

Whose Side Do Legislators Take? :The Politics of Economic Winners and Losers in the Global Economy

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Abstract

How do legislators' decide to side with either the winners or the losers from globalization? This article aims to answer this question by analyzing Japanese legislators' position-taking regarding the rise of import competition with China. Specifically, I show how politicians representing a set of rival regions—areas with similar industry profiles but different degrees of internationalization of production activities—took different positions on trade policy during the fourteen-year period from 1990–2004. The comparative study of the rival towel-producing regions of Imabari and Senshu demonstrates that legislators supported globalization winners in Imabari and they supported globalization losers in Senshu. I show that two key factors were the degree to which the industry's production activities had been internationalized and the nature of electoral competition in the districts.

Introduction

Globalization—an increase in the movement of goods, capital and

labor across borders—generates economic winners and losers. How do legislators' decide to side with either the winners or the losers from globalization? The majority of the literature on international political economy remains silent on this question as it has focused extensively on the distributional consequences, i.e., which economic interests benefit or lose from globalization. Specifically, the literature has tested conditions under which the Stolper–Samuelson or Ricardo–Viner models of trade account for who gain or lose from globalization (Rogowski 1989; Hiscox 2002; Scheve and Slaughter 2001). As a result, we still know relatively little about conditions under which *legislators* respond to globalization's winners or losers.

Three strands of literature, however, have emerged to answer this question. First, the literature on Western Europe has looked at political parties and link left vs. right partisanship of the government with their policies favoring winners or losers (Cameron 1978; Garrett 1998; Scheve and Stasavage 2009). These studies have shown that left-party governments tend to provide higher levels of protection to economic losers (e.g., labor in advanced industrialized economies) than right-leaning governments. Second, studies on the U.S. have demonstrated the constituents' influence over legislators' position-taking on trade policy by examining the effect of district-level socio-economic and political characteristics and lobbying activities of organized interests (Baldwin and Magee 2000; Broz 2005). This view postulates that legislators take policy positions to maximize votes and campaign contribution to stay in the office (Grossman and Helpman 1994). Finally, the literature on the U.S. also suggests that institutional change such as delegation of trade policy-making power to the President and the reciprocity of trade agreements determines legislators' responsiveness to economic winners (Milner 1988; Gilligan 1994). Gilligan (1994), for instance, shows that legislators became more responsive to export-oriented industries in their districts after the 1934 Reciprocal Trade Agreements Act.

The partisan model of a government's responsiveness to economic winners and losers, however, ignores important variations among and

within countries such as Japan, Italy, New Zealand, Brazil, and Thailand where political competition is more personalistic than programmatic. Compared to the accumulation of studies on partisan politics in the global economy, the dearth of studies on how politicians respond to globalization in personalistic countries is startling. What shapes legislators' decisions to support either globalization winners or losers in countries where capital-labor cleavage is weak and parties do not compete over clear, programmatic differences?

Second, the delegation model also provides little help in understanding legislators' responsiveness to globalization's winners and losers in parliamentary systems. Finally, the constituents' influence model developed in the U.S. context, while powerfully useful for making sense of legislators' behaviors in parliamentary regimes as well, cannot account for why legislators representing districts with similar industry profiles often take different policy positions. This article aims to fill this critical gap through a case study of Japanese legislators' position-taking regarding the rise of import competition with China. Specifically, I show how politicians representing a set of rival regions—areas with similar industry profiles but different degrees of internationalization of production activities—took positions on trade policy during the fourteen-year period from 1990–2004.

The research design used in this case study is to hold the industry-profiles of two districts relatively constant so that both districts face similar levels of import competition. The key difference between the two districts is whether within-industry, firm-level variations exist regarding their demand for protectionism. Firms in one district are split over free trade vs. protectionism, while firms in the other district unanimously support protectionism. This variation allows us to identify conditions under which legislators side with globalization winners (e.g., firms supporting free trade) over losers (e.g., firms supporting protectionism) controlling for industry-specific characteristics. It also allows us to ask how the political environments in the two districts, which differ in terms of the nature and the level of political competition, interact

with economic interests to shape legislators' position-taking.

To do so, I chose one set of "rival regions" for the case study. The two cities of the Senshu, which is located in Osaka prefecture, and Imabari, which is located in Ehime prefecture, both faced a deluge of imported towel products from China since the 1990s. However, the politicians representing these two regions showed very different levels of engagement to obtain protection from the central government. Politicians representing Senshu lobbied for the adoption of WTO-legal safeguard measures and import-injury subsidies, while politicians representing Imabari advocated for free trade. What explains this divergence and why did it occur along geographical lines?

This article shows that the central factor was the degree to which the industry's production activities had been internationalized. While the industry in Senshu was characterized by a very low degree of internationalization (*i.e.*, it had not invested abroad and had a low dependence on foreign trade), the industry located in Imabari had relocated many factories to China. Politicians' different degrees of engagement in protecting these regions were in response to the two rival cities' different degrees of internationalization of production activities.

The period between 1990 and 2004 is critical in testing the argument linking globalization and politicians' incentives because, during this period, a deluge of exports from China became a major concern for domestic towel producers.¹⁾ During the years between 2000 and 2003, the issue of whether the government should adopt the WTO-legal safeguard statute to protect the industry became the center of public debates. Regions that were dominated by domestic producers advocated the adoption of WTO-legal safeguards against the Chinese exports, while those dominated by internationalized producers that had begun outsourcing production activities to China in the early 1990s supported free trade. The intense period of trade politics made the analysis of legislator's position-taking easier as interest groups and politicians publicly expressed their preferences (Naoi 2009). Moreover, the period of intense trade conflicts overlapped with a general election in 2003, which

was a rare opportunity to observe how politicians expressed their policy preferences regarding the towel industry during their election campaigns.

