Trust, Trade, and Institutions: Social Capital and Trade Liberalization Attitudes in Japan

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Clement Nocos, ID 51-148233

Professor Nobuhiro Hiwatari

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Hertie School of Governance

GraSPP

THE UNIVERSITY OF TOKYO

Introduction and Background

The relationship between trade liberalization preferences and social capital is an important connection to analyze for policymakers interested in generating positive public opinions towards a national government's efforts at implementing a free trade agreement with potential partner countries. Understanding how citizens form public attitudes is especially important as public opinion can constrain the policy options of office-seeking political elites that depend on popular support for re-election (Naoi & Urata, 2013). When it comes to trade, generalized trust is highly influential on and positively correlated with public opinions and attitudes towards trade liberalization (Spilker, et. al. 2012). According to previous research, at the individual level those that are able to "Trust most people" are more likely to have a positive view of trade liberalization. Alongside typical economic determinants of trade liberalization attitudes such as consumer benefits and producer anxiety, non-economic variables such as identity (Mayda & Rodrik, 2005) and in-group/out-group dynamics (Mansfield & Mutz, 2009), which are related to generalized trust, are also influential on individual liberalization preferences. In light of the previous troubles Japan had at the domestic level in negotiating the Trans-Pacific Partnership (TPP) Agreement and other Free Trade Agreements (FTAs) such as the Korea-China-Japan FTA, the country provides an excellent case with which to analyze the mechanisms behind the trust and trade relationship.

"Japan is often cited as a country rich in social capital" (Inoguchi, 2002). At first glance, this would imply that Japanese citizens are very likely to support policies that enable more economic liberalization and free trade as there is a strong, micro-level relationship between trust and institutional confidence with individual opinions on globalization (Spilker, et. al., 2012). At the individual level, those that are able to 'Trust most people' are more likely to have a positive view of trade liberalization. Levels of generalized trust have remained remarkably stable in Japan over the past three decades, where levels of trustworthiness among citizens in other advanced industrial countries have fluctuated or declined (World Values Survey, 2014). Positive and ascendant public opinion of major companies and the press are also unique to Japan when trust in these institutions have been in decline throughout developed democracies.

When it comes to FTAs, these strong levels of trust indicators in Japan should mean negotiators ought to have an easy time in finalizing deals. There is some indication that these trends are reflected in public support for the long-negotiated TPP. Public opinion polls have shown unwavering cleavages in Japanese attitudes towards TPP. In a 2013 *Asahi Shimbun* poll, 52% of respondents supported Japan's participation in the TPP while 25% opposed (Asahi Shimbun, 21 November 2013). Two years later, a 2015 Pew Research poll surveyed 53% of Japanese respondents supporting the TPP deal while 24% opposed.

However, these trends mask major discontents among Japanese citizens. Another in poll in 2013 conducted by the Japan Association for Public Opinion Research found that 86% of respondents found the Japanese government's transparency on the TPP to be insufficient. 55% of respondents in the same survey said the government was hurrying too fast to conclude the talks (The Japan Times, 10 October 2013). In a 2015 Pew Research Center survey of Japanese citizens, only 15% of respondents felt that trade with other countries led to job creation while 38% believed it leads to job losses. In the same survey, 76% believed that foreign investors owning Japanese firms was a bad thing and 69% of Japanese respondents felt trade was good. Despite majority support for trade and the TPP deal, high profile protests have taken place, led by a coalition of interest groups on the streets of Tokyo (The Japan Times, 13 March 2013). Opposition to the deal is maintained outside of major urban centres in the country. Public outrage also tends to follow the release of TPP information through WikiLeaks as negotiation officials struggle to maintain the trust of the public. When it comes to Japanese public attitudes towards economic liberalization, opinions are mixed and sometimes contradictory. While there is support for trade liberalization in principle among Japanese citizens, there is a lack of trust in the information being shared on these negotiations, confidence that free trade is beneficial, and assurance that economic negative externalities can be dealt with.

At the root of this discrepancy in Japanese public opinion towards trade liberalization is the varied relationship between institutions and social capital. While generalized trust is a somewhat significant predictor of an individual's attitudes towards trade, this one aspect of social capital is itself dependent on whether the individual can trust national institutions. The specific design of welfare policies and institutions, for instance, matter for the production of social capital (Kumlin & Rothstein, 2005). The institutional approach centres on the role of organizations and networks that enable the generation of social capital through the establishment of reliable contracts between citizens and the enforcement of rights and rules that sanction freeriding. A welfare system that fosters socioeconomic equality and frequent contact with welfare institutions, whether based on the state, market, or civil society, can lead to an increase in social trust among people that benefit. In universal welfare states, where state mechanisms of redistribution promote equality and social protections, enforcing social contracts with little distinction between “have” and “have-not” groups, generalized trust is strong among citizens. Depending on how they are designed, welfare programs and institutions have the capacity for “making or breaking” social capital (Kumlin & Rothstein, 2005). The apparent relationship between trust and individual trade attitudes implies that confidence in institutions to provide social welfare is connected with whether an individual supports trade or if they do not. Could the capacity for institutional arrangements to generate social capital also have an effect on the favourability or complacency of a public’s opinion towards economic liberalization?

This paper will analyze how the arrangement of Japan’s political economy and the institutional trust fostered in this system influences individual attitudes towards trade liberalization among Japanese citizens. Institutions and how they are trusted or mistrusted may be influencing positive or negative attitudes towards trade. This paper will first establish a theoretical framework, illustrating the relationship between institutional trust and attitudes towards trade liberalization. Second, putting this framework in the context of the effects of globalization on Japan, this paper will then analyze the institutional arrangement of the Japanese political economy and the patterns of institutional trust it produces. Third, this paper will demonstrate this relationship between trust, trade, and institutions through micro-level logistic regression analyses of social capital, economic, and control variables on the dependent trade attitudes variable using the Asian Barometer III, 2010 data on Japan. Lastly, this paper will analyze the implications this has for policymakers.

Theoretical Framework

Trust and Institutions

Social capital can be briefly defined as the varying levels of trust, norms of reciprocity, and networks used to collectively overcome social dilemmas (Ahn & Ostrom, 2008). Trust, as the social "glue" that facilitates trustworthiness between strangers and confidence in institutions, is the primary element of concern in social capital research and is quantitatively measured in social science surveys in its various forms. A high level of trust is often associated with effective collective action, good governance, a robust economy, and democratic efficiency, while poorly performing political and economic institutions are usually equated with the absence of trust. This is because "social capital, by definition, includes all those behavioural dispositions that help to reduce transactions costs and to overcome the undersupply of public goods that results from the propensity to be a free rider," (Offe & Fuchs, 2002). Therefore, variations in the level of political and economic performance over time between nation states can be explained, at least in part, by the varying levels and patterned characteristics of trust.

Of primary analysis for this research paper are the effects that institutional trust have on individual trade attitudes, but how do citizens come to trust or mistrust institutions? The generation of generalized trust, or horizontal trustworthiness between citizens in a society, originates from institutions depending on the institution's capacity for impartiality, fairness, and redistribution (Rothstein & Stolle, 2008). Though major proponents of social capital sometimes negate the effectiveness of structures and institutions as generators of social capital (Putnam, 1993), the specific design of institutional arrangements matters for the production of social capital (Kumlin & Rothstein, 2005). The institutional approach centres on the role of organizations and networks that enable the generation of social capital through the establishment of reliable contracts between citizens and the enforcement of rights and rules that sanction freeriding. Social capital needs to embedded and linked to political contexts as well as formal political and legal institutions in order to flourish (Rothstein & Stolle, 2008).

