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Ulrike Schaede, William Grimes. *Japan's Managed Globalization: Adapting to the Twenty-First Century.* Armonk: M.E. Sharpe, 2003. xiii + 263 pp. $91.95 (cloth), ISBN 978-0-7656-0951-9; $36.95 (paper), ISBN 978-0-7656-0952-6.

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Japan's Reluctant Globalization

Starting with the famed "chrysanthemum-and-the-sword" description, Japan seems to invite portrayals that attempt to capture contradictory or ostensibly conflicting trends. Its political system has been described as "patterned pluralism," "compartmentalized pluralism," and one of "bureaucratic-led mass inclusion." Its economy is said to have "guided markets" and "managed competition." Its capitalism has been characterized as "nonliberal" (or even illiberal). It is a nation where corporate concerns trump politics ("Japan Inc."). Internationally, it is a "fragile superpower," an economic giant but a political dwarf.[1] "Is-Japan-really-changing?" is another fixation that orients interpretations of Japan.

In a highly readable, cogent, and important volume, Ulrike Schaede and William Grimes have put together a collection of articles that asks if and how Japan is changing while offering another rendering of Japan's political economics: "permeable insulation."

How has Japan, "a county that has resisted global rules for its domestic markets for many years," responded to globalization? After all, no other nation "seems more challenged by these pressures than Japan" (p. xi). According to Schaede and Grimes, Japan has attempted to manage globalization by controlling "both the speed and reach with which global rules and markets affect domestic players" (p. xi). The authors in this valuable collection of articles explore Japan's policy responses to globalization–which have been "proactive and occasionally aggressive" (p. xi)–from the angles of political science, business, law, and economics. The first two chapters, which lay the groundwork for the book's later contributions, comprise "Part I: Introduction." Chapters 3 through 6 contain "Part II: International Political Economy and Permeable Insulation," while chapters 7 through 9 comprise "Part III: Political Economy and Permeable Insulation." Part IV consists of the concluding chapter.

In chapter 1, Schaede and Grimes explain the meaning of "permeable insulation" within the context of the major structural change Japan's industries have experienced (e.g. the relocation of production abroad and deregulation). Chapter 2, "Japanese Policy Making in a World of Constraints" (Grimes and Schaede), provides historical context for the following chapters. This chapter, which provides a remarkably concise backdrop for the non-specialist of Japan, is crucial, because it affords a perspective of what has changed and what has not changed. Besides the forces of globalization, the tectonic shifts in Japan's political economy we are now witnessing have their roots in the past (administrative reform and privatization, financial deregulation, fiscal woes, declining industries). Grimes and Schaede outline the relation between new global challenges and Japan's domestic political economic scene that constrain policy responses. Politically, key considerations include a party system still in flux since 1993 and the "ideological interchangeability" of politicians which makes policymaking less predictable and creates more cleavages. The result is new complications in "compensation politics," or the redistributive balancing act between civil servants, politicians, and businesses. Moreover, politicians have a larger role vis-a-vis the bureaucrats. Such changes reverberate throughout patterns of political support and relations between politicians and bureaucrats, government and business, and state and society. Economically, constraints on policy formation are seen in government finance, the Fiscal and Investment and Loan Program, banking regulations, monetary policy, changes in the corporate system, and the challenges of new types of competition.

A major strength of this book is how all the chapters are neatly tied together by the theme of permeable insulation. So what does this term mean? Basically, it describes policies that "have at their core an attempt at continued protection of domestic interests" (p. xi). It is an effort to face "shifting comparative advantage" (p. 70). Permeable insulation "means that Japan's response to the global and domestic challenges of the 1990s is neither

one of retreat and denial, nor one of full acceptance of global standards and practices" (p. 8). It permits "entry and market competition in areas where that is the best approach for existing market players, while protecting (or allowing self-protection in) less competitive sectors" (p. 244). Permeable insulation characterizes policies that "continue to have at their core an attempt to shield companies from full competition and the rigor of the market forces" (p. 7). In this sense, it is a type of managed competition. However, the "insulation" is not absolute, "but rather allows for differentiated application by industry, institutions, or issue areas" (p. 7).

Permeable insulation appears to describe something quite familiar: Japan's dual economy, since it "reinforces the bifurcation of Japanese industries into world-competitive exporting sectors and domestically focused, less efficient ones" (p. 18). The policy implications suggest "that those industries most in need of reform from a global trade perspective are precisely the ones where change is least likely to occur–either because the industry resists deregulation, or because self-regulation is used for self-protection" (p. 252). Permeable insulation also implies that not all parts of the state move in the same policy direction, and consequently it encourages the formation of clientelistic subgovernments (composed of knowledgeable politicians, bureaucrats, and companies in a given sector that drive "compensation"). Japan's trading partners need to be aware that any policy that offers opportunities has a downside of protectionism and hidden problems (p. 245). From a methodological perspective, permeable insulation shows why a firm-level or industry-level analysis is the most appropriate tactic for understanding Japan's political economics (p. 245). It thus demonstrates the need for more analytic precision and "introduces differentiation, both by sector and issue area" (p. 7) and "calls for a case-by-case evaluation of policy intent and policy outcome"(p. 4).

