. General threats: The U.S. government initiates a Section 301 investigation, or an official of the executive or Congress claims that the negotiation will likely influence protectionist legislation in Congress.
3. Specific threats: The U.S. government issues a deadline and target list or amount for retaliation if its complaint is not resolved.
4. Sanctions: The threat is carried out with implementation of sanctions as retaliation for the protection policy.

**Major U.S. agricultural export** I represent the significance of a product to U.S. interests by its share in the total value of U.S. agricultural exports. The data is from the Federal Agriculture Trade of the United States Statistical Reports published by the U.S. Department of Agriculture. I examine shares on a world export basis in order to reduce the risk of endogeneity between existing protection and level of exports in the bilateral trade relationship. The ratio for the product share in total exports is one measure of its importance to the United States and therefore allows me to test whether priority items to the United States gain more liberalization.

**LDP strength** In operationalizing the variable for LDP strength, I create a ratio for the share of LDP seats relative to its total seats in the Lower House of parliament. Although the LDP maintained ruling party status from its formation in 1955 until 1993, the variation in its share of seats in the more powerful of the two representative bodies affects both its current power position vis a vis other parties and the confidence that the party will maintain ruling status. When the majority has been slim, on occasion the LDP has needed to bargain with independent candidates who converted to join the LDP and form the majority, and in the 1970s there were even times when the LDP lost chairmanship of some committees. At times of narrow majorities, party members and leadership are likely to be cautious and fear taking risks. Therefore, the size of the LDP share of seats measures when unpopular policy changes are likely to be especially difficult for the domestic political situation. A small majority would correspond with a lower likelihood of liberalization.

**French authority** The variable for the authority of France within the European Council is a count variable for the number of times that France held the Presidency during the initial year and the final year of the negotiation. Because France could at most hold the seat once during each of these two critical years, the value ranges from 0 to 2. Alternation of the Presidency occurs by automatic rotation among EU members. Therefore, determination of when France holds the presidency is itself external to the negotiation. However, when a strong opponent to agricultural reform like France holds this position in the European Council, agricultural liberalization faces powerful political opposition.

**Budget** I code the budget variable as the annual growth in the total budget expenditures for the year in which the negotiation was initiated. The budget situation at the beginning of the negotiation sets the tone for whether this is a period of general austerity or one of surplus. For the European cases the expenditures are those of the European Union total expenditures rather than national government budgets. Figures are from *The Community Budget: The Facts in Figures 1999*. For Japan, the expenditures are general account expenditures of the national budget as reported in *Financial Statistics of Japan 1999*.

**Growth** This is the most basic indicator of whether the negotiation takes place during good times or hard times and is a control variable. I use the rate of growth in per capita GDP during the year of negotiation initiation. For Europe I use the reported GDP for the EU 15 members as reported by Eurostat.<sup>30</sup> Generally one would expect that during periods of higher economic growth countries would be more open to liberalization.

**Multiple country** A dummy variable that represents whether the liberalization demand is made by the United States alone or multiple countries. I don't have strong theoretical expectations for this variable - one could rationalize that U.S. pressure in isolation gives more leeway for bargaining a deal and would lead to more liberalization. However, one could also speculate that multiple countries making the demand would increase the pressure for liberalization. However, its inclusion allows evaluation of yet another feature of the negotiation context - the number of countries.

**Repeat** Some cases involve repeat negotiations on an earlier case. I consider one negotiation to have ended when meetings produce an agreement or complete breakdown with no scheduled renewal of talks. A second negotiation on the same product would involve a fresh initiation of the talks and a new agreement/breakdown. Considering the special relationship which may exist for such repeat negotiations, I include a count variable for the number of the negotiation in the series of repeat negotiations on that particular commodity.

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<sup>30</sup>This over-aggregates for earlier years when the membership was lower, but for the sake of continuity I use the larger aggregation rather than changing aggregation as new members enter.

Variable	Hypothesis	Predict	Japan result	EU result	Operationalization (Measure)
Linkage	1	+	+	+	strength of cross-sector linkage (0-3)
Legalism	2a	+		+	GATT dispute consultation (0-1)
	2b	+	+		GATT panel violation ruling (0-1)
Threat	3a	+	+		specificity of threat (0-3)
U.S. export	3b	+	+		product share of U.S. ag. exports (%)
Politics	4a	+			LDP share of Lower House seats (%)
	4b	-		-	French Presidency of Council (0-2)
Budget	5	-	-		annual budget growth (%)
Growth		+	+		annual growth (per capita GDP) (%)
Multi		+	-	-	multiple country demand (0-1)
Repeat		+			number of prior negotiations (0-5)

Table 3: *Base Model for Estimating Policy Liberalization*: Variables represent those used in subsequent regression analysis to test the respective hypotheses. The third column gives the predicted direction of the variable’s influence on liberalization outcomes. The result columns summarize the direction of influence for statistically significant regression estimates.

**Export subsidies** This is a dummy variable for the U.S.-EU model reflecting the special nature of export subsidies in agricultural trade. Export subsidies play a crucial role for disposing of the surpluses built up by price support policies and form the linchpin for the European Common Agriculture Policy. GATT panels have proven unable to deal with these policies which slip through the various exceptions granted agriculture in the GATT Treaty. Indeed, panel judges seem reluctant to oppose the EU on this issue for political and legal reasons. In a 1981 case between the United States and Europe over wheat flour export subsidies by Europe the panel ruled that it could not reach a conclusion on whether Europe had taken more than its “equitable share of world trade” through use of export subsidies.<sup>31</sup> The vague GATT law in the subsidies code displayed in this wording hindered efforts to restrain this practice. One would expect that export subsidy cases will be immune to most institutional variables given that GATT has virtually declared its own incompetence to rule on the issue.

<sup>31</sup>see Robert Hudec (1993) for full discussion of the GATT law in these cases.

## 5 Statistical Analysis of Policy Liberalization

This section evaluates these hypotheses in statistical tests on U.S.-Japan negotiations and U.S.-EU negotiations. Regression analysis allows one to weigh the influence on the negotiation outcome of multiple causal variables relative to each other.

Given that the dependent variable measures policy liberalization with three ordered categories (none, minor, and major liberalization), ordered probit is the appropriate statistical model. In choosing this model, I assume that there is an underlying continuum of policy liberalization that has a normal distribution. The unobserved liberalization scale has an order, but the categories may not occur in fixed intervals (i.e. the distance between none and minor liberalization may be smaller than the distance between minor and major liberalization). Using maximum-likelihood techniques, ordered probit analysis estimates threshold values for each category in order to predict the probability that any single case would fall into a given category of the dependent variable. As in other regression models, coefficients indicate the direction and magnitude of the effect of each independent variable on the underlying liberalization variable.