Background: Towel Industry in Senshu Region versus Imabari City

The Senshu region of Osaka Prefecture and Imabari City of Ehime Prefecture are two rival sites for towel production which represented 40% and 50% of the total domestic towel sales in the year 2000 respectively.²⁾ The rivalry between the two regions goes back to the mid-1930s.³⁾

The Senshu region is the center of manufacturing industries in Osaka prefecture and consistently sold one fifth of the prefecture's total sales of manufactured goods since 1975. The Senshu region consists of several major textile production cities, most notably Izumisano City and Sennan City. Towel and related cotton textile industries are the main manufacturing industry in Senshu and employees engaged in towel and related cotton textile industries occupy around 25% of the total manufacturing labor force.⁴⁾ These data suggest that politicians cannot neglect these industries and secure reelection.

Towel and cotton industries have economic and political importance in Imabari City of Ehime prefecture as well. Imabari City is the second largest city in Ehime prefecture and has been known for its ship construction and towel industries. 35% of the labor force in Imabari City worked in manufacturing industries in the year 2000,⁵⁾ and around ten percent of total manufacturing labor force worked for the towel industry.

The strength of industry-level organizations in the two regions are also similar. As of the year 2001, the Shikoku Towel Industry Association has 175 companies and 3433 workers and the Osaka Towel Industry Association has 148 companies as members.⁶⁾

Both Senshu and Imabari City established local towel industry associations, Osaka Towel Industry Association and Shikoku Towel Indus-

try Association respectively, in 1951 and 1952. Both associations were organized in response to special legislation that allowed small and medium-size firms in 14 sectors to form quasi production cartel firms (*Rinji Chusho Kigyo Antei Sochi-ho*) in 1952.⁷⁾ The legislation was aimed at granting small and medium-size firms the means to survive trade liberalization, which was expected to accelerate after Japan's joining of the GATT (General Agreement of Tariffs and Trade) in 1955. The quasi production cartel is called the "adjustment association (*chosei kumiai*)" and coordinates firms' production activities to ensure that all the member companies maintain domestic market share under the supervision of the Ministry of International Trade and Industry (MITI).⁸⁾ When "outsiders"—those who are not members of adjustment associations—increase their market share and threaten members, the Minister of MITI could order outsiders to restrain their production (Article 29th of Special Law for Small-Medium Size Firms).

These associations were organized at the regional level, instead of a broader, sectoral level, for several reasons. First, the legislation was limited to small and medium-size firms that tended to be operated locally rather than nationally. Second, enforcing the cartel required a local agency to monitor and coordinate the production activities of factories.⁹⁾ The local association cooperated with local government to monitor and coordinate production activities.¹⁰⁾ The production cartel also created the opportunity for politicians representing the region to lobby for production quotas with MITI and to claim credit for winning the quota. When efforts to expand or maintain the current level of production quotas failed, the region was often compensated with subsidies for the downward adjustment. Because these subsidies were allocated from the central government to local governments and from local governments to industries, regionally-organized associations played an important role in lobbying for subsidies, as well as in distributing compensation that accurately matched individual firms' production quotas. Even after the legislation expired in 1963, the regionally-organized associations continued to be active lobbying groups, expressing their

preferences over trade and compensation policy (Naoi 2007).

Despite these similarities in the economic and political importance of the towel industry and the industry's level of organization, politicians representing the rival regions showed very different levels of engagement in lobbying for protection from the government in 2000–2004 when facing an import deluge from China.

1990s: Facing a Deluge of Imports from China

During the 1990s, Japan experienced a significant increase in imports of textile products from China, including towels. The quantity of towel imports grew from 16622 tons to 72609 tons—more than quadruple within 15 years from 1988 (Osaka Towel Industry Association 2003). The import penetration ratio, calculated by dividing total domestic sales by total imports from China, increased significantly from 14.9% in 1990 to 63.4% in 2001 (National Towel Industry Association 2001).

The two rival regions, Imabari City and the Senshu region were severely hit by the deluge.¹¹⁾ During the period between 1990 and 2001, in the Senshu region of Osaka prefecture, the number of towel companies decreased from 461 to 203 and the number of employees from 3535 to 2862 (Osaka Towel Industry Association 2003). Imabari City of Ehime prefecture experienced a similar decline of the industry between 1990 and 2000; the number of towel companies decreased from 390 to 219 and the number of employees from 6533 to 4237 (Imabari City, 2003). The Towel Industry Associations in the two regions jointly organized demonstrations during the summer of 2000 to advocate for regulation of towel imports. Around 2700 people participated in the demonstration in Imabari. The local legislatures in Imabari and the Senshu region also unanimously passed a petition letter (“*ikensho*”) to be submitted to the Ministry of Economy, Industry, and Trade (the METI) for the safeguard adoption. In the following year, the National Towel Industry Association finally filed a formal request to initiate safeguard protection at METI. The Shikoku Towel Association organized another demonstration during the summer of 2001, and this time, it drew much greater

participation (4800 people).

