

IAI8915

POLITICAL FACTORS IN SHAPING JAPAN'S
FOREIGN ECONOMIC POLICY

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A Paper Presented
at
The Trento Conference on International Cooperation

April 3-4, 1989
Trento
Italy

I. Is Japan Handicapped?

Paradox and cynicism are common ingredients in international cooperation, and they are particularly evident in current Japan. The greater its efforts in international cooperation, the more painfully Japan is misunderstood. The controversy over Japan's ODA (Official Development Aid.) is a good example of this point. ODA recipient countries frequently complain about the "tied nature" of Japanese aid. Even Japan spurs foreign direct investment in the United States, a "Please-Do-Not-Buy-America" chorus is orchestrated domestically, and the Japanese firms investing in the U.S. lose their bearings. Nissan's British plant helped reduce British unemployment, but their "Made-in-Britain" cars are not always welcomed on the European Continent. The recent hostile congressional debate over the FSX (the joint US-Japan project to develop Japan's next-generation support fighter) is only the most recent case in Japan's difficult relations with the United States in the area of technological cooperation.

The above illustrations are just a few examples of the numerous contradictions and dilemmas surrounding Japanese attempts at international cooperation. Why does Japan face such unexpected hostility and paradox? Is it because Japan is not conceived of as a friendly nation? Is Japan's approach to international cooperation so different from the approach taken by its allies?

Given Japan's somewhat handicapped situation, we pose

two questions. The first question is whether Japan's special position in the arena of international relations is somehow unique. Differently put, let us bluntly ask: Is Japan really a Western-allied state? The systemic analysis of international cooperation assumes nation-states to be unitary actors. However, it presupposes even more than that. It takes for granted that these unitary actors share behavioral codes common to all Western countries. No allowance is made for differences in history and culture. In other words, systemic analysis has two problems; namely the unitary actor assumption and the Western country assumption. Thus, accusation of the unitary actor assumption in systemic analysis does not have the analytic power to deal with Japan's unique problems.

The second question, which involves Japanese politics, is whether Japanese government can be categorized as the same as the Western counterparts with sufficient political power in policy-making. Experts of Japanese politics contend that Japan's contemporary political culture stems from the ruling Liberal Democratic Party's (LDP) continuous hold on power since 1955. Because of this long reign, the LDP has become what is called a "catch-all" party, whose political constituencies encompass almost all subnational sectors and interest groups. Therefore, the core of Japan's problems in international cooperation might result from internal power diversification within the party in power. Furthermore, while the bureaucracy is the major vehicle for

making policies in international cooperation, it keeps its distance from the center of party power. This bureaucracy has, as other governments do, jurisdictional territories over subnational sectors. This jurisdiction is, of course, divided by agency. For example, the MITI oversees domestic industries, the MPT handles telecommunications and postal services, and the MOF presides over banking and financial services. In the same manner, the LDP's so-called Political Research Committees have oversight over these agencies.

Hence, in Japan, the corporatistic linkages between subnational sectors and the government have two layers, one between the bureaucracy and subnational sectors, and one between the LDP and subnational sectors. This complex linkage pattern is simply due to the fact that the LDP has ruled Japan for so long and that the bureaucracy has maintained its power relatively independent of the ruling party. Simply put, the Japanese government is not a single entity. Yet, the unit-level analysis of international cooperation takes the international system as a given and only considers the interaction of single actors within nation states. However, again, the accusation of only this point and only the emphasis on the relations between subnational sectors and the government cannot grasp Japan's particular domestic problems. What is needed is to analyze, in the first place, the power relationship between the bureaucracy and the LDP, bearing in mind that the LDP is a "conservative coalition party."