However, because the dependent variable is an unobserved scale, the ordered probit coefficient estimates only convey partial information. More meaningful interpretation of the regression results is possible through examining changes in predicted outcomes under specified conditions. I will discuss how a shift in the level of one variable will affect the probability of low, minor, and major liberalization while all other variables are held constant.<sup>32</sup> I compare the predictions from a regression with the variable of interest set to a low value with the predictions from a regression with the variable of interest set to a high value. The change in the predicted probability of liberalization under these two hypothetical scenarios represents the independent influence on outcomes of one variable while controlling for other factors. Use of simulation techniques allows me to generate these predictions while taking into account estimation uncertainty.<sup>33</sup>

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<sup>32</sup>Holding other variables constant involves setting variables to their mean levels and multiplying these means by their coefficient estimate.

<sup>33</sup>The simulation technique used here involves 1000 random draws of coefficients and threshold parameters from a multivariate normal distribution approximated by the regression estimates. This generates 1000 sets of coefficients and threshold parameters. I then calculate 1000 sets of predicted probabilities using each simulated set of parameters. These resulting predictions incorporate estimation uncertainty (King et al.



## U.S.-Japan Agricultural Trade Negotiations

First I present the results from analysis of 153 cases of U.S.-Japan negotiations. The results from the models reported in Table 4 confirm the legalism and cross-sector linkage hypotheses by showing that a GATT violation ruling and a strong cross-sector linkage hold a highly significant positive relationship with liberalization. Evidence also indicates that threats and tight budget periods correlate with liberalization, making it impossible to dismiss the importance of these other factors. However, closer examination reveals that threats are only effective conditionally when the LDP has a secure hold on office. The impact of budget factors appears small when compared with features linked directly to the negotiation structure.

The cross-sector linkage hypothesis finds strong support. Negotiations that linked agricultural negotiations with non-agricultural issues were more likely to produce substantial policy liberalization. The regression estimates in Table 4 show the positive and statistically significant coefficient, and this result is robust across different specifications of the model. In order to more clearly show the effect of a cross-sector linkage, I compare two scenarios in which all other variables are held constant and I change the value for the cross-sector linkage variable. In the first scenario, I fix the value of the cross-sector linkage variable at the highest level on its 4 point scale. This represents a strongly institutionalized cross-sector linkage such as seen in the Uruguay Round negotiation. In the second scenario, I fix the value of cross-sector linkage at its lowest value of zero to represent a negotiation where there is no cross-sector linkage. The beef-citrus negotiation in 1984 provides an example of such a negotiation which exclusively focused on agricultural issues. Using the parameters from the regression estimates shown in Table 4, I simulate predictions for liberalization outcomes in each of the two scenarios.

The results for both scenarios are graphically displayed in the first plot on the left in Figure 1.<sup>34</sup> Each point represents the coordinates for a predicted probability of liberalization under a different simulated negotiation. For example, a point in the upper vertex of

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<sup>34</sup>This kind of figure is called a “ternary plot” and has been used to model electoral data (King et al. 2000; King and Katz 1999; Miller 1977) I use Gary King’s program *ternary* as a template (<http://gking.harvard.edu/gauss/>).

Variable Name	Model 1	Model 2	Model 3
Cross-sector linkage	0.72 ** (0.17)	0.33* (0.16)	0.72 ** (0.15)
GATT Dispute Consultation		-0.23 (0.33)	
GATT Dispute Violation ruling	2.27 ** (0.45)		2.23 ** (0.45)
Threat	0.35 ** (0.13)	0.26 (0.13)	-1.46 (0.78)
U.S. export priority	-9.64* (4.04)	-10.16 ** (3.99)	-10.62 ** (4.08)
LDP Strength	4.17 (3.29)	5.43 (3.26)	
LDP×threat interaction			3.26* (1.36)
Budget Growth	-0.07 ** (0.02)	-0.09 ** (0.02)	-0.07 ** (0.02)
Economic Growth	0.18* (0.07)	0.18 ** (0.07)	0.18 ** (0.07)
Multi-country demand	-1.09 ** 0.33	-0.12 (0.26)	-1.16 ** (0.33)
Repeat negotiation	-0.03 (0.11)	0.01 (0.09)	
First threshold	-3.09 (1.77)	-3.12 (1.79)	0.84 (0.35)
Second threshold	4.20 (1.79)	4.11 (1.80)	1.97 (0.37)
log-likelihood	-125.19	-138.73	-123.28
gamma (s.e.)	0.76(0.06)	0.63(0.08)	0.79(0.06)

Table 4: *Ordered Probit Regression: Japanese Agricultural Liberalization.*

Note: N=153. Standard errors are in parentheses. The constant is set to zero.

\*Significant to the 5 percent level. \*\*Significant to the 1 percent level.

the triangle indicates 100 percent probability of major liberalization while a point in the lower left vertex indicates 100 percent probability of no liberalization. When the probability is identical for all three categories of liberalization, the point appears in the center of the triangle. The triangle is divided into three sections for the categories of the dependent variable. The two clusters of points represent the simulated predictions for each scenario - circles represent the null category (no linkage) and plus signs represent the high category (strong linkage). The figure shows that the simulated predictions for no linkage negotiations lie between none and minor liberalization. The cluster in the upper vertex of the triangle

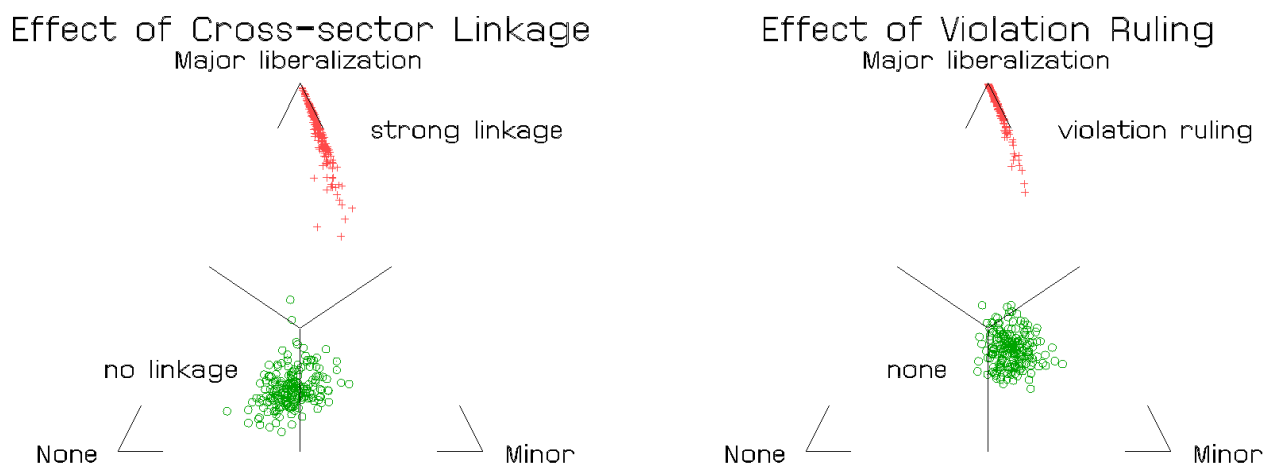


Figure 1: *Negotiation Structure Effects on Predictions of Liberalization*. Each figure shows the predictions for negotiation outcomes based on 1000 simulations using the estimates from Model 3 in Table 4. The simulated predictions compare two scenarios by changing the variable of interest while holding all other variables constant at their mean. Each point represents one prediction of liberalization under the specified scenario. 200 predictions are displayed for each figure.