An institutional system that fosters socioeconomic equality and frequent contact with welfare institutions, whether based in the state, market, or civil society, can lead to an increase in social trust among people that benefit and trust with those institutions. In universal welfare systems, where state and market mechanisms of redistribution promote equality and social protections, enforcing social contracts with little distinction between “have” and “have-not” groups, generalized trust is strong among citizens. Experience with means-tested welfare programs, however, tends to erode trust as have and have-not groups are visibly formed under these kinds of institutional arrangements. Means-testing and dualization of qualifications for benefits are typically related to mistrust between in-groups and out-groups and a breakdown of generalized trust (Larsen, 2013). Depending on how they are designed, welfare programs and institutions have the capacity for “making or breaking” social capital (Kumlin & Rothstein, 2005). As the presence of social capital indicators such as generalized trust are also indicative of positive individual attitudes to trade liberalization (Spilker, et. al., 2012), institutional trust should also influence trade attitudes. On the other hand, out-groups such as those labour market outsiders without high factor endowments or social protections, maintain low institutional trust and generalized trust. It is also outsiders that maintain anxieties about open trade (Mansfield & Mutz, 2009). Under the rule-making, rule-enforcing, and network-facilitating umbrella of national institutions citizens are able to trust one another not to free-ride. Institutional efficacy also induces a feedback effect, where the cross-national solidarities and trust that is generated helps to reinforces confidence in that institution, whereas poorly performing institutions can reinforce mistrust (Johnston, et. al. 2010). Levels of vertical, institutional trust or confidence may be indicative of which institutions work effectively to generate generalized trust.

Varieties of Institutions

Institutions with higher levels of confidence may be the generating source of generalized trust in a society, whereas institutions with low levels of confidence might not be influencing the level of generalized trust, or may even be having a negative effect (Eek & Rothstein, 2005). This implies that citizens can trust some institutions and not trust others. They can make distinctions between institutions and place varying levels of confidence and trust in the institutions, depending on the institution's perceived impartiality, fairness, and efficacy (Rothstein & Stolle, 2005). Citizens make distinctions between partisan, order, power-checking, and market institutions and can have varying degrees of confidence between them. People who tend to trust partisan institutions like parliaments or the government, for example, may or may not support the governing political party and therefore broad portions of the population may not trust these institutions. On the other hand, order institutions such as the courts and police ought to maintain higher levels of public confidence as these institutions are expected to treat citizens with fairness and impartiality. Power-checking institutions maintain equalizing outcomes by ensuring other institutions are held accountable for inefficiencies. On items like international trade, their presence or absence from negotiations can have a strong effect on steering public opinion. Market institutions also generate or destroy trust by their capacity to directly affect citizens' welfare in a similar way to partisan institutions. However, the mechanisms behind fairness and impartiality from these institutions is based on the capacity for redistribution through market mechanisms or market coordination to produce these outcomes. Table 1 below categorizes some available variables from the World Values Survey that indicate vertical trust in a variety of institutions. Changes in institutional trust over time could also be the result of institutional retrenchment or changes in the institution's capacity to carry out equal treatment and resource redistribution.

Partisan Institutions	**Power-Checking Institutions**	**Order Institutions**	**Market Institutions**
• Government • Political Parties • Parliament • Civil Services	• Press • Labour Unions	• Justice System & Courts • Police	• Major Companies • Banks

Table 1 - Distinctions between institutions and corresponding WVS variables for analysis (Rothstein & Stolle, 2005). Addition of market institutions to the Rothstein & Stolle, 2005, model.

Differences in institutional trust varies not just between types of institutions, but between countries as well. For example, in countries where the state plays a direct role in providing social welfare, partisan-type institutions may be trusted more while in countries where the state plays an in-direct role, the larger perceived distance between partisan institutions and welfare may influence citizens to trust them less. Rooted in this variance of institutional trust between countries is the capacity for institutions to interact with citizens on a social welfare basis. This analysis is best informed by the complementary *Varieties of Capitalism* and *Three Worlds of Welfare Capitalism* frameworks. The Varieties of Capitalism framework illustrates the complementarity of markets to states in capitalist economies (Hall & Soskice, 2001). On the other side of the same coin, Welfare Worlds analysis provides a basis for welfare state analysis in capitalist economies (Esping-Andersen, 1990). Despite the different empirical and theoretical frameworks of how Varieties of Capitalism and Welfare World typologies are organized, they "pair up" (Haddow, 2008) or, rather, these welfare and production regimes appear to mutually support each other in the national economy.

Though they involve different actors and institutions, both typologies come together and exert a looped causal influence on one another to produce different sets of outcomes. For example, strong unions and collective bargaining in CMEs have the effect of equalizing income distributions, levelling the ground on which more egalitarian welfare states or social markets are established (Schröder, 2013). The way welfare institutions and economic coordination is structured can strengthen or weaken trust in the variety of institutions by affecting their efficacy for equalization. The continental European conservative welfare state regimes and industry-focused Coordinated Market Economies (CMEs), for example, are expected to maintain low levels of social solidarity and trust in national institutions due to social segmentation, particularly with high levels of skepticism towards partisan institutions. On the other hand, the Anglo-Saxon, Liberal Market Economies (LMEs) and liberal welfare state regimes would be expected to maintain higher levels of trust for market-based institutions as social welfare in these countries depends largely on the market (Larsen, 2013). Illustrating the institutional arrangements of Japan's political economy through these frameworks will aid in the analysis of how institutional trust affects trade attitudes.

Institutions and Trade

Citizens' confidence in institutions, in their perceived capacity to provide fair, impartial redistributive welfare, is related to support or antipathy for their country's continued trade liberalization plicies for a number of reasons. Though much of the literature related to globalization studies the relationship between economic variables and their conduciveness to liberalization, factor endowments such as education and human capital, as well as non-economic variables such as human identity have proven influential on individual attitudes and public perceptions to free trade (Mayda & Rodrik, 2005). Economic globalization has had a transformative effect on the efficacy of institutions and has also changed their capacity for facilitating social cohesion (Thelen, 2012). As the fiscal capacity of governments is reduced and industries are transformed, the old mechanisms of trust generation such as state social welfare programs and secure employment, perceptions can develop that these programs can become threatened by further economic liberalization. However, globalization affects countries differently in nations whose middle-class social contracts have evolved in distinct ways (Schoppa, 2002), lending to the notion that different institutional arrangements tend to produce different levels of social capital and reactions to liberalization. Maintaining confidence that institutions can still deliver these equalizing programs can stabilize mass support for a more open economy (Scheve & Slaughter, 2004). Public confidence in social welfare programs, whether they be based in market, order, power-checking, or partisan institutions, can help to alleviate producer anxiety towards liberalization and produce favourable levels of public opinion for trade negotiations (Scheve & Slaughter, 2007).