Estimating these as the problem areas, the present paper will address the following issues.

i) How can we modify the current theory of international relations to incorporate Japan in international cooperation? Here, we will discuss problems with the systemic analysis of international cooperation.

ii) The hegemonic nature of international cooperation and where Japan stands in it. Here, we will discuss the strategic policy issue unique to Japan. International cooperation of any form depends on how domestic actors, both the government and subnational sectors, view the macro trend of global political economy, particularly the trade regime.

iii) Japan's domestic political constraints in advancing international cooperation. We will present this discussion as a unit level of analysis by regarding political parties and bureaucracy as units for economic policy-making. Here, our major thesis is "politics at bay."

II. Can Japan Become an "Inward-Oriented" Country?

In today's interdependent world, international cooperation is often initiated by subnational sectors without prior government-to-government agreement. In meeting these global trends, a few political scientists have tried to patch up the shortcomings of the existing theory of international relations. Stephen Krasner's "International

Regime" thesis and Robert Keohane and Joseph Nye's "Interdependence" thesis exemplify such attempts. However, present international cooperation cannot be fully captured unless we introduce a radical perspective. The following argument is my own extension of Suzan Strange's path-breaking book, Paths to International Political Economy (1985), and Joan Spero's The Politics of International Economic Relations.

In economics, micro economics covers the economic activities of households and semi-aggregate entities such as firms. On the other hand, macro economics sheds light on the aggregations of these micro economic entities through the analysis of industrial sectors or entire national economies. In international politics, a common level of analysis is the the nation-state, which was first defined in the aftermath of the Westphalia Treaty in 1648. Because this treaty was the product of the so-called first multi-national warfare, namely the Thirty Years War (1618-1648), a nation-state was hitherto regarded as a war-leading entity. This Hobbsean presumption leads to the analogy that all nation-states are similar to individual human beings who constantly fight each other to detemine their destinies. The contradictions begin there.

Any analogy of the behavior of a nation-state as that of a human actor is a contradictory assumption for political scientists because a nation is an aggregated sum of individual citizens and can in no way be regarded as a

single individual. Graham Allison's famous "rational actor paradigm" points this out. Perhaps the micro-analogy of a nation-state stems from a motivation on the part of political scientists to build a positivistic political theory, which is merely a political version of "Homo Economicus." Such shortcomings in logic can only be ameliorated if we regard countries as the aggregate entities they actually are, and separately build a different international relations theory. We would call this the theory of "micro international relations."

The theory of "micro international relations" is more than a micro-economic analogy, since our subject entities are semi-aggregate down to the level of industrial sectors, interest groups, and government agencies. These entities are not individual rational actors in the economic sense, since they are not freed from the culture and society of their home countries. They can bypass national boundaries, but they always carry their national flags. They are the so-called "state-flagged sectors" in global political economy. Micro international relations focuses on these dualistic actors. Today, international cooperation is often led by these state-flagged sectors and not solely initiated by a rational, unitary nation-state.

Then, how can we classify a nation-state in "micro international politics"? Since a nation-state is an aggregate entity, it cannot be a simple rational actor in the strict sense of the term. Rather, it is a more complex

entity like a Freudian schizophrenic who is eager to possess mutual incompatibilities. Let us call these the characteristics of "commonality" and "uniqueness." In commonality, each nation-state (an aggregate entity of its citizens, subnational sectors, and policy makers) feels secure in the knowledge that they all have a similar set of the "state-flagged sectors" such as the military, a semiconductor industry, an automobile industry, an educational system, a stable political system and the like. If one of these common properties is missing or forcefully removed, this schizophrenic nation-state gets angry or feels threatened. For example, Japan's export downpour of VCRs to Europe brought about the Poitiers Incident in 1982. Even if Japan builds overseas facilities to produce NC-machine tools and semiconductors in Europe as an expression of international industrial cooperation, it is seen as a threatening power since Japan's superior technology might close their national industries.

