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This volume is an important addition to our knowledge and interpretation of Japan's emerging role in the world economy. The second in a three-part series, it is the product of binational and interdisciplinary conferences bringing together top economists and political scientists from both Japan and the U.S. We benefit from a stimulating cross-fertilization of ideas across the often-too-wide chasm between political science and economics, though the editors make no attempt to fool us into thinking that all differences of opinion have disappeared in the course of conference discussion and rewriting. Indeed, the richness of this collection of articles owes in part to the well-argued positions of the authors despite differences of opinion with fellow authors. We are left with the challenging task of making our own judgments.

In their introduction to the volume, editors Takashi Inoguchi and Daniel Okimoto recount the trend in international trade toward extra-GATT arrangements due to the widespread perception that Japanese macroeconomic and industrial policies violate the unwritten norms of fair competition (p. 5). But Inoguchi and Okimoto are not doomsayers. Trade friction has increased, in their view, precisely because the current level of economic interdependence is unprecedented. Barring huge exit costs, Japan is locked into a mutual relationship with its trading partners and therefore has little choice but to do what is necessary to support the trading system on which it depends. Japan’s best strategy, given its need for raw material imports and foreign export markets, is to support the liberal principles which have guided international economic exchange in the postwar period.

Inoguchi further develops this idea of Japan as a supporter rather than either a free rider or challenger in his chapter, “The Ideas and Structures of Foreign Policy: Looking Ahead with Caution.” Changes in Japan’s economic environment, Inoguchi contends, have forced the leadership in Japan to abandon the comfortable assumptions of the early postwar years that it is a small nation and that it can maintain a closed economy. As we will see later, one point of difference among the authors is the extent to which the assumptions have in fact been abandoned in practice: another is, from quite another point of view, whether or not Japan’s trading practices have been significantly culpable for Japan’s current account surpluses in the first place.

Shumpei Kumon and Akihiko Tanaka address a very different set of questions in their chapter, “From Prestige to Wealth to Knowledge.” In a broad-brush sketch of trade history since the Industrial Revolution, Kumon and Tanaka stress the declining importance of states and firms in this new “age of informations” and of niche production and marketing.

Most readers will probably not concede this much ground, and observe that while information plays a growing role in today’s world economy, states and firms are still key actors and that government-business relations still center around the wealth-accumulating efforts of domestic conglomerates. Interesting research to pursue along these lines is how asymmetries of information affect market positioning and collective action opportunities of different groups within society and among nations. In today’s international arena that demands more reciprocity, will Japan’s institutional structure allow it to perform in the information game as well as in the past?

Bruce Russett, in “U.S. Hegemony: Gone or Merely Diminished, and How Does It Matter?” challenges the common view that the international system is changing because U.S. power is in decline. While he concedes that the U.S. has lost some of its power base, Russett contends that its control over outcomes has eroded far less. One reason is that the security and free trade systems championed by the U.S. in the postwar era were not pure public goods and hence the U.S. was not expending more than it was benefiting in maintaining them. A second reason is that the United States’ cultural hegemony allowed it to dominate economically and militarily with less resistance and established a structure of long term influence that persists deeply to this day. Russett recognizes, of course, that ultimately economic decline reduces military and cultural dimensions as well. It is therefore imperative for system stability, in Russett’s view, that Japan find some way of increasing its contribution to the security of the
Western alliance. Russett assumes, with Inoguchi, that Japan will assume the role of supporter rather than that of a free rider or challenger, but suggests that Japan is still mistakenly behaving as a small country.

In their chapter, "Japan and the International Monetary Regime," Koichi Hamada and Hugh Patrick retrace the history of the U.S. as provider of the key currency and Japan as the passive recipient of U.S. policy decisions. Japan's reluctance to revalue in the face of its sudden and large current account surplus triggered Nixon's New Economic Policy, bringing to an end Japan's enjoyment of a low, fixed value of the yen.

