

## **INFORMATION TO USERS**

**This manuscript has been reproduced from the microfilm master. UMI films the text directly from the original or copy submitted. Thus, some thesis and dissertation copies are in typewriter face, while others may be from any type of computer printer.**

**The quality of this reproduction is dependent upon the quality of the copy submitted. Broken or indistinct print, colored or poor quality illustrations and photographs, print bleedthrough, substandard margins, and improper alignment can adversely affect reproduction.**

**In the unlikely event that the author did not send UMI a complete manuscript and there are missing pages, these will be noted. Also, if unauthorized copyright material had to be removed, a note will indicate the deletion.**

**Oversize materials (e.g., maps, drawings, charts) are reproduced by sectioning the original, beginning at the upper left-hand corner and continuing from left to right in equal sections with small overlaps.**

**Photographs included in the original manuscript have been reproduced xerographically in this copy. Higher quality 6" x 9" black and white photographic prints are available for any photographs or illustrations appearing in this copy for an additional charge. Contact UMI directly to order.**

**Bell & Howell Information and Learning  
300 North Zeeb Road, Ann Arbor, MI 48106-1346 USA  
800-521-0600**

**UMI<sup>®</sup>**



# **Rearguard Regionalization**

## **Protecting Core Networks in Japan's Political Economy**

**Walter Frank Hatch**

**A dissertation submitted in partial fulfillment of the requirements for the degree of**

**Doctor of Philosophy**

**University of Washington**

**2000**

**Program Authorized to Offer Degree: Special Individual PhD Program**

**UMI Number: 9983489**

**Copyright 2000 by  
Hatch, Walter Frank**

**All rights reserved.**

**UMI<sup>®</sup>**

---

**UMI Microform 9983489**

**Copyright 2000 by Bell & Howell Information and Learning Company.**

**All rights reserved. This microform edition is protected against  
unauthorized copying under Title 17, United States Code.**

---

**Bell & Howell Information and Learning Company  
300 North Zeeb Road  
P.O. Box 1346  
Ann Arbor, MI 48106-1346**

©Copyright 2000

Walter Frank Hatch

In presenting this dissertation in partial fulfillment of the requirements for the Doctoral degree at the University of Washington, I agree that the Library shall make its copies freely available for inspection. I further agree that extensive copying of the dissertation is allowable only for scholarly purposes, consistent with "fair use" as prescribed in the U.S. Copyright Law. Requests for copying or reproduction of this dissertation may be referred to Bell and Howell Information and Learning, 300 North Zeeb Road, Ann Arbor, MI 48106-1346, to whom the author has granted "the right to reproduce and sell a) copies of the manuscript in microform and/or b) printed copies of the manuscript made from microform."

Signature Walt A.  
Date 8/18/2000

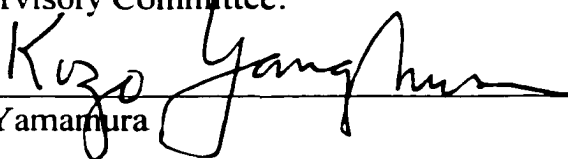
University of Washington  
Graduate School

This is to certify that I have examined this copy of a doctoral dissertation by

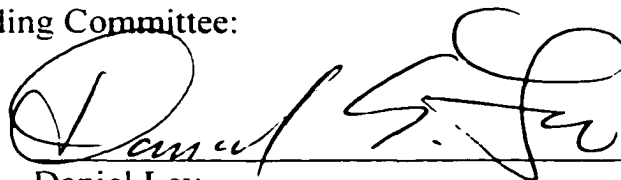
Walter Hatch

and have found that it is complete and satisfactory in all respects, and that any and all revisions required by the final examining committee have been made.

Chair of Supervisory Committee:

  
\_\_\_\_\_  
Kozo Yamamura

Reading Committee:

  
\_\_\_\_\_  
Daniel Lev

  
\_\_\_\_\_  
T.J. Bempel

Date: August 9, 2000

University of Washington

Abstract

**Rearguard Regionalization  
Protecting Core Networks in Japan's Political Economy**

**Walter Frank Hatch**

**Chairperson of the Supervisory Committee:  
Prof. Kozo Yamamura  
Jackson School of International Studies**

Japan's political economy, characterized by relatively dense networks of cooperation between principal actors, does not fit the Anglo-American model of capitalism described in most modern economics textbooks. Indeed, Japan currently faces intense pressure to change -- both from global market and political forces. It thus provides a critical test of the conventional wisdom that globalization, the transnational flow of capital and technology, is undermining the distinctive institutional characteristics of national political economies and thereby forcing convergence. This dissertation suggests that regionalization -- cross-border capital and technology flows within a particular region -- may sometimes trump globalization. Specifically, it finds that, in the case of Japan, political and economic elites have used the export of capital and technology to Asia to shore up core relational networks under stress in the domestic political economy. In the process, they also maintained the positional power they enjoy in those networks. In this project, I examine the extent of change between 1975 and 1995 in three areas of institutional cooperation: bureaucratic-industry interaction; business-business (vertical keiretsu) ties; and labor-management relations. And I try to isolate the effect of regionalization on change or continuity within these domestic networks of cooperation.