With uniqueness, a nation-state tries to keep its identity. Britain owns superior financial and security industries. France owns a superior wine industry and high-speed trains. Germany owns superior fine chemical and pharmaceutical industries and high-and-luxury cars. The United States owns superior military capabilities and a world-dominating computer industry. Italy owns superior apparel and OA industries. These unique properties often outgrow common properties as an ecdysis. They are

internationally accepted as long as they do not overlap to a destructive degree, or if they do not infringe on in the area of commonality.

A nation-state who can balance both commonality and uniqueness is perhaps "inward-oriented," rather than "outward-oriented," since it must constantly monitor the international impact of its domestic configuration of commonality and uniqueness. On the other hand, an "outward-oriented country," which has often been regarded as an ideal pattern for countries in the international community, disregards this monitoring capability and opts to fall into the pitfall of the rational actor analogy since external affairs are normally led by a single political elite group whose political jurisdiction does not encompass all the state-flagged sectors.

The success of Japan in international cooperation depends on whether she can be a true "inward-oriented country" in micro international relations. Judging from the hitherto conduct of the Japanese companies and industries in international economic activity, Japan has not become such a nation-state. It has lost its balance between commonality and uniqueness. Her exports are sometimes uncontrollable and jeopardize the industrial base of foreign allies. Above all, Japan's economic strength far outdistances its political leadership in the international community. We will touch on this point later.

III. The Hegemonic Interpretation of International Cooperation

It is common practice to regard economic cooperation as the main stream of international cooperation. However, economic cooperation is largely the product of the post-World War II political configuration under the so-called Pax-Americana regime of the western allies and their cold war contestants. In this section, we will argue that the hegemonic property of present international cooperation helps account for Japan's difficulty in playing a major role.

A review of the political experience of Western countries reveals that international cooperation is a product of a long history of international conflict and the eventual creation of a system designed to help avoid potentially explosive military crashes. Japan lacks enough of such historical experience in her one-and-a-half centuries of international relations.

Back to the 17th century, the Thirty Year War ended in Westphalia in 1648, and France, England, Sweden, the newly created Netherlands Republic and the small German states jointly dissolved the hegemonic Habsburg Empire, and thereby created the first example of international cooperation. However, the Westphalia Regime of international cooperation soon collapsed, and three Anglo-Dutch Wars (1652-54, 1665-67, 1672-74), the American Colonial War (1775-83), the

Napoleonic War (1803-1815), the Anglo-American War (1812), and the Franco-German War (1870) erupted in a chain reaction which lasted into the late 19th century. Before World War II, the history of the Western nation-states has been in fact a history of mutual hostility and confrontation.

Japan was not, of course, a direct participant in such European wars until she was defeated in the Pacific War in 1945. While Japan was felt to be a threat to the Western countries as a result of the Sino-Japanese War (1894-5) and the Russo-Japanese War (1904-5), the national task was to eradicate the "unfair" trade and navigation treaties with the United States (1854) and other Western countries. Therefore, Japan's late arrival in international politics meant it could not share the Western wisdom of creating of international cooperation as a safety valve to avoid military confrontations.

After World War II, a chance came to Japan to learn the Western style of international cooperation for the first time, but it was only possible under the American hegemonic system. The Occupation Army, primarily American Armed Forces, landed in Japan to initiate military control. Hence Japan was "automatically" incorporated into the Western Alliance, departing from the prewar hegemon of the Great Asian Coprosperity Sphere. In the prewar period, Japan participated in some international cooperation schemes such as the League of Nations and the London and Washington Disarmament Summits, but her positions were merely

secondary, and Japan was never treated as a neighboring country. However, defeat in the Pacific War gave Japan the opportunity to enter the Western alliance on a par with the war-exhausted nations on the European Continent.