When it comes to widely supported institutions such as national state welfare institutions or large industries that have supported a substantial number workers' welfare for decades, the perceived effects of opening trade on these institutions can direct positive or negative attitudes towards liberalization. For example, individuals may develop concerns about globalization because the riskier and more volatile economic environment limits the capacity for governments to provide generous social insurance to compensate for losses (Scheve & Slaughter, 2004). In countries that depend more on market-based social welfare provisions, “middle-class angst” may develop in reaction to globalization as well-paying blue collar jobs may become less secure and income inequality grows (Schoppa, 2002). Institutions that may not generate broad confidence in their own ability to provide impartiality, fair opportunities, or contribute to welfare as perceived by the public, would have no effect on public opinions on trade or can have an adverse effect on those attitudes. Furthermore, the benefits of trade are unevenly distributed. Previously negative experiences with opening up the domestic economy without institutions redistributing the benefits of trade can make the losers of freer trade skeptical of furthering liberalization. This becomes problematic if gains from trade become much more concentrated among insiders. If there is confidence that institutions can deliver more equalizing benefits from trade, citizens may be more receptive to the prospects of expanding the open economy (Naoi & Urata, 2013).

Lastly, the political contention between trade liberalization and domestic-level institutions is of important for analysis as foreign policy depends to a high degree on domestic-level factors (Katzentein, 1976). Robert Putnam’s two-level game theory, links domestic-level institutions to international-level negotiations by way of the “win-sets” provided to international negotiators (1988). Supportive or compliant constituents within level II national institutions help to give level I international negotiators larger room to work with, or autonomy, in bargaining with other international representatives. Institutions with a high degree of trust by its citizens working towards a trade agreement in a much smoother process than institutions that are not trusted. On the other hand, if a level II institution is highly trusted, but excluded from the negotiation process, this could make international-level agreement and domestic ratification much more difficult. Furthermore, linking citizens to international-level negotiations are institutional representatives. Representatives from domestic-level partisan, order, power-checking, and market institutions are all actively involved in some degree in bargaining. Politicians, news media, domestic courts, and business leaders all represent citizens as well as particular interests, and can influence the boundaries of a winning set of conditions. Finally, this implies that public trust in institutions helps to expand the participation of the citizens in negotiations for favourable outcomes. By expanding the level of participation at the domestic level and by clearly specifying alternative policies for consideration, international negotiators can steer public opinion on trade towards more favourable level I outcomes by generating institutional trust (Schoppa, 1993).

The Japanese Case – Trust, Market Social Policy, and TPP

Patterns of Trust in Japan

In the social capital literature featuring empirical analyses, social trust is typically measured using the World Values Survey question: "Generally speaking, would you say that most people can be trusted – or – that you can't be too careful in dealing with people?" This question reflects a respondent's tendency to trust in others and is therefore commonly accepted as a measure of horizontal trust. As high levels of trust are usually related to efficient democracies, economic growth, and satisfaction with society, this variable captures what most social scientists look for in the study of social capital. The most important aspect of social capital is that citizens believe they share the norm of not cheating each other and can therefore trust, at the very least, most people (Larsen, 2013). Being closer to the institutional arrangement of conservative welfare state-CME type regimes, it would be expected that the output of Japan's institutional arrangement would be roughly similar levels of social capital. However, with similar redistributive outcomes, Japan's level of social trust fits among liberal-LME regimes. Though conservative-CMEs tend to have more redistributive outcomes, institutional arrangements that foster social segmentation alongside decreased economic efficacy result in lower levels of social trust for these countries. Despite heavy segmentation in the economy through *niju kozo* labour market dualism (Thelen & Kume, 2003), however, Japan deviates from the conservative-CME cluster. Though Japan's position at this point in time is closer to the liberal-LME cluster, over time it has also maintained very stable level of social trust. Unlike the other liberal-LME countries where social trust indicators have varied widely in

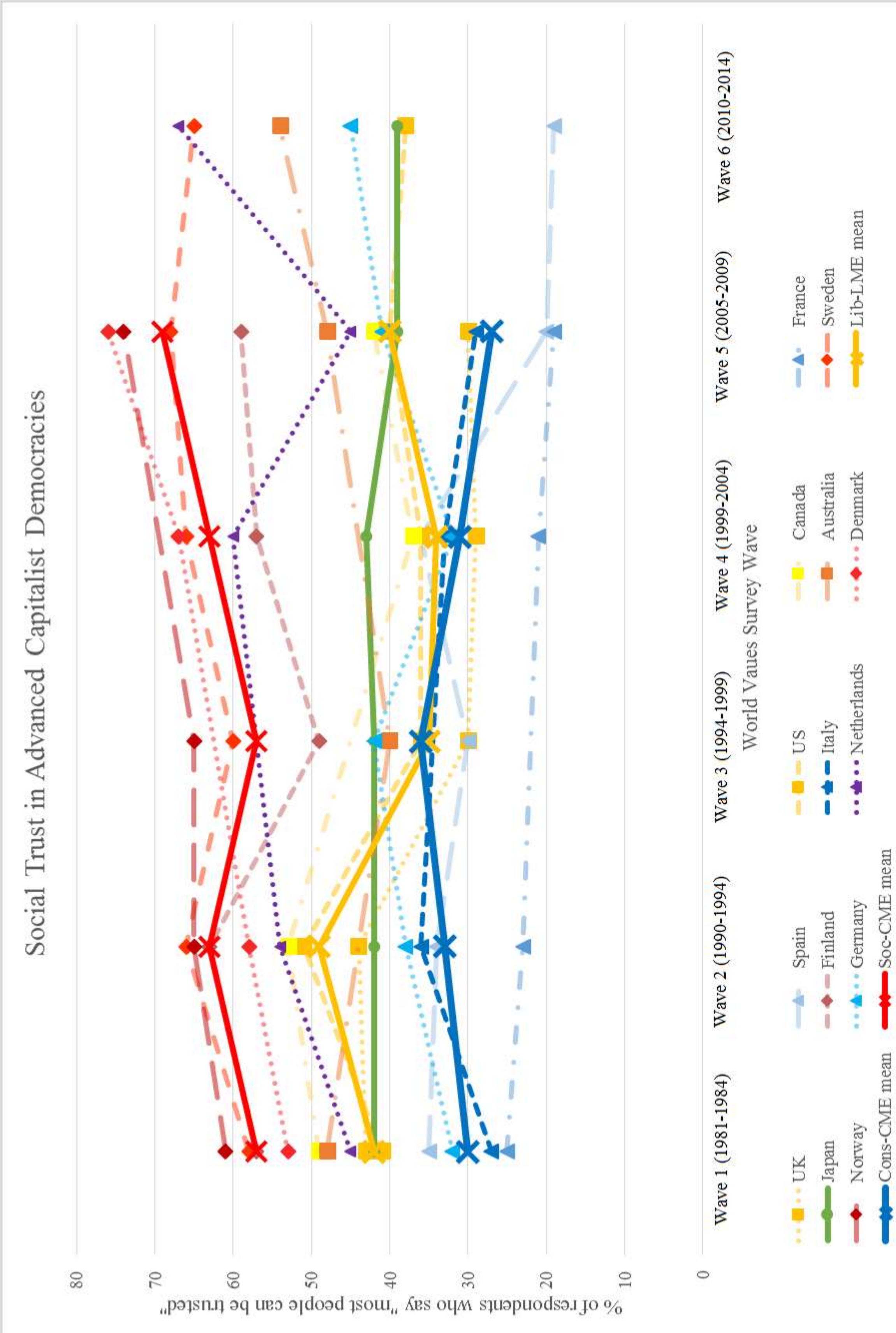

Figure 1 - Social Trust in Advanced Capitalist Democracies Over Time, World Values Survey Wave 1 (1981-1984) - Wave 6 (2010-2014).

the past three decades, Japan's social trust has remained remarkably stable, only dropping 3 points between 1984 and 2014.