Despite these active interest group activities as well as local governments' support for protecting the towel industry, however, the lower-house politicians representing the two regions showed very different levels of engagement in obtaining protection and compensation from the government.

The Senshu Region of Osaka Prefecture: High Level of Engagement and Unanimous Support

Representatives of the Senshu region unanimously supported protection and compensation for the towel industry and showed higher levels of lobbying than Imabari representatives. In the year 2000, the Senshu district representative Matsunami Kenshiro of the Conservative Party lobbied for the adoption of safeguard protection for the towel industries.¹²⁾ Matsunami was instrumental in requesting that METI adopt safeguard measures for the towel industry in February, 2001.¹³⁾ While his lobbying was unsuccessful, the safeguard issue was again the center of "debates" during the lower-house election campaign in the Senshu region in the year 2003.

The problem with the "debates," however, was that parties did not differ much in their policies toward the declining towel industry in Senshu. All the parties, one way or another, expressed support for the declining towel industry and candidates had trouble differentiating their policies. While Matsunami Kenshiro of the Conservative Party supported the adoption of WTO-legal safeguard protection, Nagayasu Yutaka of the Democratic Party advocated the creation of a large factory complex for suffering small and medium size firms on the Osaka bay to revitalize local industry. Finally, Yasuda Yoshihiro, who was endorsed by the LDP, advocated cooperation among towel companies to differentiate their products from the cheap Chinese products.¹⁴⁾ The Communist Party candidate argued for a more generous financial loan system for small-medium size firms. While these positions differed slightly in how they wanted to save the towel industry, none of them advocated for free

trade or discussed the ways in which the government could assist local companies to outsource their production activities abroad.

Cross-partisan support for the towel industry in Osaka was also seen in the members elected from the proportional representation list of the Kinki regional block. The three lower-house members with different party affiliations, Kagita Setsuya (Shinshin-tou, later the Democratic Party), Yoshii Hidekatsu (the Japan Communist Party), Kubo Tetsuya (Shinshin-tou, later Komeito) all testified before Diet committees between 1996 and 1997 in support of protecting the declining towel industry.¹⁵⁾ The lack of major partisan difference among policies advocated by candidates elected from the PR list is interesting given how existing theoretical work predicts that PR should lead to stronger partisan differences in policies than majoritarian systems (Cox 1990; Huber and Powell 1994; Huber and Inglehart 1995; Dow 2001; Alvarez and Nagler 2004).

The puzzling outcome may be due to the double-listing PR/single-member district system Japan has adopted since 1994. The electoral system was reformed in 1994 from a multi-member district system to a combination of single-member districts and a proportional representation system. The 180 PR seats are divided into eleven regional blocks based on population. Voters choose parties and seats are allocated to the parties according to each party's share of the vote in the regional block.¹⁶⁾ The electoral rules allow candidates to be double-listed in the local single-seat districts as well as on a party PR list for the same election. If the double-listed candidate wins in her local district, then her name is removed from the PR list.

The double-listing rules of the Japanese PR system may have encouraged candidates in the PR list to behave like those in the single-member district system. Yamahara Kenjiro of the Japanese Communist Party, for instance, ran from the first district in Kochi Prefecture in Shikoku island, the neighboring prefecture of Imabari City. During his tenure in the Diet after the 1994 reform, Yamahara began referring to declining industries in neighboring prefectures—the mitten

industry in Kagawa prefecture and the towel industry in Ehime prefecture—rather than appealing on behalf of declining industry in his own district.¹⁷⁾ Graph 2 confirms this point by showing the frequency of Diet testimony referring to geographic constituents by Yamahara. Because Yamahara had already achieved his tenth consecutive reelection in the first district in Kochi prefecture by 1996, he could afford to help another Communist Party candidate running from the neighboring prefecture by lobbying for declining industries in his neighboring prefectures. Therefore, Yamahara acted more like a candidate running for the PR block by appealing on the strength of his wider contribution to Shikoku region, including Imabari City of Ehime prefecture. The votes Yamahara won for the 1996 election in Kochi prefecture, consequently, helped another Communist Party candidate based in Imabari City of Ehime prefecture win from the PR list.

In sum, politicians in the ruling coalition as well as those in the opposition supported protection and compensation for the declining towel industry. There was a lack of partisan difference in their attitudes toward protecting the towel industry in Osaka. The unanimous protectionist attitudes were seen both among candidates who were elected from the single-member district and from the PR list. Although they expressed a variety of ways in which the towel industry should be supported, their opinions all converged to protectionism and more government subsidies, rather than self-help efforts by the industry such as outsourcing their productions to China.

Imabari City of Ehime Prefecture: Low-level Engagement and the International vs. Domestic Split

Compared to the Senshu region, where there was cross-partisan support for the towel industry, in Imabari City, protecting the towel industry from the Chinese exports was exclusively the Japanese Communist Party's agenda throughout the 1990s. Since the 1991, the Communist Party and its affiliated associations such as the Agricultural Workers Union (*Nomin-ren*) began discussing how the Japanese govern-

ment could adopt the WTO-legal safeguard statute to protect domestic industries.¹⁸⁾ Haruna Naoki of the Communist Party from Imabari City proposed in the Diet the adoption of the safeguard statute for the towel industry for the first time in 1991. Since then, Communist Party politicians has frequently visited the Shikoku island's regional branch of the METI and requested the adoption of safeguards.¹⁹⁾ The lower-house members of the Communist Party from Imabari testified several times before the Diet asking for stronger support for the industry.²⁰⁾