indicates that a strong cross-sector linkage brings a very high probability of major liberalization. Given uncertainty of the estimation, there is some variation in predictions for each scenario as can be seen by the spread of each cluster. The large gap between the predictions for the two scenarios shows the influence of changing the level of cross-sector linkage on the overall predicted probability of liberalization. On average with all other factors held equal, a strong cross-sector linkage causes a 70 percent increase in the likelihood of major liberalization over that predicted when there is no linkage, plus or minus 11 percent (see Table 8 of Appendix B.) Without a linkage, the negotiation is likely to end with nominal or minor liberalization while adding a strong cross-sector linkage makes it probable that the negotiation will end with major liberalization.

A cursory look at important cases supports the aggregate evidence that issue linkages promote liberalization. In the Uruguay Round negotiation, as the credibility of the cross-

sector linkage increased, export industries began lobbying for agricultural trade liberalization. When the GATT Director General Arthur Dunkel put forward the draft agreement in December 1991 calling for joint conclusion of negotiations on all sectors, Japan's export association immediately endorsed this proposal in its entirety and urged the government to be more flexible on agricultural talks.<sup>35</sup> Under stronger cross-sector linkage in the Uruguay Round, Japan made concessions on even the most important agricultural item - rice. In contrast, under the weaker cross-sector linkage in the APEC talks when 'voluntarism' and 'flexibility' modified the agenda's stated commitment to comprehensiveness, the Japanese government refused to make even a small concession on fish products at the 1998 Kuala Lumpur meeting. Business remained largely silent on the fishery issue even as the government took criticism from abroad for causing the negotiation to end without agreement. When there is no cross-sector linkage, foreign pressure is unlikely to bring liberalization given the united political consensus favoring the importance of agriculture to society.

A violation ruling by a panel substantially increases the likelihood of liberalization. The coefficient estimate in Table 4 is highly significant to the one percent level. This is powerful evidence for the influence of legal framing in the negotiation structure. When controlling for other factors, a violation ruling is the single best predictor of a liberalization outcome. In the actual negotiations, Japan agreed to major liberalization for sixteen out of the twenty cases of agricultural products subject to a violation ruling.

Comparison of two hypothetical scenarios - where all factors relating to negotiations are identical and there is a violation ruling for one negotiation but not for the other - reveals the large effect on predicted liberalization outcomes. Simulation using estimates from Model 3 in Table 4 shows that for hypothetical negotiations with a violation ruling by the GATT panel, there is a 93.3 percent probability of major liberalization, plus or minus 5 percent. In sharp contrast, for similar negotiations that differ only in the absence of a violation ruling, the model predicts that there is a 27.6 percent probability of major liberalization and corresponding 42.7 percent and 29.7 percent probability of minor or no liberalization, plus or minus 5 percent (see Table 6 of Appendix A and Table 8 of Appendix

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<sup>35</sup>interview by author of Japanese government negotiator November 1998, and *Keidanren* official, October 1998. Also see "Nōson to toshi o musubu (Connecting Cities and Countryside)" 6/94, and the *Keidanren* Report "A Call for Decisive Action to Ensure the Success of the Uruguay Round" (March 1992).

B). In terms of the change in prediction, a violation ruling alone increases the likelihood of major liberalization by 66 percent compared to negotiations without a violation ruling. This difference in predictions is clearly visible in the graph shown on the right in Figure 1. The scenario with no violation ruling has a cluster of predictions of minor liberalization while the scenario with a violation ruling shows predictions tightly grouped with a high probability of major liberalization. In sum, the violation ruling shifts the expected outcome of the negotiation from minor liberalization to major liberalization.

Model 2 in Table 4 reports that the early consultation phase of GATT legal mediation does not have a significant influence on policy outcomes. The comparison of the consultation phase and violation ruling in legalistic dispute settlement cases tests the implications for the different causal mechanisms by which legal framing exerts leverage. The evidence for Japan shows a significant positive impact from a violation ruling and no significant impact from earlier phases of legalistic negotiations. This pattern of negotiations leads one to conclude that GATT mediation influences Japanese policy by means of the ruling rather than consultation. Arguments emphasizing reputation imply that countries should settle cases early during consultations to prevent further publicity damaging their reputation. However, in the Japanese political context, reputation concerns are insufficient to persuade early liberalization. The normative pressure from a ruling at a later stage of the negotiation is necessary for liberalization. This supports my argument about the important role of a ruling to legitimize the liberalization demand and change the domestic political balance.

Threats have a positive effect on liberalization, and as hypothesized, more specific threats have greater influence. Figure 2 compares the simulated predictions of liberalization for a scenario of negotiations where there is no threat with a scenario of negotiations that have a threat of the highest level (coded 4). In the absence of any threat, predicted liberalization falls into the central area showing that any level of liberalization may occur. Simulation results indicate that for cases with a strong threat, predictions have a higher probability of major liberalization.

Although threats positively impact liberalization, the evidence here attests that rules persuade more than power. In a comparison of different scenarios, the change in the predicted probability of liberalization is much larger from a GATT panel violation ruling or a

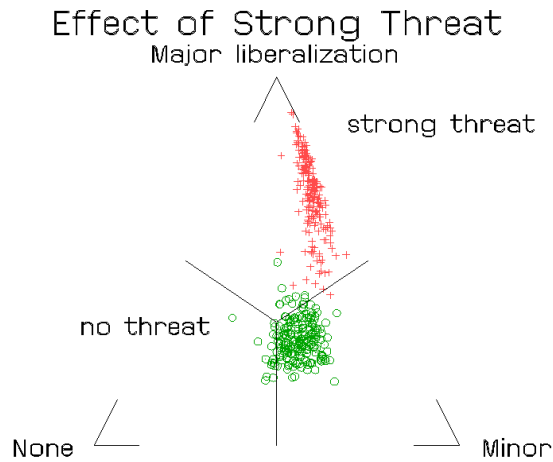


Figure 2: *Threat Effects on Predictions of Liberalization*. Each figure shows the predictions for negotiation outcomes based on 1000 simulations using the estimates from Model 1 in Table 4. The simulated predictions compare two scenarios when there is presence/absence of a strong threat and all other variables are held constant at their mean. Each point represents one prediction of liberalization under the specified scenario. 200 predictions are displayed for each figure.