Though the level and consistency of social trust in Japan has been associated with the lack of radical change in the Japanese business system (Witt, 2006), what are the social capital generating mechanisms in the political economy that have been causing these outcomes, and why have they remained intact despite decades of liberalization? In other conservative-CMEs like Spain and France, for example, economic crisis and the structural changes within the coordinated market economy have been associated with the decline of social trust, as their capacity to maintain socioeconomic equality has diminished (Larsen, 2013). In Japan, however, a strong network of interlinked business groups through the *keidanren* business federation, *keiretsu* networks of firms, research and development consortia, and a tripartite state-associations-firms nexus, along with strong arrangements between employers and labour, have yielded a stubbornness for structural change (Witt, 2006). Despite the economic stagnation of the last two decades and the stickiness of some of Japan's institutional arrangements, social trust in Japan does not seem at all affected. The stability of generalized trust in Japan, therefore, ought to have a positive effect on trade liberalization attitudes (Spilker, et. al. 2012).

For vertical, institutional trust in Japan, however, these trends are much more varied. Unlike other countries where confidence in political partisan institutions such as the national parliament, the government, political parties, and civil services has declined in recent decades, in Japan these trends have stayed consistently low. Trust in these institution types have remained at levels roughly between 20% and 30% between the World Values Survey's first wave in 1981-1984 to the most recent sixth wave in 2010-2014. For confidence in power-checking institutions, there is also deviation from expected trends in advanced capitalist economies. Trust in labour unions has actually risen in Japan in the past three decades where it has dropped off in other countries, and despite the drop in trade union density over the same amount of time and being historically weak, playing a very limited, complacent role in the Japanese production regime (OECD Stats Extracts, 2015; Witt, 2006). Even more unusual is the extremely high

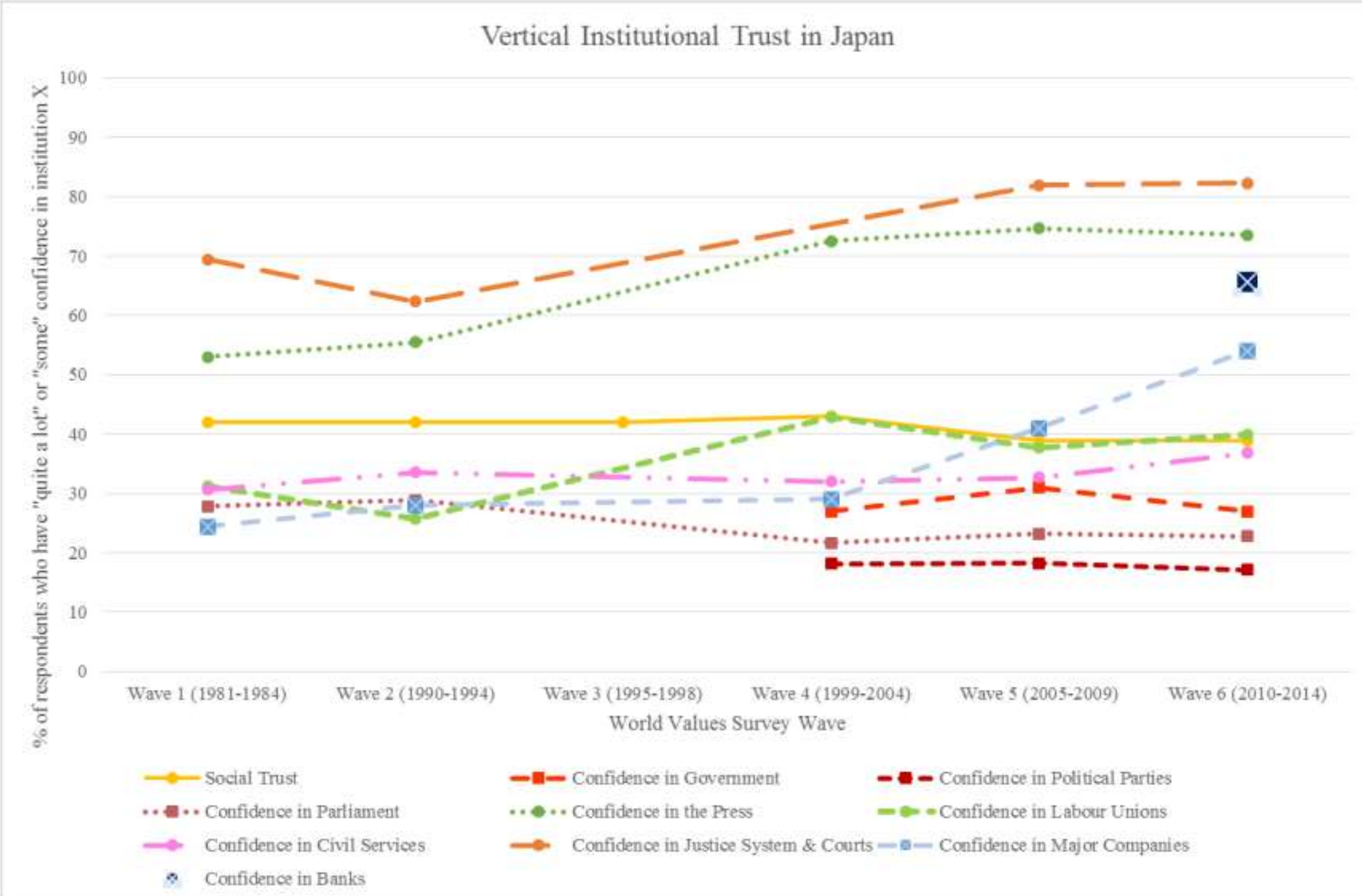

Figure 2 – Vertical Institutional Trust in Japan from the aggregated World Values Survey. Social trust is in yellow. Confidence in partisan institutions are in red hues, confidence in power checking institutions are in green hues, confidence in order institutions in orange, and confidence in market institutions are in blue.

confidence in the press that has only grown where public cynicism for the news media has diminished confidence in the press in other industrialized countries. Trust in market institutions such as major companies and the banks, though measured with less consistency in the World Values Survey, also show high levels inconsistent with the trends in other advanced capitalist economies. High confidence in banks and major companies, despite the recent “Two Lost Decades” of economic stagnation, deviates from the expected outcome. Still, typical in the pattern of institutional trust in Japan is high confidence in order institutions like the courts which has also grown in recent decades.