Partisan difference and the Communist Party's commitment to safeguarding the towel industry were not only observed at the national-level legislature. The same partisan difference was observed in the local legislature of Imabari City as well. In 1995, the use of the WTO-legal safeguard statute to protect the towel industry was discussed for the first time in the Imabari City legislature by the Communist Party politician, Yamamoto Goro. Similarly, when a Komeito (the Clean Government Party) member proposed that the City legislature in 1995 submit a request to the central government asking them to subsidize local companies' foreign direct investment projects to promote outsourcing, the Communist Party representative opposed this bill. The proposal passed with a majority vote in the legislature.²¹⁾

On the other hand, the Liberal Democratic Party member in the district, Murakami Seiichiro, has never taken the protection of the towel industry seriously as his agenda. On the contrary, he explicitly took the position of encouraging local towel industries to outsource their production to China in order to lower production costs and become internationally competitive. The Shikoku Towel Association has lobbied him since 1993, in vain, for the use of various protection measures from Multi-Fiber Agreement to safeguard protection.²²⁾

Murakami Seiichiro has held major positions in ministries and in the LDP such as vice minister of the Ministry of Finance and Deputy Secretary General of the Liberal Democratic Party. Murakami inherited his family's local support network ("jiban") in Imabari when he first ran for election in 1986. Protecting the domestic towel industry, however,

was never his election platform nor a campaign promise during previous election campaigns. Murakami's committee assignments in the Diet and policy expertise also do not reflect his constituents, the towel industry or shipping industries in Imabari. His assignments in the Diet in the past include Finance, Budget, Coal Mining, and Construction. He also expressed his commitment to realize structural reforms in five issue areas under Prime Minister Koizumi's initiative: administrative reform, deregulation, special zones for structural reform, economic recovery of firms and localities. Indeed, during the period of heated discussion on the adoption of towel industry support in the Diet, Murakami as a vice minister at the Committee of Finance and Monetary, argued in support of free trade: ²³⁾

I believe there are three reasons our country's economy has not been good in the past decade. One is the borderless and globalizing economy, and the other is marketization of China and Russia...these things raised the safeguard issue for the towel industry...The underwear I am wearing today, for instance, usually cost 2000 Yen in Japan. But cheap ones [imported or outsourced ones] cost only 500 yen. I believe that, to make firms competitive internationally, we need to make steady progress...for instance, like the towel industry in my home district, outsourcing their production abroad is one of the options.

Murakami has also been critical of a local economy heavily dependent on government transfers and subsidies.

What needs to be done to deal with globalization, the burst of the bubble, and the severe financial difficulty we face now? I believe that it is important for the local economy to be independent...this means that local citizens become aware of the unique characteristics and attractiveness of the local economy and stand on their own. The central government's role is to

provide localities a means to be independent.²⁴⁾

Both Imabari City government officials and the head of Shikoku Towel Industry Association confirmed the low-level involvement of Murakami Seiichiro of the LDP in protecting the Imabari towel industry. The city government official believed that Murakami was trying to please both domestic and internationalized towel producers by not taking a clear position on the safeguard issue.²⁵⁾ The head of Shikoku Towel Industry Association agreed and went on to argue that his lukewarm position might be attributed to the fact that Murakami grew up in Tokyo and inherited his father's local election support network (*koenkai*) without cultivating one himself. Graph 3 confirms this point more systematically by showing the frequency of Murakami's Diet testimony mentioning geographic constituents (Imabari city, Ehime, or other prefectures in Shikoku island).

Murakami's tepid attitude toward protecting the towel industry continued even when there was a large demonstration organized by the Towel Industry Association in September 2001. Initially, both the LDP representative and the mayor of Ehime prefecture (endorsed by the LDP during the election) were reluctant to attend the demonstration. But because of the large attendance it drew (4800 people) they eventually decided to show up and gave speeches.²⁶⁾ The partisan difference in candidates' attitudes toward protecting the towel industry in Imabari stands in stark contrast with the unanimous support seen in the Senshu region.

In sum, in the two rival regions that suffered similarly from the deluge of imports from China, the levels of politicians' involvement to obtain protection differed. In the Senshu region, representatives actively lobbied for the adoption of a WTO-legal safeguard for the towel industry as well as subsidies and compensation, while in Imabari City, positions were divided between the Liberal Democratic Party politician, advocating for free trade and the outsourcing of industries, and the Communist Party candidate supporting the safeguard adoption. Why

did this divergence occur?

Why Divergence? Legislators and Globalization of Production Activities

I argue that the level of politicians' engagement diverged mainly due to the different degrees of internationalization of production activities in the two regions. Specifically, seven major towel companies in Imabari began relocating their production sites to China in the early 1990s, while the majority of companies in the Senshu region remained domestic.²⁷⁾ In less than a decade of foreign direct investment in China, the seven Imabari firms sold 50% of total towel sales from Imabari City and 25% of total towel sales in Japan in the year 2000.²⁸⁾ 38% of total towel export values from China were produced by Japanese subsidiaries, most notably from Imabari.