strong cross-sector linkage than from a threat. Figures 1 and 2 show that the base model of no threat starts out at a higher level than for the base model of no linkage or no ruling. The figures also show the greater precision of predictions for linkage and ruling. The two negotiation structure variables fixed at their highest level produce a tight clustering of predictions for a high probability of major liberalization. In contrast, for the threat variable at its highest level, predictions are spread out over middle levels within the major liberalization category. This indicates there is both lower probability and less certainty for the predictions of major liberalization resulting from threats. Comparison of the magnitude of change in the predictions corresponding to a change in the variable of interest allows us to evaluate the relative influence on negotiation outcomes. Changing the linkage and ruling variables from low to high levels produced respectively a 70 percent and 66 percent increase in the likelihood of major liberalization. However, changing the threat variable from zero

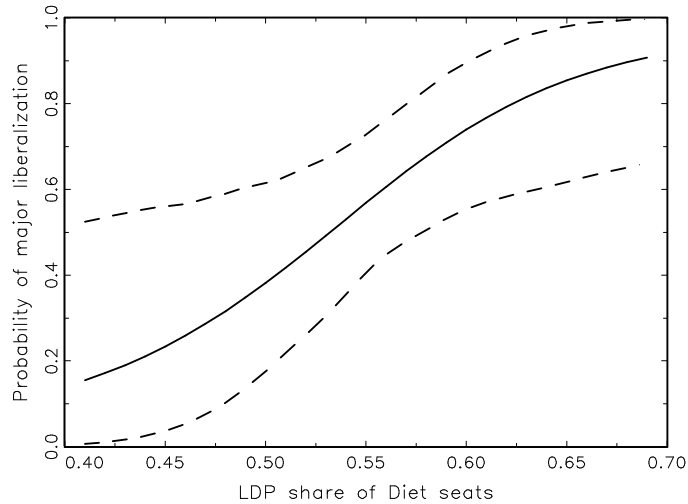


Figure 3: *Interaction Effect of LDP Strength on Impact of Threat (U.S.-Japan)*. The figure shows the predicted probabilities of major liberalization in the presence of a specific threat (coded 3) and varying the strength of the LDP in the Lower House. The solid line represents the mean prediction and the dotted lines show the width of the 95 percent confidence interval. Results are based on 1000 simulations using the estimates from Model 3 in Table 4.

to four produces only a 38 percent increase in the likelihood of major liberalization (see Table 8 of Appendix B). Although threats increase the chance of major liberalization and there is not evidence of a negative backlash against threats, neither are threats as effective a negotiation strategy as factors related to negotiation structure.

Furthermore, the effect of a threat strategy is conditional upon the strength of the ruling LDP. The specification of Model 1 in Table 4 shows the LDP variable has an insignificant effect. However, under conditions of a U.S. threat made during the negotiation, the status of the LDP becomes an important factor. Model 3 in Table 4 includes an interaction term for the LDP parliamentary majority and use of a threat in the negotiation.<sup>36</sup> When the LDP is weak, threats have very little influence. Figure 3 shows that given the existence of a specific

<sup>36</sup>This interaction term makes the threat coefficient a function of the LDP coefficient. When there is zero threat, the interaction term disappears, and when there is a threat its effect is multiplied by the strength of the LDP during the year of the negotiation. The coefficient for the LDPxthreat interaction term shows the positive effect of LDP strength in combination with a threat on the liberalization outcome.

threat (level 3) the stronger LDP majority corresponds with an increasing probability of major liberalization. The wide confidence interval shown by the dotted lines reveals that when the LDP is weak there is very little certainty for predicting the effect of a threat on liberalization. As the LDP share of seats grows, predictions for major liberalization increase in magnitude and certainty. When comparing the hypothetical situation of the LDP having 40 percent share of the Lower House seats to the counterfactual of the LDP having 60 percent share of seats, the probability of major liberalization increases from 15 percent to 74 percent on average with all else being held equal (see Table 7 in Appendix A).

I argue that this pattern arises because when the LDP is secure in its position it has less to fear from losing a few rural seats due to angry farmers. A strong LDP majority is a permissive condition for liberalization under foreign threats. On the other hand, liberalizing such a politically sensitive sector under threat of foreign retaliation is too risky a venture to pursue when electoral prospects are unstable.<sup>37</sup> This sharp divergence in the influence of threats highlights the political risks to liberalizing under foreign pressure. In conclusion, I find that looking at domestic politics is important for understanding the conditions under which a threat will be more or less effective.

Equally revealing is the fact that LDP strength does *not* have an interaction effect with the influence of other negotiation context variables. When I used a model specification including an LDP interaction term with linkage or an LDP interaction term with violation ruling, the coefficients were not significant. The leverage of a violation ruling or strong cross sector linkage does not depend upon the fortunes of the ruling party. These negotiation structure variables apply leverage that lowers rather than raises domestic political costs. Consequently, there is less need for the LDP to fear liberalization under a GATT ruling than to fear liberalization under a U.S. threat. While more case study analysis is necessary to support this claim, it is significant to note that when Japan faced U.S. demands for beef liberalization in 1988, media reports said many LDP politicians wanted the government to wait for a panel ruling to make it politically easier to accept concessions.<sup>38</sup> In interviews, politicians and bureaucrats say that the gains from a broad round or the need to follow

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<sup>37</sup>There may also be a selection effect at work where the United States makes stronger demands when the LDP majority is secure and refrains from pushing hard when the LDP is weak.

<sup>38</sup>See reports in the *Financial Times* 6 May 1988 and the *New York Times* 21 June 1988.



rules in a panel help them to explain painful agreements.<sup>39</sup> Since politicians are less likely to be punished by constituents for such liberalization, the liberalization decision is less contingent upon political variables. Moreover, third party involvement in institutionalized negotiations such as a GATT panel or round makes it more difficult for a single country to argue it has 'tied hands' because of sensitive domestic political timing.

The other variable for the hypothesis about U.S. influence, export importance of the product to the United States, gives further evidence that the United States cannot get what it wants when it matters most for U.S. exports. The United States does not appear to effectively use its leverage to favor its big export items. The larger the export item as a share of U.S. agricultural exports, the less likely it is that Japan will liberalize the product. For example, using the regression model to predict probabilities for a specified U.S. export value yields interesting comparisons. If the negotiation discusses a product like feed grains which held a 13 percent share of U.S. global agricultural exports in 1971, there is only an 8 percent probability of major liberalization and there is a 63 percent probability of no change as the negotiation outcome.<sup>40</sup> In contrast, for a product like nuts which held a mere 0.4 percent share of U.S. exports, there is a 44 percent probability of major liberalization and only a 17 percent probability of a failed negotiation. This is directly counter to the hypothesis that Japan would give concessions to the most important items to the United States out of deference to the relationship.<sup>41</sup>

Multiple countries making demands reduces the likelihood of liberalization. The negative direction of influence for multiple country demands suggests that the United States may be able to leverage additional pressure from the special relationship in a bilateral negotiation. This result undermines the idea that there is power in numbers, for if pressure from multiple countries were a necessary condition for liberalization, one would expect a significant positive finding for this variable. Instead, when comparing the scenario of multiple countries making demands with the scenario of the United States acting alone, simulation

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<sup>39</sup>Interviews by author, Tokyo, April - May 1999.