The high confidence of Japanese respondents to market-oriented institutions may be indicative of those institutions’ capacity for impartiality, fairness, and equalization, where other institutions may be ineffective or reversing these outcomes. High confidence in the press may also be related to declining confidence in partisan institutions. What is even more puzzling is that, with Japan’s decades’ long economic stagnation, market institutions are perceived to be more fair and impartial than partisan institutions. Socialization and welfare happen around the workplace more intensely in Japan than in other advanced capitalist democracies, which may contribute to increasing confidence in market institutions alongside the failure of partisan institutions (Witt, 2006). Analyzing the arrangements and complementarities of the varieties of institutions may help to explain how Japan’s political economy produces these social capital outcomes and its implications for trade liberalization.

Liberal Welfare State, Coordinated Market Economy, Newspaper Readership

Distance between partisan institutions and welfare

On the foundations of pre-war arrangements, the institutions of Japan’s post-war developmentalist economy were built again with the goal of catching up to the West (Streeck & Yamamura, 2003). The dual structure *niju kozo* system of productivity was again consolidated in the 1950s and 1960s to supplement welfare and to facilitate the government’s “Income Doubling Plan” which relied on economic growth and the market for social policy (Milly, 1999). Policymakers in the post-war reconstruction set goals to eliminate class conflicts while weakening organized labour by establishing a middle-class and a welfare system dependent on economic growth management. By the 1970s, Japan looked more like a liberal welfare state combined with a coordinated market economy, despite the uncharacteristic weakness of organized labour. Business groups and industrial networks coordinated with the government to fulfill “Income Doubling Plan” goals by promoting economic growth as a means to the end goal of economic welfare (Milly, 1999). Despite contention over the categorization of the Japanese welfare state (Esping-Andersen, 1997), the high commodification of social welfare in Japan places the country firmly among liberal welfare state regimes where government expenditures on welfare are low. However, this characterization is incomplete as the Japanese coordinated market, through the bureaucratic guidance of the state, has developed a number of market inefficiencies to provide for social welfare such as lifetime employment, seniority wages, and conservative-familial household norms that displace women from the workplace to contribute to the household economy (Schoppa, 2006). This reliance on the coordinated market economy for social welfare also meant limiting revenue-raising capacities early on which restricted the fiscal capacity for the government to expand welfare provisions later, even during the most prosperous years of the post-war economic miracle (Kato, 2003). In lieu of the direct provision of welfare through government programs, the Japanese political economy features a highly interventionist state in the market (Estevez-Abe, 2008). By acting instead to regulate domestic markets, finance infrastructure projects, and subsidize sometimes inefficient industries like agriculture, the Japanese government was able to shift the social welfare burden onto market institutions. This arrangement worked well through the period of high economic growth from the 1960s until the Asset Bubble Crash of the early 1990s. Through the 1990s the government was still largely removed from directly providing most of Japan’s social welfare, and instead helped nudge the market to provide more distributive outcomes. Firms bore most of the burden, complementing the state in providing near universal coverage for programs such as healthcare and social insurance. Clientelistic relationships between major business and government bureaucrats and politicians developed over the miracle decades to facilitate this level of coordination. Uninterrupted growth ensured continued public support for the Liberal Democratic Party of Japan (LDP), and the development of policies that focused on economic growth rather than state redistribution (Kato &

Rothstein, 2006). The establishment of state welfare programs that in-directly provided for social policy via the market separated the normal interactions between citizens and the state which has influenced consistently low confidence in these types of institutions.

As global liberalization pressures began to strip the government of its ability to regulate its way to political and economic stability, however, this unsustainable arrangement neared collapse (Rosenbluth & Thies, 2010). By the 1980s, the economic management of the dominant LDP in government came into question among the public. High profile special relationships between LDP politicians and industry leaders turned into long and drawn out scandals in the late 1980s, and with the defeat of the LDP in the House of Councillors after the 1989 election, electoral reform came to the forefront of the political agenda (Shinoda, 2013). The aim of eliminating the old Single Non-Transferable Vote system was to end the clientelistic relationship between politicians and industry. These “pork barrel” relationships came at the cost of massive misallocations of capital and subsidies for inefficient industries while fuelling budget deficits, limiting consumer choice, and providing opportunities for corruption. Without the capacity for fiscal expansion, the government could no longer support this kind of market coordination without incurring already ballooning debts. Large, competitive firms were no longer willing to support an electoral system that did not help them. Alongside international market pressures, domestic trends like an aging population moving from rural regions to urban centres also shifted the policy preferences of the electorate from agricultural protections to concerns about prices and taxes leading to a reform of the electoral system to a mixed majoritarian-proportional representation system in 1994 (Rosenbluth & Thies, 2010). The electoral reform also shifted the attention of politicians from special economic interests to the economic concerns of the average voter in the political centre (Rosenbluth & Thies, 2010). The regulation of Japan’s political economy moved in a majoritarian direction that undermined cartels and renewed government priorities. With the further deterioration of the state’s ability to provide social welfare, political disenchantment among Japanese citizens could also mean limited trust in politicians dealing with trade negotiations, giving Japanese partisan institutions less capacity in providing a greater win-set to Level I negotiators.

Dependence on market institutions for social welfare

The Japanese coordinated market economy relies on market mechanisms to supply resource distribution more heavily than most other capitalist economies. The government's social protection system focuses on job creation and security through an active labour market policy, rather than paying direct social insurance benefits (Estevez-Abe, 2008). Instead, government spending concentrates on indirect intervention by increasing labour demand through infrastructure investment or increasing demand in other related industries such as resources and low-technology products. Firms are expected to take on the burden of structural adjustments, keeping surplus labour on the job through mechanisms such as universal pay cuts, reduced working hours, and transfers to lower-paying subsidiaries (Witt, 2008). Though an active labour market policy is not uncommon in the social policy mix of other CMEs, the Japanese economy relies on it far more as a form of social protection in lieu of direct social spending. Equalizing outcomes are therefore delivered directly by market institutions instead of by welfare institutions, but at the cost of market efficiency. A key point to the stubbornness of institutional change in the Japanese economy is the adjustment cost of social obligations that firms and industries maintain compared to other countries, where states, or the individual in the case in the United States, take up the burden of adjustment (Witt, 2006).

Though economic growth did take off in the mid-20th century, the intense market coordination behind Japan's success is described by Thies and Rosenbluth (2010) as the "dirty secret" behind the progress. Government policies that led to market dependence on social welfare tolerated and sometimes encouraged unsustainable clientelism and a tightly regulated domestic market. The decline of these clientelistic relationships between the government and producers after the 1994 electoral reforms has leant to an erosion of coordinating capacity between the state and the market. Though increasing demographic pressures have demanded the Japanese government to spend more than ever on public expenditures (OECD, 2014), the perception of indirect benefits or redistributive capacity of partisan institutions has declined. This has also influenced the decline in the economic efficacy of market institutions that struggle to adjust to market conditions without government protections. Paradoxically, however, this has not meant a weakening of employee-employer relations.