## TABLE OF CONTENTS

	Page
List of Figures.....	ii
List of Tables.....	iii
Chapter One	
The Burden of Relationalism and the Blessing of Positional Power.....	1
Chapter Two	
The Political Economy of Japan.....	52
Chapter Three	
Domestic Crisis, Regional Response.....	114
Chapter Four	
Preserving Core Networks: The Domestic Impact.....	167
Chapter Five	
Preserving Core Networks: Regionalization's Role.....	232
Appendix to Chapter Five	
OLS Regression Analysis of the Regionalization of Keiretsu.....	290
Chapter Six	
Preserving Core Networks: Implications.....	305
Chapter Seven	
Beyond the Case Study .....	343
List of References.....	363

## **LIST OF FIGURES**

<b>Number</b>		<b>Page</b>
1.1	<b>The Net Effect of Relationalism</b>	47
1.2	<b>The Correlation Between Relationalism and Positional Power</b>	48
2.1	<b>Diverging Gains</b>	109
4.1	<b>Cross-shareholding</b>	219
4.2	<b>Cross-shareholdings (inside groups)</b>	220
4.3	<b>Subcontracting</b>	222
4.4	<b>Change in “Non-regular” Employment</b>	223
4.5	<b>Job Turnover Rate</b>	224
5.1	<b>Bankruptcies (due to “Hollowing Out”)</b>	279
6.1	<b>Business Start-up and Closure Rates</b>	338
6.2	<b>Character of Start-ups in Different Periods</b>	339

## LIST OF TABLES

Number		Page
2.1	Speaking to a Person at Loss on the Street.....	106
2.2	Trust in Social Institutions.....	107
2.3	Rate of Return on Capital.....	108
3.1	Growth in Stock of Japanese FDI.....	156
3.2	Japanese Manufacturing FDI to Asia.....	157
3.3	Location of Overseas Manufacturing Affiliates.....	158
3.4	Japanese Technology Exports to Asia.....	159
3.5	Japan's Bilateral ODA.....	160
3.6	Flow of JICA Experts.....	161
4.1	Number of Regulations.....	212
4.2	Cost-of Living.....	215
4.3	Amakudari.....	216
4.4	Distribution of Shares.....	221
4.5	Seniority Pay.....	225
5.1	Export-Import Bank Loans.....	277
5.2	Special Loans by JFS.....	278
5.3	Japanese Subcontractors Moving into Asia.....	280
5.4	Toyota Supply Club in Thailand.....	281
5.5	Japanese Expatriates in Private Firms .....	283
5.6	Japanese Managers in Asia.....	284
5A.1	Regression Results.....	299
5A.2	Regression Results.....	300

<b>5A.3</b>	<b>Regression Results</b> .....	<b>301</b>
<b>5A.4</b>	<b>Regression Results</b> .....	<b>302</b>
<b>5A.5</b>	<b>Regression Results</b> .....	<b>303</b>

## **Chapter One**

# **The Burden of Relationalism and The Blessing of Positional Power**

It is, at last, widely understood that Japanese capitalism differs from the Anglo-American model described in most modern economic textbooks. Government officials, especially bureaucrats acting in collaboration with and often at the behest of industry executives, have used not only formal means such as rules and regulations but also informal means such as “administrative guidance” to organize markets. Private firms have routinely maintained longstanding, mutually reinforcing ties with one another, manifested by cross shareholdings, interlocking directorates, personnel transfers, and interfirm transactions. Employees in large corporations have tended to remain with one employer for most if not all of their working lives, acquiring new skills and receiving higher wages inside rather than beyond that firm.

Strong ties of cooperation hold this political economy in place. A report commissioned by the Economic Planning Agency of Japan (EPA 1998a: 23) concludes that Japanese capitalism, unlike other market systems, “emphasizes the merits of cooperation based on long-term relationships between economic actors and within economic institutions. In this way, each economic actor has been able to avoid the risks associated with fierce competition, maximizing its self-interest by forging alliances within the market.”