While recognizing the importance of exchange rates in determining relative prices and hence export competitiveness, Hamada and Patrick emphasize that the fundamental cause of surpluses and deficits is the basic structural and policy situation in each country. Based on the absorption approach, Hamada and Patrick's analysis of current accounts focuses on the relationship between private domestic savings and private investment demand. Japan has maintained chronic surpluses because, compared with the U.S., its high savings rate and low interest rates prompt capital to flow abroad into dollars. In their view, then, a trade or current account surplus does not necessarily imply an exchange rate misalignment but a mismatch in underlying savings-investment ratios. Hence their policy prescription is, more than focus on exchange rates and trade liberalization, policy makers need to encourage domestic expansion—consumption and investment—in Japan.

In Robert Gilpin's "The Implications of the Changing Trade Regime for U.S.-Japanese Relations," we shift gears from macro-economic to micro-economic policy. Gilpin is concerned about the rise of what he calls New Protectionism: the increased reliance on non-tariff barriers, "orderly marketing arrangements," and industrial policy. In contrast to Russett's optimism, Gilpin believes that the balance has already shifted from openness to economic nationalism since the mid 1970s.

Contrary to Kumon and Tanaka's analysis, Gilpin sees anything but an erosion of the state and the firm. Indeed, Gilpin observes a trend towards global oligopolistic competition against the background of governments' strategic trade policies designed to shift profits to national firms. What has followed, says Gilpin, is the politicization of the international division of labor in which price competition is less important in determining the flow of trade. It no longer makes sense to focus solely on macroeconomic variables, in this view, because comparative advantage has a large arbitrary component. Gilpin charges political economists to start paying more attention to bargaining theory than to trade theory.

Ryutaro Komiya and Motoshige Itoh, in their historical review of "Japan's International Trade and Trade Policy, 1955-1984," still believe in trade theory. After tracing Japan's transformation from a country exporting primarily labor-intensive goods to one globally competitive in high value added manufactures and services, Komiya and Itoh assert (as an article of faith?) that it is natural for Japan to be in favor of free trade. The problem now is not, contra Gilpin, Japanese protectionism or microeconomic policy but American macroeconomic policy that produces both government budget and trade deficits.

Komiya and Ito conclude with a "moderately optimistic view" that American folly will not lead us into a repeat of the 1920s disaster. They believe that a beggar-thy-neighbor economic war is highly unlikely: U.S. could inflict severe damage even if at substantial cost to itself but Japan could not inflict much damage on the U.S. Japan should (and here one assumes they mean "should" in the predictive sense as well as normatively) play an active role in strengthening free trade.

In his chapter entitled "Comparative Advantage, Structural Adaptation, and Japanese Performance," Gary Saxonhouse concludes that Japan's low imports of manufactures follows naturally from Japan's factor endowments. In a more recent paper, ["Differentiated Products, Economies of Scale and Access to the Japanese Market," in R. Feenstra (ed.) Trade Policies for International Competitiveness (University of Chicago Press)] Saxonhouse has also argued that Japan's relative lack of intra-industry trade is explicable by economies of scale, differentiated products, and so on. Kenji Takeuchi of the World Bank calls into Saxohouse's conclusions because more than half of the 41 countries in Saxonhouse's sample are developing countries. Japan's import behavior might more profitably be compared with that of other industrial countries.

Yoichi Shinkai's chaper on "The Internationalization of Finance in Japan" welcomes the growing number of flexible-rate instruments in Japan, the freer flows of funds in and out of the country, and the somewhat increasing use of the yen as an international currency. On the unresolved question of market segmentation in the financial sector, Shinkai is less enamored of possible liberalization. Shinkai expresses his reservations.
Collective action theory is implicit in Okimoto’s article, “Political Inclusivity: A Second Difference is that the dominant productivity pattern in Switzerland focuses on market niches, while in Japan the government assists firms in a strategy of market domination. Katzenstein suggests that Japan is headed for trouble on its present path of market domination, and that it must more carefully face up to the political consequences of its growing size in the international political economy. Like Gilpin, Katzenstein believes that continued economic success will depend less on productivity and more on politics.