Thanks to defeat and the Potsdam Declaration, Japan was banned from maintaining a regular armed force, allowing her to devote national manpower resources to civilian ends. Since Japan's prewar industrial capabilities had already reached rough parity with the Western Great Powers, and American firms willingly sold, for additional profits, their already-depreciated technologies, the rapid economic and industrial recovery of Japan was only a matter of time. And, she actually made it realized in an accelerated way. Such quick economic rehabilitation was, of course, aided by the policy shift of the United States to rebuild Japan as a powerful fort against the southward infiltration of communism, and for that purpose, Japan's economic recovery was imperative. Then, consciously or unconsciously, Japan reached the stage of what Richard Rosecrance once called the "trading superstate." Since in the post World War II era, Japan was artificially treated as a member nation of the Western World, which was in fact a disguised name for American hegemony, every Western ally expects Japan to spend her public goods in international cooperation. Her economy is too strong, so that nothing can be decided on monetary matters without Japan; she is too rich, so that every country wants her foreign investment, even the United

States. All of these are simply due to the fact that Japanese economic recovery was remarkable and unprecedented, and not to the fact that Japan has become truly a "Western" nation having a Western style behavioral code, internally or externally, as an economic superpower.

A quick review of Western style international behavioral codes is as follows. In the aftermath of the Napoleonic War, Britain put an end to political debates over liberalism vs. protectionism and adopted Richard Cobden's assertion of trade liberalism. Under this new trade policy, guaranteed by superior British commercial products in the global market, Britain repealed both the Corn Law in 1846 and the Navigation Acts in 1849 and concluded the Cobden-Chevaier Commercial Treaty in 1860 with its former enemy, France. With these three new open-door policies, Britain realized what Arthur Stein calls the two requisites of a hegemonic power in global political economy. One prerequisite is "structural asymmetry" in which a hegemonic state opens her market unilaterally and allows other nations to protect their domestic markets. The repeals of the Corn Law and the Navigation Acts created just such an asymmetric structure. The other prerequisite is the existence of the "major follower" who admits the hegemon's position. Britain's former contender, France, became its major follower. After the Cobden-Chevarier Treaty, a multilateral web of international tariff agreements with Britain emerged, and thereby a new trade regime consolidated under the Pax

Britannica.

Pax Americana began when the United States passed the Lend-Lease Law in 1941, whose primary purpose was to help Britain militarily, and gave up further negotiations to repeal Britain's Imperial Preference System. From this point Britain, the former hegemon, accepted the role of major follower and the United States accepted an asymmetric trade structure. This new postwar trade regime was strengthened by American initiatives in the form of two economic institutional attempts, namely, the Havana Charter (the basis of today's GATTs), and the Bretton Woods Agreement (the basis of today's IMF system). Although Pax Americana has been shaken since 1971, when the global monetary system entered an era of floating rates, the hegemonic position of the United States has never been challenged by any country. International cooperation in the hegemonic structure of world political economy thus has two distinct types. One type is a cluster of trade negotiations, as well as economic assistance, at the birth of a new hegemonic regime. International cooperation at this stage is often led by a new hegemon. Examples are the multinational negotiations at the GATT and the IMF and American Marshall Plan. The other type is a cluster of multinational negotiations and economic assistance in the declining period of the current hegemon. Naturally, international cooperation in this period is initiated by the declining hegemon, but later taken over by an embryo of a

new hegemon. In 1930, Britain tried to convene a world-wide conference for tariff reduction to solve the global economic slump aggravated by the Great Depression, but in vain. Then, Franklin Roosevelt and Cordell Hull took it over and the American Congress passed the Reciprocal Trade Negotiations Act in 1935. With this law, the United States tried to ameliorate a new wave of protectionism, but its real intent was to fill the vacancy of British hegemonic rule in world political economy.

When Britain entered its hegemonic stage, British products already enjoyed top ranking and hence were traded world-wide. The superior quality of British products were not challenged. On the other hand, when the United States entered a similar hegemonic stage, the American economy and its financial power, in a macro sense, were No.1 in world, but its products were not recognized as such. British, French, and especially German products were equally good to American products in quality. However, the war smashed the industrial bases of these European countries, and then American products flooded in those regions, including Japan. America's aid programs also facilitated the global circulation of American products. However, since, in prewar, the major European countries and even Japan were not intrinsically behind the United States in industrial capability, it was conceivable that sooner or later those countries would catch up in international economy, and they did. Since the American market is been asymmetrically open

as a hegemonic prerequisite, foreign products slipped into American market.