Despite these initiatives by the towel companies in the rival Imabari City to establish foreign subsidiaries, companies in Senshu of Osaka have continued to produce their products domestically. Among the 148 member companies of the Osaka Towel Industry Association, only two firms have established factories abroad.²⁹⁾ The divergence of adjustment strategies in the face of Chinese exports is startling. As a City government official at Imabari City said, the puzzle was not why the seven major firms in Imabari invested in China—rather, it was why firms in Senshu City had not.³⁰⁾

The Osaka Towel Industry Association was instrumental in mobilizing a large demonstration calling for the adoption of a safeguard statute in September 2001. The Towel Industry Association of Shikoku Region, in contrast, was split into pro-safeguard and anti-safeguard groups reflecting the international-domestic divide in their levels of integration to the international economy. The seven firms in Imabari City strongly petitioned against the adoption of safeguard statutes using national media and lobbying the Ministries. When asked to participate in the panel discussion on safeguards in 1995, the Shikoku Towel Industry Association did not attend due to the lack of consensus among the mem-

bers.

As a result, the higher degree of economic integration of the towel industry in Imabari City weakened politicians' incentives to mobilize voters by responding to the demands from the remaining domestic towel industries in Imabari City. On the other hand, the low degree of internationalization of the towel industry in the Senshu region strengthened politicians' incentives to mobilize voters by offering various supports—such as safeguard protection, creation of the factory complex, and more generous financial loans to the industry.

Electoral Environments: Competition, Cooperation from Local Legislators, and Newer Parties

While the argument linking globalization and politicians' incentives accounts for why politicians' support for the towel industry was not unanimous in Imabari City, it remains insufficient to explain why the LDP politician Murakami clearly took the side of globalization's winners over losers. I explore district-level, political sources of legislators' position-taking on globalization: the levels of electoral competition, the degrees to which legislators are dependent on cooperation from prefectural and city-level legislators to mobilize votes, and the nature of partisan competition.

One political reason the LDP politician was able to take sides with globalization's winners was the LDP's overwhelming popularity in Imabari City, as well as in Ehime prefecture in general. The LDP has won one of the highest proportions of votes over competing parties in Ehime prefecture in the past decade. On the other hand, the Senshu region, which was the fifth district of Osaka prefecture under the pre-1994 multi-member district systems, had four seats that have generally been divided up between three or four parties. After the electoral reform of 1994, the Senshu region was the 19th single-member district of Osaka prefecture where the margin of victory has been consistently slim (vote shares for the DPJ winner and LDP runner-up in 2005 were 48.32% and 43.34% respectively).

The dominance of the LDP party in Ehime prefecture may have enabled the LDP candidate, Murakami Seiichiro, to advocate unpopular policies to promote globalization and outsourcing in Imabari City. Murakami Seiichiro's overwhelming electoral strength over other party candidates is clear from the electoral outcome and the data on his political donations. In the 2000 general election, Murakami won 113616 votes—three times more than the second ranked Social Democratic Party candidate's 42673. Murakami's local support group "*Shinseikai Tou-
yo-shibu*" reported 4.1 million yen as its political revenue for the fiscal year 2003 when there was a general and local election (Ehime Prefecture, 2003).³¹ This was the highest recorded of all the political organizations among the four prefectures on Shikoku island.

The dominance of the LDP over competing parties not only suggests that the LDP candidate can pursue unpopular policies by siding with globalization winners without worrying too much about losing an election. It also means that LDP candidates can be less dependent on prefectural and city-level legislators to mobilize the votes. Before Prime Minister Koizumi Junichiro's reform (2001–2006) to cut back public work projects took its effect, rural localities were heavily dependent on central government's transfers. Therefore, when LDP politicians ran for election, it was common for prefectural-level legislators and mayors in the district to gather votes for the same-party candidate in exchange for future transfers. It is also common to have local mayors and chiefs of villages be the heads of local political support groups (*koenkai*) for the members of parliament (Curtis 1988, Park 1998). The degree to which a candidate is dependent on the electoral cooperation of local-level legislators affects legislators' policy-positioning on globalization for two reasons. First, generally, local governments such as prefectural and city-level governments have a protectionist bias because their revenues depend on local firms. Local governments are also concerned with local employment which tends to lead to a protectionist bias. Thus, the more dependent a national legislator is on local legislators for vote mobilization, the more likely that a national legislator will side with globaliza-

tion losers over winners.

For instance, in the Senshu region, the Conservative Party candidate Matsunami Kenshiro had very close ties with the city and prefectural-level leaders. The Izumisano City mayor Mr. Mukaie Noboru and the Osaka Prefectural Council member, Mr. Matsunami Keiichi (Matsunami Kenshiro's brother), endorsed Matsunami Kenshiro whenever he ran in general elections.³²⁾ This connection with lower-tier government politicians was important for Matsunami, as Mayor Mukaie had served as a mayor of Izumisano for six consecutive terms since 1976. Matsunami Kenshiro's close relations with the Izumisano City mayor was a key factor explaining why he supported domestic towel producers in Izumisano City. In exchange, the Osaka Towel Industry Association, as well as two towel companies in Izumisano City, donated campaign funds for the Conservative Party's brunch in the 19th district of Osaka prefecture from which Matsunami ran in 2003.³³⁾

On the other hand, in Imabari City, the local support group for the LDP candidate, Murakami, has been well organized and resourced. The support group was inherited by three generations of Murakami family, from grandfather to father and from father to son. Because of a strong local support group as well as the traditional dominance of the LDP in the district, Murakami was less dependent on the cooperation of prefectural legislators and mayors to secure reelection. Indeed, Murakami confirmed that he has never been lobbied by Imabari City mayor or Ehime prefectural governor regarding safeguarding the towel industry despite that the Imabari City government drafted a petition letter ("*Iken-sho*") advocating the adoption of safeguard measures against Chinese towel products in September 2000.³⁴⁾