<sup>40</sup>Note that this is not a calculation for the specific product, but rather a prediction produced by the model when specifying an export value equal to the export value of U.S. feed grain exports in 1971.

<sup>41</sup>However, one must note that some of the more significant export items for the United States are also products where liberalization will influence more farmers in Japan. In other cases such as soy and feed-grains, the needs of Japanese livestock farmers motivated early liberalization prior to 1970, and subsequent negotiations were about smaller changes in the remaining trade barriers.

results show that the former scenario reduces the probability of major liberalization by 42 percent (see Table 8 in Appendix B). In other words, all else being equal, the United States has a better chance to gain major liberalization when it acts alone than if there are other countries making the same demand. This lends support to the idea of U.S. influence through its position of power. However, while the effect is significant, it is still smaller in magnitude compared with the negotiation structure variables. One implication of this finding is that the power of multilateralism is not because of multiple countries making demands during a negotiation to apply greater peer pressure or bargaining opportunities. Rather, multilateralism is important through the institutions that often accompany negotiations involving many countries.

Table 4 shows the negative correlation of budget growth and liberalization. The coefficient is both highly significant and robust across different specifications of the model. This evidence supports the budget hypothesis that when trying to cut budgets governments are more willing to liberalize farm programs. Growth in the national budget relieves governments of pressure to liberalize markets. On the other hand, budget reductions during the early period of the negotiation make it more likely the government will liberalize. If one considers a hypothetical scenario of 20 percent budget growth, the model would predict only 11 percent probability of major liberalization and 55 percent probability of no liberalization. This contrasts with a scenario of zero budget growth where the model predicts 58 percent probability of major liberalization. When there is a period of general budget austerity, it is both more necessary and politically easier to cut costly agriculture support programs. However, the effect of cutting the budget from 20 percent growth to zero growth has less effect on the likelihood of liberalization than the effect of shifting the level of legalism or issue linkage. The effect on the probability of a deadlocked negotiation is nearly the same for these variables, but the increase in likelihood of major liberalization resulting from a strong linkage or a violation ruling (70 percent and 66 percent increase) far exceeds the adjustment in predicted outcomes resulting from budget austerity (a 45 percent increase).<sup>42</sup> Therefore, from the perspective of understanding negotiated liberalization, budget pressures are a significant factor but remain a less powerful predictor than

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<sup>42</sup>See Table 8 in Appendix B.

negotiation structure.

The broader state of the economy also influences liberalization. The economic growth variable holds a significant positive relationship with liberalization. This indicates that better economic times make it easier to liberalize, while during years of declining growth leaders are less willing to reduce protection policies. However, again this is a significant but less substantial effect than the findings for the negotiation structure variables.

In summary, for the U.S.-Japan data, negotiation structure variables are the most important variables for understanding negotiation outcomes. Even when controlling for economic growth, threats, and the electoral position of the ruling party, issue linkage and violation rulings stand out as the biggest predictor of agricultural liberalization. The political sensitivity of agriculture means that threats are conditionally effective. In contrast, the authority from an international institution makes liberalization possible regardless of the political or economic fortunes of the national government.

## **U.S.-EU Agricultural Trade Negotiations**

The next section provides the parallel analysis of 114 U.S.-EU negotiations. The dependent variable, negotiated policy liberalization, and key independent variables remain the same as for the U.S.-Japan negotiation analysis. Some different variables are used to reflect differences in the nature of EU political institutions and agricultural policies.

Estimates of two models from U.S.-EU negotiations are presented in Table 5. The evidence from the U.S.-EU data corroborates the finding in U.S.-Japan negotiations that cross-sector issue linkage plays the dominant role in any explanation of liberalization. GATT legal procedures hold weaker influence relative to issue linkage in the European context and relative to the influence these same institutional features hold in Japan. Hence where there were two pathways to liberalization in Japan, for Europe there is really only one negotiation structure with strong prospects for substantial liberalization - an institutionalized package linking together different sectoral issues. Surprisingly, budget factors and threats have insignificant effect on outcomes for the EU.

The significant positive coefficient for cross-sector linkage confirms the issue linkage hypothesis. Linking agricultural issues to other sectoral negotiations increases the probability

Variable Name	Model 1	Model 2
Cross-sector linkage	0.38 ** (0.11)	0.44 ** (0.16)
GATT Dispute Consultation	0.68* (0.33)	
GATT Dispute Violation ruling		0.52 (0.60)
Threat	0.13 (0.12)	0.06 (0.12)
U.S. export priority	1.27 (1.66)	0.98 (1.65)
French Council Presidency	-0.75 ** (0.28)	-0.67* (0.30)
Export Subsidy case	-1.23 ** (0.26)	-1.14 ** (0.27)
Budget Growth	-0.01 (0.01)	-0.02 (0.02)
Economic Growth	0.14 (0.11)	0.19 (0.11)
Multi-country demand		-0.54 (0.44)
Repeat negotiation		0.03 (0.13)
First threshold	-0.66 (0.53)	-0.69 (0.58)
Second threshold	0.45 (0.52)	0.41 (0.57)
log-likelihood	-104.38	-105.60
gamma (s.e.)	0.38(0.12)	0.38(0.11)

Table 5: *Ordered Probit Regression: EU Agricultural Liberalization.*

Note: N=114. Standard errors are in parentheses. The constant is set to zero.

\*Significant to the 5 percent level. \*\*Significant to the 1 percent level.

for more liberalization in Europe. When comparing the scenario of a single sector negotiation with a negotiation that is otherwise identical but has a strong cross-sector linkage, the simulated predicted probability of major liberalization increases by 41 percent (see Table 9 in Appendix B). These simulation results are presented in the graph shown on the left in Figure 4. The circles representing the predictions for no linkage cases fall evenly between the categories predicting either none or minor liberalization. The cluster of plus symbols in the upper category of major liberalization represent the simulated predictions for the second scenario when there is a strongly institutionalized cross-sector linkage. Although there