Besides her own indigenous efforts, Japan's becoming as an economic superstate seems to be the result of the above structural property of the hegemonic system. There is no doubt that Japan replaced Britain sometime in the early 1970s and became the major follower of the United States. Therefore, Japan's move in international cooperation would be the key to whether the present hegemonic system will survive or not. If Japan sees that the United States is in fact in decline, her efforts in international cooperation would shake the present hegemonic system, and therefore she would be regarded as a threatening embryo for the next hegemon. On the contrary, if Japan decides to keep its position as the major follower, she must make it clear in her efforts in international cooperation that she will continuously help the United States survive as the hegemon. The lack of such a national strategy in a clear tone is perhaps the major cause of what is called "Japan Bashing." However, Japan's state-flagged sectors are so far behaving freely in an international economic theater under the laissez-faire principle, without any understanding of international hegemonic structure. The question is whether Japanese domestic politics can guide their behavior. The situation is rather pessimistic, and we will touch on this point next.

IV. Politics at Bay

Every country has its own unique political system, and Japan is no exception. However, the real uniqueness of the Japanese political system lies in the fact that politics in this country still maintains its so-called "postwar recovery style." During the postwar recovery era in the 1950s and 1960s, political resources were funneled for Japan's state mission, namely, war recovery. In addition, the emancipation of the prewar leftist activists, coupled with the emergence of the Cold War, gave rise to the new ideological parties, whose political thrust was ideological rather than policy. In this sharp ideological cleavage, the conservative party, the Liberal Democratic Party (LDP), tried to avoid ideological battles and concentrated on economic recovery. This resulted in a Japanese political style that encourages almost all politicians to primarily concern themselves with domestic issues. Foreign policy issues do not help them gain strong mass political support. As a result, international cooperation or any other international economic issue is without political constituency. This implies that the behavior of the state-flagged sectors becomes increasingly "apolitical" and government finds it difficult to guide them toward a balance in the national attributes of commonality and uniqueness in order to attain the so-called "inward-oriented" country.

As we have discussed above, the relation between the

government and subnational sectors has two layers, one between the LDP and subnational sectors, and one between the bureaucracy and subnational sectors. Since the issues of international cooperation have no political constituency within the LDP, the first relationship works as an impediment to international cooperation. A good example is found in agricultural negotiations over rice, oranges and meat, between Japan and the United States. Japan's only chance to escape from these domestic political constraints depends on whether the second relationship functions effectively. However, as we will discuss below, the bureaucracy has constantly lost its power base, and hence Japan's economic policy-making has increasingly become subject to political intervention.

Since the emergence of the "1955 System," the support rate of the LDP has shown a strange trend. Though the LDP has governed this country without pause since the forming of the Liberal-Democratic coalition in 1955, its public support has not been consistent. Instead, the history of the LDP's support rate is clearly divided into two sections. Support for the LDP was in steady decline through the 1960s despite the fact that according to the conventional wisdom of political economy, its support rates should have been on the rise as a result of the rapid growth of the Japanese economy. On the other hand, since the 1970s, when the Japanese economy entered into the so-called "stagnation period" aggravated by the Oil Shocks, the LDP's support rate

should have been in a down-trend. But, the opposite seems to have been the case.