In Japan, individual association with major firms are a leading source of group identity (Witt, 2006). Consolidating this relationship between citizens and market institutions during the development of the Japanese economy were lifetime employment guarantees in major firms and seniority-based wages. This wage model worked to provide broad social protections, benefiting male breadwinners directly and reinforcing conservative familial structures as the basis for welfare. Though coordination of the economy worked similarly to the tripartism between the state, employers, and labour as in the Christian conservative democracies of continental Europe, labour's weakness in this relationship was not due to open suppression by the government or business, but due to the fact that those who were members of labour unions already enjoyed very generous benefits and good relations with employers (Schröder, 2013). For full-time, core employees of these firms, labour's exclusion from coordination was due to complacency, rather than outright hostility by managers. Under the strain of an aging population, limits of traditional mechanisms for maintaining surplus labour, and rapid technological change, Japan's formerly robust labour market had to make adjustments to continue providing market-based welfare. Contrary to the increasing animosity between labour and business found in LMEs, Japanese employers have actively sought to intensify cooperation with workers at the firm level to enable wage restructuring (Thelen & Kume, 2003). Japanese executives in major firms see labour unions as integral partners to coordinate with for risk aversion and prioritizing firm survival (Witt, 2006). At the firm-level, however, instead of structural adjustments to cope with global liberalization, a trend of intensified traditional job protections has been promoted, which is linked to the growing exclusion of workers outside the in-group (Thelen & Kume, 2003). Though labour market dualism has pervaded the Japanese economy since its post-war establishment, this *uchi-soto* (inside-outside) distinction between labour market insiders and outsiders has only intensified as firms belay structural reforms for maintaining their social obligations. With pressure to reform rather unsustainable labour market structures, instead of eliminating long-term employment guarantees, firms and core workers have leaned towards wage structure reforms for labour market outsiders. Japanese workers have seen a shift from traditional seniority-based wages to dual performance-based wages for low skilled workers and skill-based wages for skilled, mostly young, workers. There is an overall trend towards a shrinking core of mostly skilled workers within individual firms, who continue to enjoy lifetime employment guarantees combined with a generous wage system against a growing peripheral and precarious workforce of low-skilled labour (Thelen & Kume, 2003).

It would be expected that the growth in precariously positioned workers would lessen the social capital-generating capacities of market institutions, as it would be assumed that those who can easily lose in the job market are less willing to engage in trust with others. With performance-based wages and weakened job security, firms have thus far been able to sustain their core workforce with peripheral workers taking on the brunt of liberalization burden. Firms have also remained competitive in attracting young, highly-skilled workers with these employment guarantees. Peripheral workers are typically on temporary or short-term contracts, are ineligible to participate in organized labour unions, and are low-skilled. The growing number of labour market outsiders not receiving the full benefits of market-based welfare would be expected to lessen cross-national social trust because of the growth of inequality and the intensification of the *uchi-soto* dynamic. As insiders and outsiders work side-by-side under very different conditions with different entitlements to benefits within the same company, it would be expected that bonding social capital between insiders and outsiders would be difficult to generate (Hommerich, 2015). Nevertheless, trust has remained stable in Japan for the past three decades, and institutional trust in market institutions has grown substantially.

Even with the growth of the peripheral workforce, the perception that market institutions deliver social welfare has not diminished and may have grown in past years. Trust in market institutions to continue to deliver these social welfare outcomes could very well influence positive public opinion towards trade in Japan. If these market institutions are improved or at least unaffected by free trade, citizens would be more inclined to be supportive or at least complacent with further liberalization. Because there is more trust in market institutions than partisan institutions, it would be expected that trust in major companies and banks would also have more influence on trade preferences than partisan institutions.

Newspaper Readership and Trade Transparency

Japan is unique among advanced capitalist democracies in that media outlets as power-checking institutions have remained highly trusted. In contrast to European and Anglo-Saxon democracies where cynicism towards news media has diminished trust towards television news and newspapers, in Japan this confidence in power-checking institutions to effectively hold other institutions accountable, and, in effect, deliver equalizing outcomes, has increased quite dramatically over the past three decades. The *Yomiuri Shimbun*, *Asahi Shimbun*, and *Mainichi Shimbun* are, respectively, the top three paid national newspapers circulated in the world (International Federation of Audit Bureaux of Circulations, 2011). The persistence of print news media in Japan could be attributed to an aging population, and therefore an aversion to new types of media such as social media that have displaced old news institutions in other countries. The persistence of newspaper media, however, may also be helping to stir public mistrust against politics. National politicians, spending more time in Tokyo and not in close proximity to the average constituent, already find it harder to generate public trust. It can be argued that Japanese newspapers, have fostered their own kind of cynicism and public detachment from politics that reflects public sentiments and amplifies them because of the trust in this type of institution (Pharr, 1997). The increasing "presidentialization" of media coverage of the prime minister has served to increase the precarity of that position as voter disaffection has grown alongside media scrutiny (Krauss & Nyblade, 2005). Not only does the press affect voter disaffection towards politicians, but this can also have a direct effect on citizens' perceptions towards trade among other economic issues (Mansfield & Mutz, 2009). Media reports about negative economic news coupled with skeptical coverage of trade agreements could form collective-level perceptions and alter policy preferences.

With these trends in news media in Japan, it is understandable why the lack of transparency and closed-door negotiations of the TPP have stirred public anxiety towards the deal. With news media largely shut out from the deal's negotiations, and the public feeling uninformed about the deal's developments, the amplification effect of anxiety through power-checking institutions ought to produce negative trade attitudes. Negative international trade-related news items published by top national newspapers, therefore, would have a stronger effect on influencing trade attitudes and amplify anti-liberalization preferences. Without adequate information sharing from political institutions like the government, public anxiety towards the deal is directed towards these institutions rather than concerns for the business leaders also involved in these negotiations (Fan, 2013). With strong opacity surrounding the TPP negotiations and a very limited information, released only through leaks, it is becomes clear why there is public skepticism to the deal despite support for trade liberalization in principle. Without involving power-checking institutions in the process, the win-sets provided by Japan's strong market institutions are constrained.

Empirical Analysis

Data and Methods

For an empirical analysis of the relationship between national institutions and individual trade preferences in Japan, data from the 2010 Asian Barometer III Survey as this dataset provides the most recent cross-national sample available that also contains survey items on trade attitudes and social capital variables with an adequate sample size for the country. Using a series of logistic regression analyses a basic model of four institutional trust variables, each measuring trust in an institution representing each type, will be tested for their influence and significance against a dependent variable indicating anti-liberalization opinions against pro-liberalization or complacent attitudes. Logistic regressions are used to determine the likelihoods that respondents trusting institutions will support trade liberalization. Because support/complacency or opposition to trade liberalization are dichotomous values, a logistic regression is necessary and easier to interpret than an ordinary least squares regression. Odds ratios are easier to interpret for this analysis than the Beta coefficients provided by logit regressions. Pro-liberalization and complacent attitudes are grouped together as both do not pose a stumbling block to trade negotiations and enable larger win-sets. The first model will analyze the institutional trust variables and a generalized trust variable alone against the dependent variable. The second model will set these trust indicators alongside demographic and economic control variables that are typically included in social capital research to determine whether, if at all, these displace or weaken the effect of institutional trust. The third model will analyze whether the influence of intuitional trust holds when a “producer anxiety” indicator variable is added to the previous model. Anxiety about the economic security of precarious workers and other producer-side aspects of the national economy have a strong influence on attitudes towards furthering trade liberalization (Scheve & Slaughter, 2004). This may not only affect the trade attitudes of the precarious workers in question, but “sympathy” for precarious workers by other citizens may also condition secure workers to have negative attitudes towards trade (Naoi & Kume, 2011).