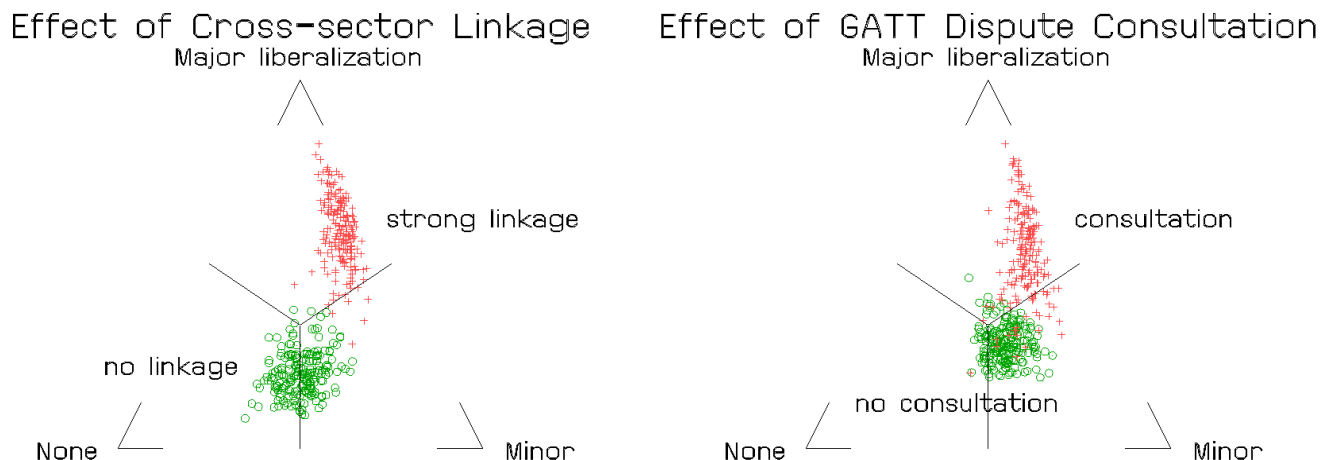


Figure 4: *Negotiation Structure Effects on Predictions of Liberalization (U.S.-EU)*. Each figure shows the predictions for negotiation outcomes based on 1000 simulations using the estimates from Model 1 in Table 5. The simulated predictions compare two scenarios in which the variable of interest is set at its lowest and its highest value while all other variables are held constant at their mean. Each point represents one prediction of liberalization under the specified scenario. 200 predictions are displayed for each figure.

is still considerable variation among these predictions, they show a clear pattern predicting major liberalization.

The reforms achieved in the context of the Uruguay Round are a major example of an issue linkage promoting liberalization. At the beginning of the negotiations in 1986, the EU was “drawn into negotiating agricultural liberalization in the Uruguay Round only under the promise that financial and other services would be included in the multilateral negotiation” (Meunier 2000, p.113). Thereafter, the linkage between agricultural talks and service and industry goods, which was reinforced by the failure of the negotiation in December 1990 over deadlock on agricultural issues, persuaded EU ministers that internal reform was necessary (Tangermann 1996). Even while farmers hold sway over European politics, European leaders and business are willing to consider agricultural liberalization when there are joint stakes for industry in the negotiation.

The specification of Model 2 in Table 5 shows that the estimate for violation ruling is insignificant as a predictor for EU trade liberalization. This both contrasts with the evidence from the Japanese data and goes against the expectations of Legal Framing hypothesis 2b regarding the normative pressure from a GATT ruling. However, it does corroborate evidence from several outstanding cases. One example of the irrelevance of GATT violation rulings is shown by the repeated refusal of Europe to change its ban on U.S. beef imports despite two panel rulings that the policy contradicts GATT and WTO law. The low persuasive power of this normative pressure in the EU context reflects the competing normative obligations of the GATT with the cause of European integration.<sup>43</sup> However, more analysis of interviews and cases in other papers will be necessary to develop this point. The evidence here clearly indicates that in contrast to Japan, violation rulings do not persuade the EU to lower agricultural trade barriers.

However, legal framing is important at the earlier stage of consultations under GATT mediation. The specification of Model 1 shows that there is a significant positive effect for the consultation phase of the dispute settlement procedures. The right-hand graph of Figure 4 displays simulated predictions from the scenario of negotiations that culminate in the consultation phase of GATT dispute mediation and a base category including all other kinds of negotiations. The predictions from the specification including consultation have a much higher probability of major liberalization than other negotiations, all else being equal. There is less of a difference between the two scenarios than the difference observed for cross-sector linkage and the liberalization predictions are more widely spread out. The change in this variable increases the predicted probability for major liberalization by 24 percent on average. While significant, this is little over half the size of the effect of a strong cross-sector linkage and has greater uncertainty (see Table 9 in Appendix B).<sup>44</sup>

Consultations form a less legalistic negotiation structure than a GATT panel, but nevertheless, the negotiation context takes on some characteristics of legal framing. The con-

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<sup>43</sup>For example, the beef case involves an issue of European political unity where the European Parliament has taken a lead role with the backing of consumer and farm groups. The banana case involves the Lome Convention and regional preference for former colonies that have been a constant theme within the evolution of the European Common Market. While the GATT/WTO rulings oppose these policies, their maintenance serves European unity. See also the discussion by Ernst-Ulrich Petersmann (2000) about a 1994 ECJ “banana judgment” ruling that EU law did not obligate compliance with WTO rulings.

<sup>44</sup>The confidence interval around the 24 percent average ranges from 0 to 47.

sultations begin with a formal complaint based on interpretation of GATT law, and the talks are premised on the fact that consultations proceed to panel mediation except for cases of early settlement or stonewalling by a country to block the panel.<sup>45</sup> Therefore the importance of consultations leads one to conclude that legal framing does exert some modest influence over European policy.

In the opposite pattern from Japan, Europe tends to liberalize under pressure from the consultation phase and not from violation rulings. This indicates a concern for protecting reputation to avoid rulings and shows the ability of the Commission to push through a decision to settle early for a better deal that will bring less harm to its reputation. However, obviously the concerns for reputation and authority of the Commission face limits as well. On the really controversial cases the EU has entirely disregarded the reputational harm from violation rulings. In these cases such as bananas and beef hormones, the Commission seems powerless against national politicians and the European Parliament. Indeed, it is not just that these issues were controversial, but that they involved a more fragmented policy process. The banana case related more to preferential relations with former colonies than agricultural policy, while the hormones dispute related more to human health than agriculture. This brought in new directorates of the Commission as well as higher involvement by the European Parliament than is found on other more typical trade issues. When the Commission had its traditional strong jurisdiction over a trade issue, then there were wide possibilities for early settlement in consultations in a pattern fitting the reputation mechanism posited in the Legal Framing Hypothesis 2a.

The difficulty of negotiating liberalization of export subsidy cases is readily apparent. The dummy variable for negotiations involving export subsidies as the trade barrier is highly significant with a negative effect on liberalization. Although its removal does not change the direction or significance of other variables, the export subsidy variable stands out in all of the models when included. Hence it forms an important control for the difficult nature of some legal issues. Later in section 2.5 I discuss the implications of the nature of the issue in terms of influence on the initiation and structure of negotiations.

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<sup>45</sup>After the establishment of the WTO the option to block a panel ended. Empirical examination of this rule change reveals little impact on the pattern of dispute initiation or outcomes (Busch 2000; Goldstein and Martin 2000).