Daniel Okimoto’s article, “Political Inclusivity: The Domestic Structure of Trade,” attempts to explain the apparent paradox of why the Japanese are capable of handling certain types of issues such as industrial adjustment so smoothly whereas inefficiencies abound in such areas as agriculture and retail. Okimoto’s explanation begins with a taxonomy of policy making.

The LDP exchanges policy favors for votes in dealing with groups with voting power such as agriculture and small business. In dealing with financially powerful groups that lack the numbers for voting strength, the LDP exchanges policy favors for financial support. For big business, which plies the LDP with untied financial contributions, the LDP provides a generally producer-friendly environment. Finally, the LDP occasionally passes legislation that improves the overall quality of life in exchange for generalized voter support.

Collective action theory is implicit in Okimoto’s typology. We know that in any representative democracy, consumers and taxpayers are disadvantaged vis-a-vis producers in the policy-making process because they face high transactions costs in acquiring information as to their interests, organizing for political action, and monitoring the performance of their representatives. It is no wonder that producer groups are favored in LDP policies. Organized groups fare best when political parties carve up the electoral landscape into discrete interest groups and thus hamper political competition for unorganized votes.

What is perhaps surprising is that it has taken the opposition parties until the summer of 1989 to make a serious bid for the loyalty of the consumer and taxpayer. The labor-based parties have been so allied to their supporting groups that they have not made the extra effort to organize the unorganized votes that have paid for the producer policies of the past. It is still possible that the Opposition will instead poach on LDP territory and pick up votes among the disaffected groups such as farmers and small businessmen, in which case consumers will continue to remain outside the political debate.

Donald Hellmann argues, in his article entitled “Japanese Politics and Foreign Policy: Elitist Democracy Within an American Greenhouse,” argues that “Japan’s record on political strategic decisions is as bad as its record on international economic policy is good” (p. 378). It is not clear to this reader how much latitude Japan has had in its foreign security policy given the dominance of the U.S. Japan has pursued the rather clever policy of contributing as little to defense as the U.S. would tolerate. Granted, what is considered tolerable is changing.

Stephen Krasner pursues that subject in “Japan and the U.S.: Prospects for Stability,” Kranser notes that the still dominant if declining U.S. is interested in a greater security contribution from Japan but that it does not want Japan to abandon its policy passivity. In the economic realm, Krasner views “orderly marketing arrangements” as legitimate means of managing commercial conflict, fully within the bounds of postwar “embedded liberalism” in which maintaining social stability is a recognized, integral part of the regime. U.S. demands, in Kranser’s view, have been modest and are designed to ease the burden of adjustment for import competing industries rather than to close off economic transactions across the Pacific. Kranser does not believe the U.S. has changed its basic commitments though it has imposed restrictions in several specific issue areas.

Charles Morrison’s article, “Japan and the ASEAN Countries: The Evolution of Japan’s
Regional Role," is a case study of Japan’s interaction with neighboring countries and is meant to give us clues as to character of Japan’s emerging global role. Morrison sees Japan’s involvement with ASEAN as basically positive, and growing in the realms of cultural and political exchange although it is still predominantly economic in nature. Morrison corroborates Inoguchi’s view that, on its current trajectory, Japan’s regional and global role is unlikely to venture beyond the parameters of partnership with the U.S.

Kenneth Pyle, in the book’s concluding chapter entitled “Japan, the World, and the Twenty-first Century”, examines the contours of the domestic debate over Japan’s place in global affairs. Although there is a range of views from the Left’s eschewal of defense capabilities to what Pyle terms a “formless and free-floating national pride”, Pyle is convinced that the prewar brand of militant, jingoistic nationalism will not rear its head again. The nationalism of the 1930s had its roots in impoverished and indoctrinated villages: Japan’s social structure has since been transformed. Japan’s view of itself will continue to emerge as a rich tapestry of differing opinions against the backdrop of changing world events and domestic policy decisions.

[Frances Rosenbluth]