This system of network capitalism, referred to here as selective relationalism, which emerged in the early postwar period and bloomed in the 1970s, appears to have defied widespread expectations that it would buckle beneath the steady, combined weight of political and market forces for structural change. How? The answer offered

in this dissertation is that Japanese economic and political elites have avoided or, more precisely, forestalled such change in part by regionalizing Japan's core networks of economic and political exchange; that is, they have cut themselves slack by extending into Asia the manufacturing and administrative networks that stand at the very center of Japan's domestic political economy.<sup>1</sup>

This, one must concede, is counterintuitive. After all, it has become axiomatic that globalization is a powerful force that wipes away national differences, pushing states and markets toward convergence. Popular writers such as Ken'ichi Ohmae (1990) and serious scholars such as Strange (1996), Kurzer (1991), and Cerny (1995) have planted and nurtured this new orthodoxy.<sup>2</sup> Indeed, they have noted correctly that globalization, under some conditions, may dramatically undermine a state's ability to effectively carry out macroeconomic policies (fiscal policy, for example, becomes less effective as capital mobility increases in a regime of floating exchange rates, while monetary policy becomes less effective as capital mobility increases in a regime of fixed exchange rates). At the most, dissenting voices have suggested that globalization might not be so powerful; the state can carve out some measure of political-economic space for itself to pursue autonomous (and often corporatist) policies (Garrett and Lange, 1991). Even if it can no longer function as a "welfare state," it can still be a "competition state" that attempts to capture more of the externalities associated with the global movement of technology and capital (Reich, 1991).

This dissertation goes much further in challenging the new orthodoxy. It uses the case of Japan, the industrialized nation facing the most severe pressure to adopt liberal or Anglo-American norms of capitalism,<sup>3</sup> to provide what Van Evera (1997) would call a “strong test” of liberal theory in international political economy, which suggests that globalization (and its semantical alter-ego, “interdependence”) breeds convergence. This study finds that a nation's business, labor, and government elites may temporarily shore up domestic institutions and ideologies under stress by “going regional” -- embedding those institutions and ideologies in a larger zone of economic and political exchange. Japanese elites, it turns out, have managed to do just that by extending Japan's production and bureaucratic networks into Asia.

In this thesis, I am deploying several concepts that have been used heavily, sometimes even recklessly, in much of the current literature in international political economy: “network,” “elites,” “globalization,” “regionalization.” Let me attempt to define each of them carefully here.

By network, I mean a relational structure with: 1) three or more connection points, not unidirectional diodes (ie., unlike a dyadic relationship, a network relationship affords additional linkages beyond an immediate nexus); 2) relative reciprocity (ie., each party in the network is able to access another, although often not instantly and often not without passing through other nodes; this suggests a form of interdependency, or mutual hostage-taking, but does not imply “equality;” and 3) longevity (ie., relations among network members are not *ad hoc*; they endure for



relatively long periods. A network is thus not equivalent to a “coalition,” which represents an always fragile alliance or marriage of convenience between otherwise competing interests, such as political parties or corporations. Instead, it is an organic unit -- akin to a nervous system -- that facilitates the internal movement of resources, particularly information. Finally, a network is an intermediate form of social organization, somewhere between the shapeless anarchy of the market and the centralized hierarchy of the state or the firm. It may be simple or complex, highly plastic or highly cohesive. My definition here draws on the exchange theory of Emerson (1972) and the communications theory of Deutsch (1963).

Elites are privileged actors who occupy central positions in a social structure and who thus are able to control access to “shared” resources within that structure. The privilege they possess is derived fundamentally from socio-institutional ties, not from income or class.<sup>4</sup>

Globalization here refers to the increasingly unconstrained flow of productive factors – capital, labor, and technology – across and beyond national borders, as well as the laissez-faire ideology that promotes these flows. This is a modest definition, one that purposely eschews the distinction often made between globalization and internationalization, as well as the implicit presumption – alluded to earlier -- that globalization necessarily spawns convergence between different economies in the world.<sup>5</sup> At the same time, this is – I hope – an honest definition, one that acknowledges an unmistakable trend toward the financial integration of advanced industrial

economies. For these economies, gross flows of foreign direct investment (FDI) have climbed from \$76 billion in 1985 to \$448 billion in 1997, while portfolio investment has jumped from \$233 billion to \$1,040 billion over the same period.<sup>6</sup>

Regionalization means much more than merely the flow of factors (capital, labor, technology) within a specific geographical area. In using this term, I also refer to the consolidation of personal ties that have built up over time within an area. Here, too, Deutsch (1981) is helpful. He argues that a region is historically and epistemologically constructed through social interaction: "It is the multiplicity of common cultural elements and links of horizontal and vertical communication and potential understanding that makes a region, somewhat as -- on a small but more intensive scale - - such links often including language, religion, or way of life, can make a people." We should note, however, that elites (including academics) tend to dominate such cross-national but intra-regional linkages, and thus form what Lehmbruch (1999) calls a "discourse coalition." This conceptualization helps us understand why the established members of the European Union might have rejected the application of their Islamic neighbor, Turkey, to join that regional body.<sup>7</sup> And it helps us understand why Prime Minister Mahathir of Malaysia, in his call for an East Asian Economic Caucus, declined to include the ethnically European states of Australia and New Zealand.