In contrast to the evidence from Japan, threats exercise marginal influence over EU negotiation outcomes. Although threats positively relate to liberalization as hypothesized, the insignificance of the estimate prevents making predictions with sufficient confidence. Two important cases show that some issues are impervious to threats. In disputes over Europe's ban on hormone beef and its preferential import arrangements for bananas, U.S. threats and retaliatory sanctions of 100 percent import duties on 300 million dollar value of EU exports have brought no change in the policies since retaliatory duties went into effect in spring 1999(*International Herald Tribune*, 6 July 2000). A frustrated Congress proposed a rotating product list for sanctions, thereby increasing the total number of targeted industries that faced the threat of U.S. sanctions. After Congress passed the 'carousel retaliation act' in May 2000, European officials claimed this would only worsen the dispute and threatened to initiate their own dispute against the policy at the WTO (*Agra-Europe*, June 2000). However, in light of the insignificant statistical result and these cases, one must be quite skeptical that threats of retaliatory sanctions persuade Europe to liberalize sensitive items.

As expected, France holding the position of Council President blocks liberalization. The estimate for the coefficient is significant and in the predicted negative direction. This confirms the EU Internal Politics hypothesis 4b that liberalization is less likely when an anti-liberalization government like France holds the presidency. The model predicts that in a hypothetical tough negotiation when France holds the presidency during both the initial and concluding year of the negotiation, there will be 52 percent increase in the chance of deadlock than a negotiation where France is simply one among many in the Council room (see Table 9 of Appendix B). Figure 5 shows a clear pattern. The scenario of French Council presidency corresponds with many predictions bunched in the area of high probability that the negotiation will end with no liberalization. The wide spread in predictions across the category indicates the lower certainty of the estimates which is reflected in variation in the predictions.

This calls for more studies examining the role of Council Presidency and its influence on the policy process. My evidence indicates that the European Council Presidency can substantially influence the negotiation. As Council President, the French government can protect the policy autonomy of agriculture. In contrast, when a different nation is Council



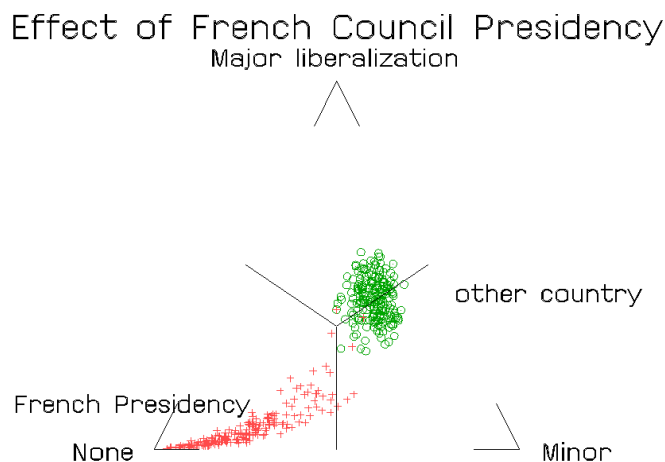


Figure 5: *French Council Presidency Effect on Predictions of Liberalization*. Each figure shows the predictions for negotiation outcomes based on 1000 simulations using the estimates from Model 1 in Table 5. The simulated predictions compare two scenarios where France did/did not hold the EU Council Presidency during initial and closing periods of the negotiation. Each point represents one prediction of liberalization under the specified scenario. 200 predictions are displayed for each figure. The complete summary is in Table 9 of Appendix B

President, an issue linkage could lead to more involvement of trade ministers in Council decision-making and prevent the Agriculture Council from acting as a veto player. The implications of this finding are significant both for understanding trade negotiation outcomes and the policy process in the EU. The power of the French government to influence the degree of liberalization is very robust to any change in specification of the model.

The cost-cutting hypothesis receives surprisingly little support. It has been widely argued that budget concerns were the primary motivation for reforming European agricultural policies both internally and externally. Moreover, the evidence from Japan cases supported the hypothesis. However, based on the trade negotiation data, one must conclude that budget movements at the EU level have little influence over specific trade negotiation outcomes.<sup>46</sup> However, while the evidence indicates that budget cuts have not corresponded

<sup>46</sup>My aggregation of EU budget expenditures does not address how budget constraints affect national

with negotiated trade liberalization, there may be efforts to cut back agricultural spending outside of negotiations. It is quite possible that budget constraints push for broad-based reforms on an internal level while having less influence over the discrete trade policies addressed in negotiations.

In summary, a credible issue linkage broadening the negotiation stakes can bring Europe to make grudging reforms. On the other hand, legal framing of the negotiation structure can at best bring an early settlement prior to the actual onset of panel proceedings. The features of the institutional context of the negotiation are important for understanding when liberalization is more likely. However, they also interact with the nature of the issue and the domestic political context.

EU institutions isolate agricultural decision-making even more than is true for national governments. The strength of farm groups within the member country governments is augmented by “disproportionate enfranchisement of EC agriculture” and in particular by the fact that the Agriculture Directorate of the Commission is “the only sectoral branch of the commission placed in the driver’s seat for the actual conduct of negotiations” (Keeler 1996, p.135-137). This autonomy of agriculture interests over agricultural policy makes reform unlikely. Liberalization is most difficult when France holds the presidency of the Council and can reinforce the policy autonomy of agricultural interests even within the Council of Ministers. Something must place agricultural issues into a broader policy context. An issue linkage broadens the policy arena because the additional economic stakes from an issue linkage make industry groups and trade officials take interest in agricultural talks. This makes issue linkage an especially effective solution to the obstacle facing agricultural reform in the EU. On the other hand, normative pressure is less effective. The Common Market and movement towards greater integration puts forward competing claims for legitimacy. European nations are not impervious to international obligation, but they face the tradeoff between obligation to Europe and obligation to the GATT. Future studies must look more closely at the domestic level to seek explanation for this divergent response to the same negotiation features.

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government policies. It is possible that when Germany or Britain are launching austerity programs at home, they also try to restrain EU spending policies which are supported by their large membership contributions.

## 6 Conclusion

This paper has presented compelling evidence against the common explanation that U.S. coercion opened Japanese agricultural markets while financial constraints forced Europe to reform the Common Agricultural Policy. Observers have been too quick to dismiss the GATT as ineffectual against agricultural trade protection. Disaggregating the means by which institutions could facilitate liberalization provides a more nuanced understanding of how the negotiation context affects state behavior. I argue that GATT institutions promote liberalization through use of issue linkages and legal framing. Analysis of over 250 negotiations reveals that these variables in the negotiation structure significantly improve the likelihood of liberalization. Nevertheless, the power of institutions is clearly conditional upon how the international institution impacts domestic interests.

Unilateralism whether through coercion or persuasion fails to open agricultural markets. U.S. pressure and threats are only conditionally important for Japan and have marginal influence over European policy. Moreover, in both cases, there is an absence of any pattern favoring those products which are larger U.S. export items.