Our explanation of such a counter-intuitive phenomenon is as follows. The basic notion about democracy is that people assess government performance in policy-making through the way they vote in elections. In other words, if the public supports the government, the ruling party controlling the government would gain a majority votes. For the first two decades after the war, economic policy-making in Japan was performed not by politicians but bureaucrats, who enjoyed discretionary power to a certain degree, as they were backed by ex-bureaucrat-politicians in the LDP. In essence, the LDP, despite its almost uncontested position as the ruling party in Japan, did not really control the government. A declining curve of bill-passage rates shows that the postwar reforms have been gradually implemented, if we assume that bill-making reflects the government's exercise of power in postwar Japan. This declining curve coincides with the declining support rates for the LDP, suggesting that the Japanese people showed a sincere appreciation for government bureaucrats, not LDP politicians, positively evaluating their performance in guiding postwar reform. In other words, there was no way other than through voting for the LDP for the public to express its appreciation.

This would never happen in other countries where there is a political election to choose presidents or prime

ministers who lead the government. In Japan, the government still has an independent power base, and sometimes bureaucrats fight even against the LDP politicians. In the aftermath of the Oil Shocks of 1973, Japan entered into a new stage of social and economic problems which have proven too burdensome for bureaucrats to handle because these problems differ from the bureaucrats' "raison d'etre," namely the rebuilding of institutions for war recovery. Also, they have increasingly needed political endorsement to deal with international problems. The US-Japan citrus fruit negotiations during the 1970s is a good example of this point. In the mean time, the LDP's Political Research Committees have increased their intervention in internal and external policy matters. Therefore, the Japanese people seem to have switched their support from bureaucrats to politicians, hoping that politicians would solve politically-entrenched problems, such as urban congestion or meat imports. We would like to label this the "expectation effect."

Two political support/influence scenarios are possible. The "projection effect," a term we use to imply that voters expressed their support for the government through their votes for the LDP, held true for the first half of Japan's postwar politics. The projection effect occurred because the GHQ did not completely destroy the prewar government, but only grafted an American style of democracy onto the traditional elitism that had existed in Japanese politics

since long before the war.

The power of bureaucrats faded away as the cluster of ex-bureacrat politicians have gradually been isolated from the ceter of the LDP. Applying to Robert Dahl's power definition, bureaucratic power becomes maximum if a bill (which was drafted by bureaucrats) is passed without interference from politicians and the Diet Members' bills (Note that these bills correspond to the Congressional bills in the United States) are all killed. Then, the Dahlean power is calculated as the difference between the passage rate of the Cabinet bills (the bills drafted by bureaucrats) and the passage rate of the Diet Members' bills. Our result shows that bureaucratic power gained steadily until 1970, but suddenly declined since then and has become widely fluctuating.

It is our view that the decline of bureaucratic power results from two reasons. First, the decline is inevitable because postwar reform is over. If bureaucratic power is bill-passing power (and many bureaucrats said so), their power would eventually decline as the number of bills to pass declines, reflecting the end of postwar reforms. Second, the grafted democracy of "made-in-USA" helped a new type of politician whose political constituency is strictly local-interest-based. The government's bureaucratic elites are deemed to engage in "macro" or "nation-wide" policy-making including for internatinal cooperation, but their efforts are increasingly interfered with the "grass-roots"

type of politicians who are more concerned with "micro" local interests.

Today's willy-nilly decision making pattern of the Japanese government in international cooperation or conflict does not reflect an ill-minded conspiracy on the part of the government. Rather, it results from grafted democracy which works against the power of bureaucratic discretion in policy-making.

To sum up the above argument, grafted-democracy which reflects early postwar international politics, gave birth to a new type of "local-interest-oriented" politician. These politicians have increased their power as the conservative party, namely the LDP, has governed Japan without pause since 1955. Simultaneously, the ex-bureaucrat politicians who were once in the main stream of the LDP faded away as bureaucrats successfully implemented postwar recovery. Because of their success, ironically, Japanese bureaucracy has lost political power, and the new "grass-root-like" politicians have filled a political power niche. The result is that no organization or subnational sector is left with sufficient power and prestige to take responsibility for directing the nation's external economic policies. Japan's problems for international cooperation may be accounted for by the power-shift from bureaucracy to this new type of politician.

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