### **Some Hypotheses**

The argument presented in this thesis is *not* that Japan is immutable. Indeed, the nation's political economy is experiencing a massive shakeout that, for the first time in the postwar era, appears to be creating a polarized (*nikyoku bunka*) society with obvious winners and obvious losers. Japan's social contract, fueled by rapid economic growth that allowed the vast majority of its people to benefit, is unraveling as its leading business executives, bureaucrats, and labor officials try to cope with a new environment of slow or negative growth. At its core, however, Japan's defining institutions and ideologies remain secure, protected.

Consider an analogy: The owners of a house with a structurally weak foundation set to work tearing down walls and expanding the ground floor. To outsiders, this looks like complete and total change -- especially given that the owners have made some of their own children sleep in the yard so that dozens of newly adopted kids can squeeze inside. In fact, however, no structural change has taken place here; the building's foundation remains untouched.

Many observers, particularly journalists, make the same mistake about Japan. They hear the grinding of metal (and teeth), and assume that Japan is tearing down its old system and building a new one (just as it was, supposedly, in the 1970s, after the first oil shock and in the 1980s after the first round of endaka, or yen appreciation). In addition, some of these observers (Pempel 1998, Hirsh and Henry, 1997) assume that Japanese manufacturers with factories outside of Japan are serving as the "global"

agents of structural reform.<sup>8</sup> This dissertation suggests that the reverse is true; Japanese multinational enterprises (MNEs), prodded and supported by the Japanese state, often represent the status quo, working to regionalize -- and thus safeguard, for the moment at least -- Japan's postwar system of network capitalism.

Let us restate the preceding in the form of two questions and two pairs of testable hypotheses (answers).

1. Are different national systems of production heading toward convergence?<sup>9</sup> Or, in this particular case, are Japan's distinctive networks of cooperation unraveling, bringing about a structural change in the domestic political economy? This is a simple empirical question.
  - a) Yes. Globalization is undermining the Japanese model of network capitalism, forcing it to become much more like the market-oriented model found in the United States and the United Kingdom. This is the conventional wisdom offered by most observers.
  - b) No. Although Japan's model of network capitalism (or selective relationalism) is experiencing distributional change, it is not undergoing structural change. The former is change in the allocation of gains and losses generated by a particular set of institutions. The latter is change in the actual structure of those institutions. In the case of Japan, principal actors -- bureaucratic, industrial, and labor elites -- are making adaptive

efforts to preserve the status quo system of political economy. This is the author's hypothesis.

The first question begs a second:

2. What role – if any – has regionalization played in this process of change/continuity in Japan's domestic political economy? Considered more broadly, is regionalization (the export of capital and technology from one nation to neighboring nations) merely a subset of globalization, or can it serve under certain conditions as a countervailing force to check the logic of globalization, to counter its otherwise strong undertow?
  - a) Regionalization, just like globalization, is a process shaped by market forces. MNEs from different countries respond to these forces in roughly the same manner; national origin is irrelevant. In the case at hand, Japanese investment in Asia, like Japanese investment in any other foreign market, creates an opportunity for the reallocation of productive resources in the domestic political economy, and thus should encourage change in the direction of greater efficiency and more open markets. This is the view of neoclassical economists and other scholars influenced by the market model.

b) Unlike globalization, regionalization is a place-specific phenomenon that is driven by more than market forces. In this case, regionalization *qua* “Asianization” is occurring amidst a stark disparity in economic power, with Japan boasting a GNP that is double the combined GNP of all the economies of Asia, and with Japanese multinational corporations (MNCs) controlling a lopsided share of the region’s total stock of capital and technology. And in this case, regionalization reflects longstanding personal and institutional ties between Japanese elites and local elites in different Asian countries. In general, the smaller size of a region, relative to the world, aggravates the effect of power imbalances, while the proximity of economies within the region offers a higher density of exchange relationships. Elite actors, like states, respond to the phenomenon of regionalization differently because they reflect different institutional characteristics. And in this particular case, Japanese production and administrative networks in Asia reflect the distinctive institutional characteristics (selective relationalism) of Japan’s political economy and the positional power of its elites in both the domestic and regional setting. These elites have promoted a distinctive pattern of regionalization and, in the process, have forestalled the pace of change in the domestic political economy. This is the author’s hypothesis, which flows from an effort

to apply a sociological model (network analysis) to a problem of political economy.<sup>10</sup>