In chapter 3 Grimes explores attempts to make the yen a key currency in Asia. The idea is to enhance the economic integration of Japan with other Asian nations. Moreover, and perhaps more significantly, the Japanese economy would be insulated from major currency fluctuations. However, to accomplish this internationalization of the yen, Japan would have to liberalize its financial markets, a maneuver that does not coincide with policies that affect the supply and demand of yen. Therefore, according to Grimes, this is an example of "internationalization as insulation" and the relevant policies contain inherent contradictions: "all of the liberalizing measures were meant to increase the confidence of the international market participants in Japanese financial markets and the yen; but, in order to gain that confidence, Japan would have to make itself vulnerable to the cold-blooded rigor of the market" (p. 63).

Under GATT, Japan preferred bilateral resolution rather than legal embroilment in the GATT dispute settlement process. But in a significant change, Japan has more recently relied on the WTO to settle disputes. This is a topic investigated by Saadia M. Pekkanen in chapter 4. Examining several cases, Pekkanen shows how Japan both used WTO rules as "both a 'shield' for controversial domestic policies and measures, and as a 'sword' with which to challenge its trade partners" (p. 78). Such "aggressive legalism" has opened overseas markets for Japan while its leaders have devised industrial policies that circumvent WTO rules. In this way protectionist polices have been maintained that do not violate international agreements.

Mireya Solis, in chapter 5, considers the "multinationalization of noncompetitive industries" and probes the state's role in encouraging subsidized loans to outward-bound foreign direct investment. Such support from the state has a dual purpose; it insulates Japanese firms from the impact of a high yen (since the mid-1980s) and aids in relocating small firms in declining sectors outside Japan. It also helps to secure a supply of key raw materials for Japan's own market. This facilitation of industrial restructuring by shifting industries abroad with eroding comparative advantage is surprising, given Japan's record of protecting domestic industries and keeping labor satisfied. But remarkably, there was an absence of labor opposition and the Japanese state "managed to run the largest FDI program in the world without antagonizing labor "(p. 119). This is partially explained by how research and development and high value-added activities remained in Japan.

In chapter 6 ("Integrated Production in East Asia: Globalization without Insulation") Patricia Nelson asks "Could an economic structure designed to support export promotion be reconciled with a growing dependence on reverse imports?" (p. 125). She explains how by 2001, East Asia had become the primary target of Japanese FDI. The original reason for investing in East Asia and building integrated networks was to provide the Japanese market with "lower-cost goods," not "inferior-quality goods."

In chapter 7 Mark Elder explores the policies of the Ministry of Economics, Trade, and Industry. For those interested in METI's predecessor, MITI, this chapter is particularly interesting (MITI, by the way, fared much better than the other economic-related ministries when they

were reorganized in January 2001). According to Elder, METI has shifted its priorities so as to be able to respond to new global realities by implementing economy-wide reforms (rather than within specific sectors), developing market-conforming policies, and promoting emerging industries. Nevertheless, existing industries still receive support from the state, and significantly, "the pressures of globalization had by no means forced METI to abandon its efforts to promote the competitiveness of Japanese companies" (p. 162). Significantly, Elder seems to suggest that METI's policies are not converging with the Anglo-American model of minimally regulated markets.

In chapter 8 Schaede explains how deregulation has not led to liberalized markets in all sectors and she explores the implications of the shift from official regulation to self-regulation. Trade associations have taken over the regulatory function of the state so that self-regulation has increased. Self-regulation operates in two ways: administrative (the rules of a particular industry) or protective (entry barriers, boycotts, price restrictions). Industries that prefer continued protection face little state interference, while more competitive industries can eliminate protective barriers if they so choose. This choice between self-protecting or self-promoting constitutes a type of permeable insulation.

In Chapter 9 Christina L. Ahmadjian notes how discussions of corporate governance revolved around two extremes: (1) convergence toward a global standard (usually understood as "American") versus (2) the preservation of distinctively Japanese elements with only superficial changes. She then investigates how, despite all the recent attention given to a "corporate governance crisis" (due in no small part to corporate misbehavior), talk of reform, and demands that officers be held accountable, changes "were of far less consequence than suggested by the amount of publicity they received" (p. 216). In any case, each firm configures its own corporate organization and strategies as it sees fit. Ahmadjian illustrates her contention by looking at "two pillars" of corporate governance: executive compensation and board composition.

In the concluding chapter Schaede and Grimes outline some of the long-term ramifications concerning permeable insulation. These implications result from and affect political economic structures and processes. In the political realm, they report that as industry interests have become more diversified and budget constraints have increased (thereby limiting the government's largess), ministries have lost some of their traditional control. Thus, there has been a shift in power from bureaucrats to politicians. This is an oft-heard view. However, one must wonder what difference this shift will make if both Diet members and civil servants believe in a coordinated capitalism premised on an intractable economic nationalism. In the economic realm, the dualism of Japan's economic structure (i.e. progressive, internationally competitive sectors and slow growing or even declining, domestically oriented companies) will continue to increase.