Lastly, the fourth model will test the previous models with the addition of an interaction variable between respondents whose occupation is in the agriculture industry and partisan institutional trust. Under the LDP’s political dominance under the 1955 System, farmers came to depend on the LDP to enact strong protections for the agricultural industry in exchange for votes in an SNTV electoral system that heavily favoured rural districts. Historically, this exchange between farmers and the LDP has meant a close relationship between the two groups. With the end of this system after the 1994 electoral reforms and accumulating globalization pressures since the 1980s, farmers have become increasingly discontent with the LDP in recent years (Mulgan, 17 July 2013). The most vocal opponents of the LDP-led TPP initiative have been the Central Union of Agricultural Cooperatives *JA Zenchu*, once close allies of the LDP, who have staged the most visible mass protest against the trade deal in 2013 and continue to lead the anti-trade liberalization movement (The Japan Times, 13 March 2013). Because of generally low trust in partisan institutions in Japan, this indicator variable may not be influential on the dependent trade preference variable unless it is conditioned by an indicator variable of respondents belonging to a highly politically active group. As Japanese farmers in particular are politically active in their mistrust of the government and most would be expected to have a firm anti-trade liberalization preference, the influence of this interaction will be tested.

The dependent variable in question is taken from the Asian Barometer III survey that asks respondents whether they agree or disagree with the following statement: “Foreign goods are hurting the local community.” After deleting “do not understand the question”, “can’t choose”, and “DN answer” non-responses, with answers ranging from 1 = strongly agree to 4 = strongly disagree, the responses in the dependent variable are collapsed into a binary dummy variable that indicates positive or negative attitudes towards trade for use in logistic regression analyses. Because of the discrete, qualitative nature of this variable, there is no meaningful distinction between strong and moderate categories. Therefore, the dichotomous *trade* variable takes values of 1 = positive view of trade liberalization (value 3 = disagree and 4 = strongly disagree of the original survey question) and 0 = negative view of trade liberalization (value 2 = agree and 1 = strongly disagree).

The generalized trust variable is derived from the typical social capital item in the Asian Barometer III survey that asks, “Generally speaking, would you say that ‘Most people can be trusted’ or ‘that you must be very careful in dealing with people.’” After the non-responses are dropped, this dichotomous variable is recoded into a binary dummy variable where 1 = Most people can be trusted and 0 = you must be very careful in dealing with people. The institutional trust variables for partisan, order, and power-checking institutions are derived from survey items asking respondents about their trust in particular national institutions. Trust in partisan institutions is derived from respondents’ trust in “the national government”, trust in order institutions is derived from trust in “the courts”, and trust in power-checking institutions is derived from trust in “newspapers”. The list items in this section of this survey correspond to a question that asks whether the respondent has 1 = a great deal of trust, 2 = quite a lot of trust, 3 = not very much trust, and 4 = none at all. Non-responses are dropped from this analysis. These variables are also condensed into dummy variables, where 1 = trust (value = 1 and 2) and 0 = no trust (value = 3 and 4).

Unlike other cross-national values surveys, the Asian Barometer III does not contain a "trust in market institutions" variable that directly asks respondents whether they trust in banks or major companies. As a proxy, the Asian Barometer III survey contains a question that asks respondents, "What do you think will be the state of our country's economic condition a few years from now?" Responses for consideration are 1 = much better, 2 = a little better, 3 = about the same, 4 = a little worse, 5 = much worse and with non-responses dropped. This survey question will be used in lieu of a direct question as it does ask respondents how confident they feel that market institutions can sustain their country's economic welfare. To feel that their country's economic condition will improve or stay the same implies confidence that, barring any economic shocks, market institutions can provide for their welfare. To be used in the model, a trust in market institutions dummy variable is also generated where 1 = trust (value = 1, 2, and 3) and 0 = no trust (value = 4 and 5). The "about the same" response is included in the 1 = trust value as complacency or the absence of negative opinion implies that the respondent is still confidence that market institutions can still provide at least the same amount of welfare in the near future as it does today.

The control variables to be added to the model are respondents' age, sex, years of education, household income, perceived social class, and membership in a voluntary association. These control variables are added to determine whether they negate the influence institutional trust. These factor endowment variables are typically associated with individual trade preferences (Mayda & Rodrik, 2005). In other social science surveys, older individuals are typically more protectionist, while upper social class, highly educated, and higher income respondents ought to be more supportive of free trade. The sex variable is recoded into a dummy (1 = male, 0 = female). Household income is categorized into quintiles from the lowest 1/5th to the highest 1/5th of household incomes in the country. Perceived social class is also categorized into quintiles, from the lowest 1/5th to the highest 1/5th. Respondents respond with which ever quintile they feel they belong to. The membership in a voluntary association indicator variable is included for posterity with regards to social capital research. Though this paper focuses on an institution-centred theory of social capital, the strength of civil society-centred social capital should also be measured to determine whether it has any significant influence on the dependent variable. Membership in a voluntary association is related to an individual's high factor endowments and therefore associationalism ought to have some relationship with trade preferences.

The producer anxiety variable to be tested in the third model is derived from the survey question "Do you agree or disagree with the following statement: 'We should protect our farmers and workers by limiting the import of foreign goods.'" On a scale from 1 = strongly agree to 4 = strongly disagree, and dropping non-responses, this producer anxiety variable captures sentiments from the broad sample; not just from the precariously positioned. When primed about the negative or positive effects of trade liberalization, "consumers think like producers", and can feel "sympathy" for farmers and "project their own job insecurities" on to workers in this sector if they receive negative economic news related to the agricultural industry (Naoi & Kume, 2011). This producer anxiety variable would also have a very strong effect on attitudes towards trade liberalization, as respondents that do feel as if protecting jobs is worth limiting imports are also likely to believe that "foreign goods are hurting the local community." Lastly, the farmer variable to be used to test the effects of this occupational status and its interaction with the partisan institutional trust variable, is derived from an occupation categorical variable in the dataset. A farmer dummy variable is generated out of this variable, where 1 indicates a respondent's status working in the agricultural industry and 0 indicating that the respondent is not a farmer.

Model 1 Interpretation

The main social capital independent variables of interest are first tested against the dependent trade liberalization preferences variable. Immediately, this result calls into question previous research that has found a relationship between generalized trust and trade attitudes (Spilker, et. al. 2012). Though the relationship between generalized trust and trade attitudes may hold in a global, aggregate sample of citizens' trade preferences, in the case of Japan the relationship does not hold in significance. However, some institutional trust variables stand out in their effect and significance. Trust in order, power-checking, and market institutions hold significant effects on the dependent variable. The odds for respondent trusting order institutions having favourable views of trade are 33% higher than for those that do not. The odds for those trusting market institutions having favourable views of trade are 46% higher than those that do not. Lastly, the odds of those trusting power-checking institutions having favourable views of trade liberalization are 37% lower than those that do not. While there is significance in the relationship between these institutional trust variables and the dependent trade attitudes variable, however, the constant remains insignificant and the Pseudo-R^2 is held at 2%.

Model 2 Interpretation

With the addition of the control variables, the effects and significance of the institutional trust variables are diluted. Significance in the order institution variable drops off while the power-checking institution variable drops to the 1% significance level. The odds ratios of power-checking institutions and market institutions also decline in their effects on the dependent trade preferences variable. Still, these two institutional trust variables hold in their significance despite some displacement from the control variables. The control variables also turn up some expected results. With some significance, the likelihood of older respondents supporting further trade liberalization is lower than for younger respondents. Furthermore, the likelihood of respondents with more years of education supporting trade liberalization is higher than for those with less years of education. There is no significance in the other social capital variable indicating membership in a voluntary association. The Pseudo-R^2 value remains low at 4%, however, the constant becomes significant.