In this thesis, I introduce two new concepts as part of a sociological model of network politics: **Selective relationalism**, the extent to which existing social relationships dictate the character and conduct of political and economic exchange; and **positional power**, the relative access to resources, primarily information, enjoyed by well-positioned actors in an exchange network. This model is used to engage overlapping debates in three fields – political economy (technological and economic development); comparative politics (institutional change); and international relations (power and dependency in a single region of nation-states). Let me explain these concepts, and demonstrate how they drive the model, before proceeding with an application.

### **Selective Relationalism**

This, I must admit, is a neologism constructed for want of a better term.<sup>11</sup> The closest synonym in English is perhaps “embeddedness,” a term coined by Granovetter in 1985 that has since lost much of its original meaning.<sup>12</sup> Granovetter argues that all transactions, even those in modern, highly marketized economies, are -- to some degree -- embedded in and thus constrained by ongoing social relations.<sup>13</sup> There is a simple, intuitive logic at work here: **We generally prefer to do business with those we trust.**

**“Better than the statement that someone is known to be reliable is information from a trusted informant that he has dealt with that individual and found him so. Even better is information from one's own past dealings with that person” (p. 490).**

**In Granovetter's analytic, the least embedded transactions are those envisioned in the “undersocialized” world of neoclassical economic theory -- spot market deals in which buyer and seller meet only at the point of sale and communicate merely on the basis of price. At the opposite end of the spectrum, the most embedded transactions take place within a single institution, such as the vertically integrated firm, and thus bypass the market altogether. This, according to Granovetter, is the “oversocialized” world envisioned by Williamson (1975) and other neo-institutional economists. It seems clear that most transactions take place somewhere between these two extremes in quasi-markets or quasi-hierarchies; in fact, they often take place in a large gray area that includes various forms of networking.**

**There is, however, a key ingredient missing from Granovetter's otherwise brilliant model: human volition or intention. In his generally sympathetic critique of the sociological literature on markets, Fligstein (1996: 657) refers to this missing ingredient as “agency.”**

**The major limitation of the network approaches is that networks are sparse social structures, and it is difficult to see how they can account for what we observe in markets. Put another way, they contain no**



model of politics, no social preconditions for the economic institutions in question, and no way to conceptualize how actors construct their worlds.

In other words, the “embeddedness” approach tends to assume an *a priori* level of sociability that does not depend on human agency. In reality, of course, actors embed themselves in relationships with some but not all the other actors with whom they interact. Indeed, they often choose quite intentionally to exclude others by *not* forging ties with them. This is why I stress here that relationalism is selective; actors, operating within an institutionally bounded context, make choices about the kinds of relationships they are willing to enter into.

When they forge mutually reinforcing ties with others and thereby create stable network structures, actors are behaving rationally; they are trying to reduce the risks associated with political and economic exchange. In particular, actors seek to protect themselves from opportunism on the part of exchange partners who are looking after their own best interests. Strong ties are more effective than weak ties in reducing the costs of gathering information about prospective partners, and in monitoring contracts with existing partners.

On the other hand, strong ties may generate costs as they become exclusionary, cutting insiders off from outside sources of information. This is what Granovetter (1973 and 1974) found when he asked working people how they learned about their

current jobs. Information about job opportunities rarely came from a close friend or, in other words, a source with whom the respondent shared a strong tie. When it came from another person, such information tended to come instead from a friend of a friend, or a more distant acquaintance; that is, it tended to come from someone with whom the job seeker shared only a weak tie. Granovetter's logic is deceptively simple: Members of very cohesive networks tend to know what other members know.

Burt (1992) extends this logic by introducing the concept of "structural holes," which he defines as "a relationship of non-redundancy" between two actors/nodes in any human network. Non-redundancy implies a disconnect. Two actors/nodes either have no direct contact with one another or -- more often -- they have contacts that do not include the other. A very dense network, one with few structural holes, yields fewer information benefits than a sparse network, according to Burt (p. 17). "Because the relations between people in that network are strong, each person knows what the other people know and all will discover the same opportunities at the same time."

On a micro level, then, exchange networks seem to reduce transaction costs and raise opportunity costs as they grow more and more cohesive. At this level, however, we cannot determine -- *a priori* -- the cost-benefit ratio of any particular network..