The city government's decision to support domestic producers rather than the seven major firms that had invested in China was both economically and politically motivated. A city government official reported that the mission of the city government is to ensure local employment and that the government also has an incentive to secure tax revenues from local companies—the City's individual and corporate tax revenues

experienced a 63 million yen decrease between 2001 and 2002. The City official said: “those firms that invest in China did so at their own risk. But those firms that remain producing towels here do not have other options.”³⁵⁾ The LDP candidate, Murakami, did not need to respond to the Imabari City government’s protectionist policy, while in the Senshu region, the Conservative Party candidate Matsunami needed electoral cooperation from the Izumisano City mayor. The difference in the degree of dependence on local electoral cooperation may explain why some candidates are able to support globalization winners even when there is strong protectionist bias in local governments.

Another political difference between Senshu and Imabari City is the nature of partisan competition among candidates in the two regions. Imabari was under the second district of Ehime Prefecture before the 1994 electoral reform and the district had three seats. Throughout the 1980s, two or three of the three seats were occupied by the LDP and occasionally one seat was won by more a left-leaning party such as the Japan Socialist Party.³⁶⁾ The party platform and partisan difference between the two parties, the LDP and the JSP, is generally larger than the difference between the LDP and newer political parties such as the Democratic Party, the Conservative Party, and the Komeito (the Clean Government Party). In Imabari City, partisan competition between the right (the LDP) and the left (the JSP) has been stable, so that it was easier for candidates to differentiate their policies and appeal to different constituents. When politicians have alternative means to win elections other than bringing transfers, such as appealing to partisan and policy differences from other candidates, they have weaker incentives to obtain transfers from the central government. Stable partisan competition in the Imabari City enabled candidates to differentiate policies, rather than competing for pork barrel distributions.

On the other hand, partisan competition in the Senshu region has been much more unstable than in Imabari. Under the multi-member district system before 1994, towel production sites such as Senshu, Sennan, and Izumisano cities were under the fifth district of Osaka Prefecture.

In the early 1990s, the four major parties equally split the four seats of the fifth district: Nakayama Taro (the Liberal Democratic Party), Masaki Yoshiaki (the Komeito), Fujita Sumi (the Japan Communist Party), and Nishimura Shozou (the Social Democratic Party). Since then, newer party candidates have begun winning seats in the Senshu region: the Conservative Party, the Komeito, the Democratic Party and so on. These newer parties inevitably suffered from the lack of clear party identity and policy orientation. The result was a convergence toward the position of the median-voter, i.e., unanimous support for the declining towel industry across different parties.

Were Promises Delivered?

The different levels of support promised by politicians in Imabari and the Senshu region consequently led the central government to compensate Senshu more than Imabari. In response to the lobbying by industries, METI proposed a budget bill for “Revitalizing Local Industries (*Jiba sangyo tou chiiki kassei sochihou*)” of which 400 million yen is specifically set aside for textile producing regions in the year 2002. The textile producing regions’ quota was expanded in the following year to 560 million yen. The Senshu region was the major recipient of this package, in addition to becoming a major recipient of the Emergency Measure for Revitalization of Industrial Clusters (*Tokutei sangyo syuseki no kasseika ni kansuru rinji sochi hou*), the measure that aims to stop deindustrialization. With these compensation packages, Osaka prefectural government has built tax exempt towel factory complexes on the coast of Osaka.

To conclude, globalization of production activities undermined politicians’ incentives to lobby for protecting globalization’s losers in Imabari, while the lack of economic integration in the Senshu region increased such incentives. The latter part of this article showed how globalization of production activities interacted with different electoral dynamics in the two districts to determine legislators’ decision to side with globalization’s winners vs. losers.

Conclusion

Comparing a set of “rival regions,” this article has found that first, globalization of production activities undermined politicians’ incentives to provide support for globalization’s losers. The latter part of the section also discussed how globalization of production activities and different electoral dynamics in the two regions shaped politicians’ incentives to provide support for the declining industry.

Second, in the towel industry, trade policy cleavages formed along geographical lines, with one region advocating for free trade while the other lobbied for protectionism. Existing economic explanations of why one type of trade policy coalition is formed need to be reconsidered as the government’s policy significantly shapes how interests are formed and become politically active. This article has also demonstrated that even under a fiscally and politically centralized system like the Japanese system, regions may act as powerful lobbying groups under globalization.

Finally, the analyses have also shown the political sources of the different adjustment strategies that towel industries took in the 1980s and 1990s. In Osaka, towel industries continue to rely on the influence of powerful LDP politicians for compensation and protection. In Okayama prefecture, by contrast, most of the Imabari firms have already adopted an economic adjustment strategy by outsourcing to China. The two different strategies shaped their trade policy preferences significantly when they later faced the rise of Chinese exports. The remaining question is what explains why some regions take a self-help, economic adjustment strategy, while others take a political activation strategy. While this is a task for another paper, powerful politicians and their unified support for declining industry may be the source of such divergence. The fact that companies knew that the industry would have a higher chance of obtaining transfers and compensation in the future due to their powerful representatives, may have significantly shaped compa-

nies choice of economic adjustment vs. political activation strategy (Dixit and Londregan 1997). To prove this story in a more systematic manner is an undertaking for another project.