Schaede and Grimes note that if current policies become unsustainable, Japan might become even more subject to intense global trends and competition. If so, there is a chance that Japan will be forced to become more permeable. This "might be understood as a harbinger of convergence with global (or American) economic practices" (p. 251). However, this appears as a distant possibility. For instance, as of 2001, with the exception of foreign investments in wholesale finance and automobiles, other types of inbound FDI were "untouched." And the tenacious nature or economic nationalism is evident in how some foreign economic interests have been co-opted: "Once accepted as insiders, foreign firms enjoyed the same protection that, as outsiders, they had tried so hard to break up. Thus, even in industries with foreign participation, more market openness was not necessarily bound to follow" (p. 252).

In the beginning of the book Schaede and Grimes introduce permeable insulation by noting that by the late 1990s, there were two schools of "change forecast": (1) Japan is not actually changing at the core, i.e. it is still pursing protectionist polices and industrial promotion to preserve its politic-economic system; (2) in order to regain its competitive edge Japan will have to completely reform. Schaede and Grimes claim to offer a third view: "Japan is in fact changing significantly, leading to possible misinterpretation by those who adhere to one of the two polar views" (p. 4). Of course, the "two schools" appear to be theoretical straw men, and this reviewer is not completely convinced that the third view is fundamentally different from the first school's position.

In any case, the issue here concerns how to define "change" and "reform." When discussing Japan, observers often use these two terms interchangeably. They shouldn't. Japan is certainly changing (and always has been, for that matter). It may even be reforming, though it is doing so most likely *along Japanese lines*. For some, "change" implies that Japan is reforming according to a neoliberal Anglo-American agenda. After reading *Japan's Managed Globalization* this reviewer believes Japan's core economic nationalism, despite some

fine-tuning, is not being fundamentally altered. For example, regardless of new economic opportunities, "the overall data indicated that many of Japan's product markets remained difficult to crack. As of 2001 there was still little evidence of a fundamental, comprehensive opening of the Japanese economy. Thus, globalization and insulation coexisted in striking, and sometimes uneasy, patterns" (p. 38). This is why we should begin to wonder how seriously the major politico-economic actors are interested in fundamental change. In spite of announcing "almost too many deregulation programs to count" (p. 191), we still find that most markets in Japan "continue to be dominated by Japanese firms" (p. 192) after twenty years of deregulation. Despite the state's withdrawal from some regulatory responsibilities, traces of a "privatized" mercantilism are still visible in the self-regulation of industries. This indicates how widespread economic nationalism is, regardless of whether it is a ministry, a trade association, or private industry doing the regulating. Ahmadjian concludes that the relative lack of reform, at least in corporate governance, "suggests that despite the rhetoric, Japan was not converging with global practices" (p. 237). And consider the major reorganization of Japan's ministries in 2001: "An analysis of the actual structure of the new ministries and their tasks, however, suggests that there is some old wine in the new bottles" (p. 247). As Schaede and Grimes suggest, the policies of permeable insulation may merely reflect nervousness about rapid global change (visible in many nations). However, in Japan "they follow a familiar trajectory of policies and processes practiced for decades in Japan. The ubiquity of government intervention, of industry associations as drivers of sectoral policy, and of corporate governance for the benefit of management rather than shareholders, mean that Japan's response to the generic pressures of globalization remains distinctive" (p. 254). Japan is "adapting to new world rules of globalization while maintaining pockets of its old mercantilist approaches at home" (p. 18). Indeed, but the key question is how significant are these "pockets" for the global economy. Schaede and Grimes point out that permeable insulation is not unique to Japan: "in fact, one could argue that many governments follow a similar dual approach to policy-making" (p. 244). If this is indeed the case, what is distinctive about Japan's own permeable insulation?

That crucial questions about "change" (and its rate), the meaning of reform, and the different types of capitalism now competing on the world stage emerge from a set of well written, richly detailed, and carefully researched pieces is a major strength of this must-read book. The reader is provided with plenty of food for thought for answering such questions. This is why this volume is indispensable reading for government policymakers, business people, academics, and anyone seriously concerned with Japan's future direction as well as the prospects for global trade.

Note

[1]. See Ruth Benedict, *The Chrysanthemum and the Sword: Patterns of Japanese Culture* (London: Secker and Warburg, 1947); Frank Gibney, *Japan, the Fragile Superpower* (New York: Norton, 1979); Inoguchi Takashi, *Gendai nihon seiji keizai no kozu: seifu to shijo* (Tokyo: Toyo Keizai Shimposha, 1983); Michio Muramatsu and Ellis Krauss, "The Conservative Party Line and the Development of Patterned Pluralism," in *The Political Economy of Japan, eds. Kozo Yamamura and Yasukichi Yasuba (Stanford: Stanford University Press, 1987), vol. 1: pp. 516-554; Sato Seizaburo and Matsuzaki Tetsuhisa,* Jiminto seiken *(Tokyo: Chuokoron-sha, 1986); Wolfgang Streeck and Kozo Yamamura, eds.,* The Origins of Non-liberal Capitalism: Germany and Japan in Comparison_ (Ithaca: Cornell University Press, 2001).

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