A micro-analysis of selective relationalism can be easily extended to the macro level, and political economies can be evaluated along a continuum. Some political economies are thus only "thinly" relational not only because they operate more on the basis of spot market transactions, but also -- more fundamentally -- because individual

actors in those economies, responding to structural incentives created by institutions of their own making, are less inclined to forge long-lasting social ties. In today's United States, for example, people move relatively freely from job to job, from city to city, and often do not plant themselves deeply in a community. They often seem to eschew longstanding relationships. Other political economies, meanwhile, are more embedded or "thickly" relational.<sup>14</sup> In Japan, for example, people tend to stay put for longer periods of time in both employment and thus residence; long-term, reciprocal relations or networks form the foundation of business and politics.

Proxies can be used to measure the level of relationalism in any given political economy. For example, in a 1992 survey of firms manufacturing finished goods in Japan, Europe, and the United States, the Mitsubishi Research Institute asked about the strength or weakness of interfirm ties. It found that: a) Japanese firms engage in more "repeat" transactions with established parts suppliers (76 percent of respondents in Japan, 64 percent in Europe and 37 percent in the U.S. reported that most of their transactions were carried out on a long-term or "repetitive" basis); b) Japanese firms invest more heavily in subcontractors (96 percent of respondents in Japan, 77 percent in Europe, and 16 percent in the U.S. reported they owned shares in one of more of their suppliers); and c) Japanese firms use personnel exchange more intensively (88 percent of respondents in Japan, 22 percent in Europe, and 6 percent in the U.S. reported that they dispatch officers to work alongside their parts suppliers).<sup>15</sup> Likewise, one could consider intrafirm ties. Kato (1998), using OECD data, finds that the average

length of employment is significantly greater in Japan than in most European countries (with the exception of Germany), and almost double that in the U.S. Japan would certainly come out on the “high” end of almost any comparative study of relationalism.<sup>16</sup>

Observing this kind of cross-national variation, some scholars have attempted to develop a general theory of “social capital” -- the largely horizontal networks of trust and reciprocity that they claim enrich communities.<sup>17</sup> Putnam (1993) argues that social capital makes government institutions more effective by encouraging civic engagement, while Fukuyama (1995) suggests that it does much the same for economies by unleashing entrepreneurial energies. This approach would be highly useful for our analysis were it not for two significant problems. One is that we never really learn the origin of social capital. In most formulations, it appears to be an exogenous variable that emerges automatically, effortlessly from the deep, dark recesses of “culture.”<sup>18</sup> The second problem is that scholars too often present social capital as an immutable public good, when in fact -- as Mauricio Rubio (1997) has shown in his analysis of Colombia -- it also can assume a “perverse” form characterized by collusion, rent-seeking, and even criminally syndicalist behavior. To overcome these problems, we need an analytical model that demonstrates a) how networks of cooperation, which yield positive externalities, actually come to exist; and b) how such networks may degenerate over time into exclusionary networks for private gain.

At the outset, we should recognize that a society's institutional characteristics are always a function of contested politics, not “culture” (defined exogenously), and are thus subject to change. For example, as Gourevitch (1996) notes, the political economy of the United States at the end of the 19th century resembled postwar Japan much more than it does today. It was, in a word, more “relational.” In those days, the U.S. government collaborated with business to build railroads and canals, and promote large, export-oriented industries. Giant banks and industrial firms organized themselves into oligopolistic “trusts” or “combines.” Craft unions served the interests of skilled and thus elite employees, but did not -- or could not -- organize rank-and-file workers across an entire industry.

To understand how this institutional pattern of selective relationalism got started in the U.S., we have to go all the way back to the quarter century following the Civil War, when – as Skocpol (1998: 29-30) notes – large numbers of trans-local civic associations were launched. “American association builders were determined to link North and South, just as much as East and West. They thought in terms of national unity and regeneration, and worked hard to make this vision real.” And in the devastation following the Civil War, the victorious coalition of Northern industrialists and small-scale, family farmers in the West pursued an ambiguous reconstruction program -- much less radical than some Republican proposals for land reform, but obviously more progressive than the system of slavery that had previously existed. At the same time, manufacturing interests secured for themselves long-coveted protective

tariffs, but also persuaded the state to compensate their allies, the Western farmers, by opening public domain via the Homestead Act of 1862. This was the genesis of what Moore (1966) has called “democratic capitalism” in the United States.