The variation in negotiation outcomes challenges simple explanations that budget constraints explain the pattern of liberalization. Budget-cutting concerns all governments, and for the EU, CAP forms the largest share of all expenditures. The EU should be an easy case for budgetary pressure to force liberalization. However, comparison of thirty years of negotiations reveals that the rise and decline of budgetary conditions fail to predict negotiation outcomes in the EU. Budget constraints may produce internal reforms, but they are less important factor to explain the liberalization of trade barriers that occurs in international negotiations.

Linking agricultural talks with industry issues builds the prospects for liberalization in both the EU and Japan. The evidence shows that stronger linkages bring more liberalization, while negotiations which address agricultural issues in isolation are less likely to bring policy change. Without a strong issue linkage, the united strength of the farm lobby and jurisdictional autonomy of the agriculture ministries reinforce the status quo. Presence of a linkage increases negotiation stakes. Although broadening the negotiation mandate

poses the risk of failure and greater losses to both the United States and other negotiating countries, institutionalizing this linkage signals the serious commitment to pursue agricultural liberalization. When institutionalization builds the credibility of the issue linkage, domestic actors have more information that their interests are at stake. Evidence from the negotiation data shows that more institutionalized linkages had a higher probability of ending with substantial liberalization. Not only is it important for negotiation structure to include multiple sectors on the agenda, but also for institutions to reinforce this linkage.

The leverage of rules and norms interacts with the domestic political institutions. I have shown that a GATT violation ruling is one of the strongest factors to persuade Japan to liberalize its agricultural markets. In Europe these same violation rulings have no impact on policy outcomes. The influence from normative pressure depends on whether the appeal to GATT trade system resonates within the national political system. For Japan, as with most countries, the GATT is the primary trade forum. As a highly trade dependent state, this confers special importance to maintenance of the GATT system. International obligation becomes a large stake within the Japanese political context. On the other hand, for European nations, the Common Market clearly stands as the primary trade forum. Usually there is no conflict between commitment to the Common Market and commitment to GATT, but many of the agricultural protection policies that have long played a central role in European integration have been contrary to GATT principles. This gives rise to two competing claims. Regional integration can apply normative pressure through obligations on a country to support European unity. This offsets the normative pressure from a legal ruling that confers an international obligation to liberalize a particular agricultural policy. Thus the EU and Japan form the extremes with Japan being among the most susceptible to normative pressure from GATT principles while Europe is among the most resistant.

Comparison of negotiation features shows the importance of how institutions shape the negotiation structure. This study has developed hypotheses for how specific institutional features, namely cross-sector linkages and legal framing, promote liberalization outcomes. Through examination of agricultural trade negotiations I provide empirical evidence supporting this argument in an area that has long resisted liberalization and stood as a hard case for GATT law to influence state behavior. In addition to comparing different types

of negotiations, I compare the Japanese and EU reaction to similar negotiation structures. This provides further insights into how domestic politics interacts with both power politics and the mechanisms by which institutions influence state behavior.

## A Simulated Predicted Probabilities

Liberalization	Violation ruling	No Violation ruling
None	0.01 (0.01, 0.03)	0.30 (0.21, 0.39)
Minor	0.06 (0.01, 0.17)	0.43 (0.32, 0.52)
Major	0.93 (0.80, 0.99)	0.28 (0.19, 0.37)

Table 6: A Comparison of Predicted Probabilities for Violation Ruling (U.S.-Japan). *The table reports the predicted probability of each liberalization level for Model 3 for a comparison of the counterfactual scenarios of a violation ruling/no violation ruling when all other variables are held constant at their means. Results are based on 1000 simulations using the ordered probit regressions for U.S.-Japan agricultural trade negotiations presented in Table 4. The ninety-five percent confidence intervals are given in parentheses.*

Liberalization	Weak LDP (40 percent share)	Strong LDP (60 percent share)
None	0.54 (0.12 0.92)	0.04 (0.01, 0.11)
Minor	0.31 (0.07 0.48)	0.22 (0.10, 0.36)
Major	0.15 (0.01, 0.52 )	0.74 (0.55, 0.89)

Table 7: Interaction Effect of LDP Strength on Impact of Threat (U.S.-Japan): *The table reports the predicted probability of each liberalization level for the counterfactual scenarios of a weak/strong LDP position measured in terms of share of seats in the Lower House when all other variables are held constant at their means. Results are based on 1000 simulations using the ordered probit regressions for U.S.-Japan agricultural trade negotiations presented in Model 3 of Table 4. The ninety-five percent confidence intervals are given in parentheses.*

## B Simulated First Differences

Liberalization	Strong linkage (0 to 3)	Violation ruling (0 to 1)	Strong threat (0 to 3)	Budget cut (20% to 0)	Multi-country demand (0 to 1)
None	-0.43 (-0.58, -0.27)	-0.29 (-0.38, -0.20)	-0.22 (-0.36, -0.07)	-0.44 (-0.67, -0.20)	0.31 (0.15, 0.48)
Minor	-0.27 (-0.39, -0.14)	-0.37 (-0.48, -0.22)	-0.16 (-0.30, -0.02)	-0.01 (-0.10, -0.09)	0.11 (0.02, 0.21)
Major	0.70 (0.45, 0.86)	0.66 (0.49, 0.78)	0.38 (0.09, 0.62)	0.45 (0.22, 0.65)	-0.42 (-0.61, -0.20)

Table 8: Effect of Key Variables on Predicted Liberalization (U.S.-Japan). *The table reports the change in the predicted probability of each liberalization level when changing the value of one variable of interest while holding all other variables constant at their mean. The variable of interest is shifted from its lowest to its highest level, and the table reports the corresponding increase/decrease of liberalization prediction. Results are based on 1000 simulations using the ordered probit regressions for U.S.-Japan agricultural trade negotiations presented in Table 4. Specification of Model 3 is used for all calculations with the exception that Model 1 is used for threat predictions. The ninety-five percent confidence intervals are given in parentheses.*

Liberalization	Strong linkage (0 to 3)	GATT dispute consultation (0 to 1)	French Council presidency (0 to 2)	Export subsidy issue (0 to 1)
None	-0.32 (-0.48, -0.15)	-0.16 (-0.31, 0.001)	0.52 (0.16, 0.79)	0.41 (0.25, 0.57)
Minor	-0.09 (-0.21, -0.01)	-0.07 (-0.20, 0.002)	-0.17 (-0.37, -0.01)	-0.03 (-0.12, 0.06)
Major	0.41 (0.16, 0.62)	0.24 (-0.001, 0.47)	-0.35 (-0.50, -0.14)	-0.38 (-0.52, -0.24)

Table 9: Effect of Key Variables on Predicted Liberalization (U.S.-EU). *The table reports the change in the predicted probability of each liberalization level when changing the value of one variable of interest while holding all other variables constant at their mean. The variable of interest is shifted from its lowest to highest level, and the table reports the corresponding increase/decrease of liberalization prediction. Results are based on 1000 simulations using the ordered probit regressions for U.S.-EU agricultural trade negotiations presented in Model 1 of Table 5. The ninety-five percent confidence intervals are given in parentheses.*

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