*This article is dedicated to my mentor, Professor Yakushiji Taizo, for who I cannot thank enough for providing excellent guidance to me over the years. I am grateful for the Japan Society for the Promotion of Science and Princeton University's Center for Globalization and Governance for financial and intellectual support while this research was conducted. Ulrike Schaede and Helen Milner provided invaluable comments on an earlier draft. I also thank interviewees for being generous with their time and knowledge. Celeste Raymond Beesley provided an excellent editorial assistance.

- 1) "Towel producing region of Senshu, Osaka, faces the rapid rise of import," *Nihon Keizai Shimbun*, July 1, 2000.
- 2) "Towel producing region of Senshu, Osaka, faces the rapid rise of import," *Nihon Keizai Shimbun*, July 1, 2000.
- 3) The Osaka Prefectural Government, 2005. The first towel import to Japan occurred in 1872 from England as a result of opening of Japan's trade in 1859 and England's industrial revolution. Merely a decade after the first import, Japanese manufacturing companies began making domestic towels. See, Shikoku Taworu Kogyo Kumiai, <http://www.stia.jp/navi/history/index.html>.
- 4) Senshu Bank (2005).
- 5) Imabari City Government (2005). Statistics available at <http://www.city.imabari.ehime.jp/jouhou/tokei/tokei02.html>.
- 6) The number of individual members for Osaka Towel Industry was not available.
- 7) Osaka and Shikoku Towel Industry Associations, 2005.
- 8) The legislation was a response to lobbying by textile and towel industries that, under the new anti-cartel legislations passed in 1949, they could not collectively adjust their productions without violating the law. See MITI. 1995. *Tsusho Sangyo Shi*. Vol.5.
- 9) I owe this point to Ulrike Schaede. Personal communication, July 31, 2005.

- 10) These local agencies, of course, did not only act as the central government's agencies to monitor and enforce the production cartels. They also acted as lobbying groups trying to expand the production quota and obtain subsidies if they had to make downward adjustment.
- 11) "Towel industry in Osaka, Senshu city, suffers from the rise of imports." *Nihon Keizai Shimbun*, July 1, 2000.
- 12) *Osaka Nichi Nichi Shimbun*, 2003. (Osaka Daily, November 7, 2003), "Naniwa no Sentaku" (Choices that Osaka faces).
- 13) The Osaka Towel Industry Association as well as two towel companies in Izumisano City donated campaign funds for the Conservative Party's brunch in the 19th district of Osaka prefecture in the year 2003. This was probably to reward Matsunami for his efforts to realize the safeguard protection for the towel industry. Osaka Senkyo Kanri Iinkai (2003), *Seiji Shikin Syushi Houkokusyo* (Osaka Election Commission, Report, *Revenue Reports of Political Funds*, 2003)
- 14) *Osaka Nichi Nichi Shimbun* (Osaka Daily, November 7, 2003), "Naniwa no Sentaku" (Choices that Osaka faces).
- 15) Kagita Setsuya, Testimony before the Budget Committee, March 4, 1997. Yoshii Hidekatsu, Testimony before the Budget Committee, February 29, 1996. Kubo Tetsuji, Testimony before the Agriculture, Forestry, and Fishery Committee, May 22, 1997.
- 16) For instance, Shikoku island is the smallest PR regional block with seven seats. Christensen Raymond (1994) calculates that "if the Communist party wins 13 percent of the vote, it will win at least one of the seven seats."
- 17) For instance, Yamahara said: "Outsourcing of textile industries poses serious threat to local economies and employment. We need to channel political power to protect these local industries using textile safeguard measure," Testimony before Diet Committee, Yamahara Kenjiro, 1995.
- 18) Interview with *Nominren's* officer, Tokyo, March 2002.
- 19) Haruna Naoki, the Japan Communist Party, Public speech at the 81st year anniversary of the Japan Communist Party in Imabari City, August 2, 2003.
- 20) The only Communist Party seat in the four prefectures of Shikoku region was in Imabari district, except for 1996 election when the party obtained two seats, one from Kochi prefecture and the other from the PR Shikoku regional block.

Haruna Naoki of the Japan Communist Party was a strong advocate of the adoption of safeguard to protect towel industries since 1991.

- 21) Interview with the Imabari City government official, August 2, 2005 and interview with the head of Shikoku Towel Industry Association, March, 2007.
- 22) Interview with the head of Shikoku Towel Association, July 28, 2006, in Tokyo.
- 23) Murakami Seiichiro, Testimony before the Committee of Finance and Monetary, May 31, 2001. Translation by the author.
- 24) Murakami Seiichiro, Testimony before the Cabinet Committee at the Lower House, March 18, 2004. Translation by the author.
- 25) Interview with the Imabari City government official on April, 2005 and interview with the head of Shikoku Towel Association, March, 2007. Also see Haruna Naoki's diary on his official website at www.haruna-naoki.jp/library/kouen/article/930802-170335.html (last accessed April 14, 2005).
- 26) www.haruna-naoki.jp/library/kouen/article/930802-170335.html (last accessed April 14, 2005)
- 27) Two examples of these seven firms are Toyo Terry which established a subsidiary in China in 1991 and Hartoweru, which established a subsidiary in 1992 www.rieti.go.jp/jp/columns/a01_0003_rd.html (accessed April 10, 2005).
- 28) The seven companies in Imabari invested a total of 14 billion yen in China in the year 2000. Harada Seiichi (2003).
- 29) For the complete list of members, see <http://www.rinku.or.jp/os-towel/>. Senshu Bank in Senshu region which finances local small and medium-size firms published reports in 2003 that suggest that there were two firms in Senshu which began investing in China. The author identified Maruju and Futaba as the two firms.
- 30) Interview with Imabari Government Official, April 13, 2005.
- 31) Ehime Prefecture (2003), Electoral Commission, *Seiji Shikin Syushi Houkoku* (Reports on Political Revenues).
- 32) Ishida Toshitaka, the Democratic Party's candidate for the Osaka 19th district in the year 2000 lower-house election, writes this in his campaign diary on November 3, 2000. See <http://homepage2.nifty.com/ishidatoshitaka/plofile.htm> and <http://64.233.161.104/search?q=cache:nQAV1fULy14J:homepage2.nifty.com/ishidatoshitaka/200311.htm>.
- 33) See Osaka Senkyo Kanri Inkai (2003), *Seiji Shikin Syushi Houkokusyo* (Osaka