The U.S. case suggests that elites, those whom Weber (1946) identified as “idea bearing classes” and whom Gramsci (1992) identified as hegemonic norm-setters, create “social capital” by investing in it. That is, they create networks of cooperation by choosing to eschew short-run utility-maximizing behavior and instead forging ties with others outside their immediate zone of interest.<sup>19</sup> These may take the form of broader, corporatist alliances (or what Olson (1982) has called “encompassing coalitions”) or they may take the form of narrower, intra-elite groupings. In the case of the latter, elite insiders may use a portion of the gains they capture from cooperation to make side-payments designed to compensate non-elite outsiders. These forms of credible commitment to cooperative behavior have a “demonstration effect;” others in society, persuaded that their trust will not be violated, return the favor by committing themselves to cooperative behavior. Miller (1992: 232) expresses this view of social capital-creating elites in the context of management-labor relations in the modern firm. Managers, he writes, “must create appropriate psychological expectations, pay the ‘start-up costs’ for appropriate cooperation norms, kick-start the secondary norms that will be the primary enforcers of cooperation norms, and create institutions that will credibly commit the leader to the non-exploitation of employee ownership rights in the organization.”

This helps explain the origin of selective relationalism in a given political economy, but does not explain why or how these relational networks of cooperation unravel. To do this, we need to return briefly to the U.S. case. In the late 19th century, network capitalism in the U.S. (selective relationalism on a macro level) spawned impressive economic growth, but -- as it became ever more exclusionary and collusive -- eventually also triggered political discontent. By the progressive era of the early 1900s, farmers, consumers, workers and others mobilized to break up the powerful trusts, and capture public resources for themselves through regulations on everything from food labeling to bank lending, from working hours to occupational safety. A different kind of system, one characterized more by arms-length business transactions and adversarial relations between state and industry, one much closer to what we now view as the Anglo-American system of capitalism, emerged as a result of this political conflict.

It may be, as Olson (1982) asserts, that selective relationalism inevitably turns collusive in time. Indeed, coalitions established to overcome some collective action problem do seem to have a built-in incentive to survive beyond their usefulness to society. But is this always true? Furthermore, can we predict precisely or even vaguely when this will happen, or do we only know *post-hoc*, when we see it with our own eyes? In other words, Olson's concept -- applied broadly, or universally -- seems frustratingly difficult to operationalize. However, applied to the specific case of development or industrialization, it does in fact provide some explanatory reach. At

the most superficial level, we can see that the slower growth experienced by mature, developed economies denies elite insiders the opportunity to use side payments to compensate outsiders. And at a more fundamental level, we should recognize that the costs of selective relationalism will begin to outweigh the benefits once industrializing economies have reached the global technological frontier, once -- that is -- they have achieved "catch-up" development by adopting all there is to adopt from the global supply of existing technology. Explaining this assertion requires a brief excursion into economic theory.

In separate critiques of neoclassical economic theory, Hirschman (1958) and Murakami (1992) distinguish between mature or developed markets, which they believe the theory is quite adept at modeling, and developing markets, which they contend the theory is woefully unable to grasp. Hirschman focuses on what I call "proto-development," an early phase in the process when capital markets are characterized by problems of contract enforcement and product markets are afflicted with imperfect or incomplete information -- the makings, in short, for a classic prisoners' dilemma. In this environment, risk-taking activities are impeded, Hirschman writes (p. 26), "not by physical obstacles and scarcities, but by imperfections in the decision-making process," meaning institutions. Undeveloped economies become swamped by uncertainty due to a dizzying array of "unexploited opportunities." To overcome these market failures, the state can provide an important, even catalytic, function. It can virtually jump-start a stalled economy, providing the needed spark.<sup>20</sup>



Murakami focuses on a later phase of the process – what I call “dynamic development” – in which firms adopt successively more sophisticated technology from the global pool of established know-how, thereby achieving declining long-run average costs (LRAC) or, in other words, increasing returns. Neoclassical theory, he argues, cannot grasp this process because it largely ignores the variable of technological change.<sup>21</sup> It assumes that all markets are like those in mature or developed economies, where firms *do* face increasing LRAC, and thus diminishing returns (which create the upward sloping supply curve drawn in modern economics textbooks), because they operate at the global technological frontier and thus cannot simply adopt existing know-how.