Table 2
Institutional Trust and Trade Preferences Model (Asian Barometer III, 2010 data set)

DepVar – Trade Liberalization Preferences 1 = positive, 0 = negative	Model 1	Model 2	Model 3	Model 4
Generalized Trust	1.149 (0.120)	1.118 (0.121)	1.190 (0.926)	1.170 (0.136)
Institutional Trust				
Partisan	0.915 (0.144)	0.968 (0.157)	0.926 (0.161)	
Order	1.325** (0.144)	1.188 (0.135)	1.182 (0.144)	1.175 (0.144)
Power-Checking	0.634*** (0.071)	0.698** (0.081)	0.735** (0.092)	0.732** (0.092)
Market	1.460*** (0.159)	1.512*** (0.169)	1.477*** (0.178)	1.470*** (0.177)
Control Variables				
Age		0.992* (0.003)	0.988*** (0.004)	0.988*** (0.004)
Male		1.166 (0.123)	1.011 (0.116)	1.031 (0.118)
Years of Education		1.110*** (0.026)	1.043 (0.027)	1.040 (0.027)
Household Income		1.048 (0.040)	0.996 (0.042)	0.998 (0.042)
Perceived Social Class		0.997 (0.004)	0.997 (0.005)	0.997 (0.005)
Membership in a Voluntary Association		0.987 (0.134)	1.005 (0.146)	1.015 (0.148)
Producer Anxiety			3.662*** (0.355)	3.592*** (0.350)
Farmer * Partisan				
Non-Farmer (0) * Trust (1)				0.889 (0.156)
Farmer (1) * No Trust (0)				0.345* (0.160)
Farmer (1) * Trust (1)				1.960 (1.873)
Constant	1.179 (0.140)	0.398* (0.170)	0.079*** (0.038)	0.088*** (0.042)
Pseudo R^2	0.0147	0.0388	0.1374	0.1404
N	1651	1636	1624	1624

*Table 2 - Micro-level logistic regression analysis of attitudes towards further trade liberalization in their home country (Japan). Four models are presented to test the significance of the relationship between institutional trust variables and the dependent variable. The dependent variable is a coded binary variable indicating responses to the statement "foreign goods are hurting the local community" (1 = foreign goods are not hurting the local community; 0 = foreign goods are hurting the local community). Odds ratios are presented with standard errors in parentheses below. * = P ≤ 0.05; ** = P ≤ 0.01; *** = P ≤ 0.001*

Model 3 Interpretation

The addition of the producer anxiety variable produces further dilution of the effects power-checking and market institutions variables have on the dependent variable, but significance of these variables holds. The producer anxiety variable itself is a strong predictor of trade preferences. The odds that those that disagree with the statement "We should protect our farmers and workers by limiting the import of foreign goods" are very strongly in favour of trade liberalization compared to those that agree with this statement. The producer anxiety variable also displaces the significance of the education control variable while reinforcing the significance of the age variable. The addition of this variable also raises the Pseudo-R^2 value to 13.75% and further increases the significance of the constant to the > 0.01% level.

Model 4 Interpretation

Adding the farmer-partisan institutional trust interaction to the set does little to influence change in the significance or odds ratios of the other independent variables. However, the interaction between farmers and a lack of trust in partisan institutions produces a significant and strongly negative attitude towards trade. The odds for farmers who do not trust partisan institutions supporting trade liberalization are 65.5% lower than for non-farmers who do not trust partisan institutions. The partisan institutional trust variable, therefore, is conditioned in its negative relationship with trade liberalization with this politically active group's mistrust of the institution. This interaction effect in the model raises the Pseudo-R^2 to 14.04%.

Conclusions and Policy Implications

Japan provides an interesting case with which to study the interaction between trust, trade, and institutions, especially in light of the public debates taking place surrounding the TPP among other proposed trade agreements and those currently muddled in the negotiation process such as the China-

South Korea-Japan FTA. However, it would also be possible in further research to apply this institutional trust model in other countries. With recent public backlash in Europe over the Transatlantic Trade and Investment Partnership targeting business and political elites, as well as stalling by the US Congress against fast tracking TPP negotiations despite general public support for the deal (Pew Research Center, Spring 2015), it would be of some value for policy researchers to study what role institutional trust plays in providing Level II win-sets.

How do policymakers then go about generating institutional trust to build stronger win-sets for international bargaining? In Japan, there is the possibility of generating trust by investing in universal social welfare programs to ease anxieties over the negative externalities of increased trade liberalization (Brewer, et. al., 2014). This could help to restore some confidence in partisan institutions by directly providing welfare and more frequent state interaction with citizens. Generating trust in partisan institutions is of particular importance for trade negotiations as it is representatives of these institutions that are most directly involved in the bargaining process. If citizens are unable to trust their representatives in delivering a fair deal for free trade, then those negotiators are constrained by this mistrust. Though increased social spending is a particularly long-run solution to the partisan trust deficit, in the short-run Japanese policymakers can at least use trust in the news media to steer public opinion towards a favouring TPP and other FTAs. With the media shut out of these negotiations, it is clear why a public generally supportive of free trade in principle can hesitate in accepting a deal where the exact terms and items being negotiated are unknown. By allowing the media to participate with more meaningful engagement in the negotiation process, such as active information sharing rather than dissemination through leaks and exposés provided by WikiLeaks, allows the negotiation process to generate more credibility and shift the negative influence of power-checking institutions to become more positive. The relationship between institutional trust and trade attitudes can help to explain the discrepancies between general support for free trade in principle and hesitation against particular agreements such as TPP among other headline news FTAs.

This research paper also demonstrates a few key points with regards to the relationship between social capital and trade policy. First, though on the global aggregate level generalized trust may have had a significant effect on trade attitudes, in the most recent case in Japan, there does not appear to be an association between the two variables. Second, significant levels of trust in particular types of institutions can have an effect on individual trade attitudes. Market institutions and power-checking institutions in Japan have a significant role to play in forming opinions on trade attitudes because they are well-trusted compared to their counterparts in other industrialized nations. Third, how these institutions are involved in the trade liberalization process may "steer" how these opinions are generated. Because market institutions could maintain or improve the quality of life under trade liberalization, those that trust these kinds of institutions like banks and major companies are more likely to have positive views on free trade. When the news media and other highly trusted power-checking institutions like labour unions are shut out of trade negotiations, however, this can have a negative effect on the formation of trade liberalization attitudes. When a group of citizens becomes activated in their mistrust for a particular institution, this can also produce a strong a negative effect against trade. Lastly, citizens' trust in national institutions does matter when it comes to building large win-sets for international-level negotiators and the generation of that trust can be used to expand participation in negotiations at the domestic-level. While this framework of institution-centered social capital was applied to Japan's foreign economy policy, it would be of interest for future research to apply the framework again to other economic policy issues such as public support for consumption taxes or Abenomics-branded policies, and to apply the framework in other countries with varying institutional settings.

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