Election Commission, Report, *Revenue Reports of Political Funds*, 2003)

- 34) Interview with Murakami Seichiro, Tokyo, July 28, 2006.
- 35) Interview with Imabari City government official at Business and Commerce Section, April, 2005.
- 36) Fujita Takatoshi of the JSP, for instance, held the long term tenure as a lower-house member during 1963–1986.

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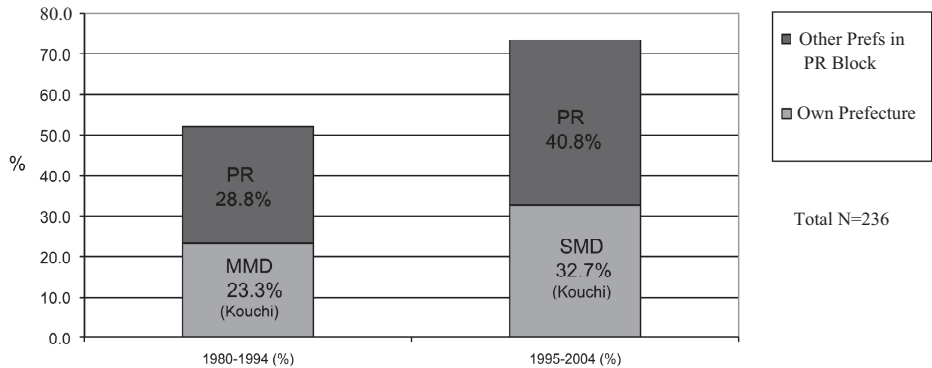
[Graph 1] METI’s Survey: Do you support the Safeguard Adoption for Towel Industry?
“Opinions Expressed during the Survey of Adoption of Safeguard Measure for Towel Industry”

	Agree	Disagree	Others
	(%)	(%)	(%)
Domestic Producers	82	6.0	12.0
Chinese Producers/Exporters	0.0	100	0.0
Japanese Importers	3.7	77.8	18.5
Japanese Retails and Sales	9.8	58.5	31.7
Consumers	34.2	32.0	33.9

Source: Survey done by METI. METI, Document Prepared for the Press Conference held on September 4, 2001.

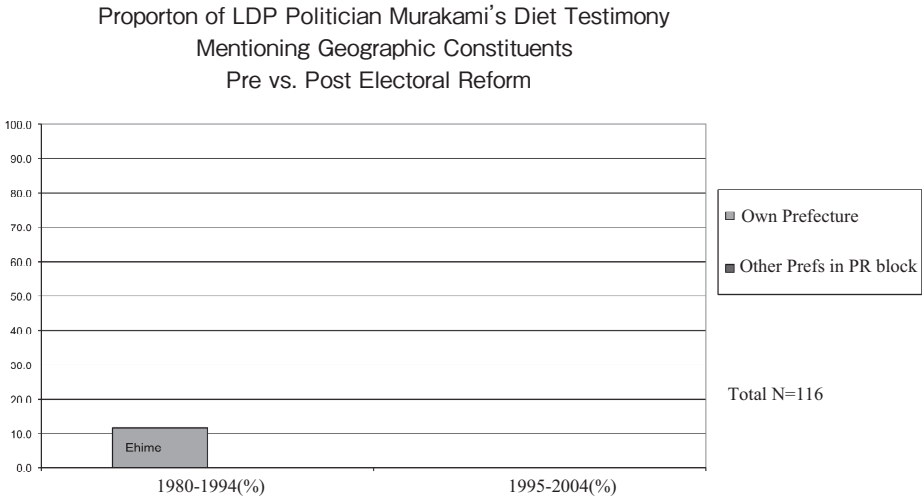
[Graph 2] Proportion of JCP Politicians Yamahara’s Diet Testimony Mentioning Geographic Constituents: Pre vs. Post-Electoral Reform

Proportion of JCP Politician Yamahara’s Diet Testimony Mentioning Geographic Constituents:Pre vs. Post-Electoral Reform



Source: Data collected by the author using transcripts of Diet testimony available at National Diet Library Website.

[Graph 3] Proportion of LDP Politician Murakami’s Diet Testimony
Mentioning Geographic Constituents: Pre vs. Post-Electoral Reform



Source: Data collected by the author using transcripts of Diet testimony available at National Diet Library Website.