For developing economies, the trick is not merely how to launch this dynamic process of technological absorption, but how to sustain it. That is because development spawns social instability and economic inefficiency as firms race to invest larger and larger sums in industries characterized by declining LRAC. If left unchecked, this “investment race,” which Japanese bureaucrats used to call “excess competition,” will lead first to excess capacity and later to bankruptcies and unemployment, both of which impose deadweight losses on a developing economy.<sup>22</sup> In the end, this “excess competition” is likely to produce monopolistic or highly oligopolistic industries.<sup>23</sup>

Murakami, echoing the views of Johnson (1982), Amsden (1989), and Wade (1990), recommends that autonomous, technocratic regimes in developing economies embrace an aggressive program of state-centered “developmentalism” (*kaihatsu-shugi*),

nurturing and guiding innovating industries and, above all, managing the “investment race” by -- for example -- authorizing temporary cartels. It is here, where he joins the Weberian campaign to “bring the state back in,” that Murakami slips. He fails to recognize that collective action problems are often exacerbated, if not created themselves, by what can only be called “hierarchical” (as opposed to market) failure. Institutions, including the state, are neither omniscient nor selfless; rather, they are human, reflecting the same mix of good and bad intentions as the actors who helped create and maintain them. Indeed, a truly autonomous state is one that is free to pursue its own interests, which may be power, plunder, prestige, or a combination of these, and such interests are unlikely to be as broadly inclusive as excitable speechwriters imply when they use the term “public (or national) interest.” For this reason, Granovetter advises us not to lurch from neoclassical theory's undersocialized conception of economic action to the oversocialized conception used by many state-centered political scientists and neo-institutional economists.

If neither the market nor Leviathan is the driving force behind long-run economic development, then what is? This dissertation argues that mutually reinforcing linkages – “synapses” – between the principal socio-economic actors in a developing economy are needed to sustain the virtuous cycle by which successively more sophisticated technology is adopted and capital is accumulated. In other words, what is needed is relationalism -- a thick web of non- (or hyper-) market ties between business and government, between upstream and downstream firms, and between labor

and management. At the macro-level, ties between government and business foster a stable environment for firms to invest, step-by-incremental step, in more advanced technologies.<sup>24</sup> Ties between and within firms combine the benefits of internalization (reduced transaction costs through constant information exchange) with the benefits of marketization (reduced governance costs). In particular, these micro-level ties encourage the rapid diffusion of existing technology -- at least within the socially constructed networks. If successful, relationalism sustains growth in a developing economy, and a relatively even distribution of the benefits of growth.

But selective relationalism, as I hinted earlier, can quickly outlive its utility. While it facilitates the adoption of existing know-how, it tends in the long run to inhibit more radical forms of innovation. At the micro-level, cohesive network structures – especially ones characterized by hierarchy – become dense, inward-looking, and thus resistant to new, external stimuli.<sup>25</sup> In his study of exchange networks within the apparel industry in New York City, Uzzi (1996: 675) found that firms characterized by “embeddedness” (strong, mutually reinforcing ties with other firms) outperformed other, more independent firms – but only up to a “threshold point,” when the positive effect suddenly turned sharply negative. He concluded:

A crucial implication is that embedded networks offer a competitive form of organizing but possess their own pitfalls because an actor’s adaptive capacity is determined by a web of ties, some of which lie

beyond his or her direct influence. Thus a firm's structural location, although not fully constraining, can significantly blind it to the important effects of the larger network structure, namely its contacts' contacts (p. 694).

At the macro-level, we can define the "threshold point" as the time when a developing economy finally achieves technological "catch-up." At that point, the costs of cohesive network structures – manifested in collusive or rent-seeking behavior and extremely rigid markets -- begin to outweigh the benefits. Figure 1.1 offers a conceptual image of this process. The bottom line is this: What worked so well in the past suddenly becomes dysfunctional.

### **Positional Power**

Positional power, accrued by centrally placed actors in structurally cohesive networks, is the second key concept in the model of network politics presented here. It, too, is a new formulation, and thus warrants some explication.

Not so long ago, scholars regarded power as an individual attribute, a stock of capabilities. In the field of international relations, for example, structural realists like Waltz (1979) defined power as the aggregate military and economic resources -- measured in warheads and industrial output -- that individual nation-states possess and thus can mobilize in their defense. Today, however, power is viewed more often as a

relational attribute. Thus we talk about the power one has in relation to, or over, another; the power to “compel another actor to do what it would not otherwise do.” Baldwin (1980) defends this definition artfully, citing the example of a person who threatens another with a gun and then utters the eery cliché: “Your money or your life.” If the robber’s target is suicidal or places little value on his own life, the threat loses its coercive authority. Thus, an instrument of potential power becomes an instrument of actual power only when its coercive value is recognized by the ultimate target. In other words, power cannot be understood by reference to the presumed power-holder alone; it is a relational attribute.

Economists, typically agnostic about power, have begun to recognize that imperfect markets, and -- more specifically -- markets characterized by incomplete information, create opportunities for the exercise of power by one actor over another. This imbalance frequently emerges in a dyadic relationship, whether it is the implicit contract relationship between a principal (such as a stockholder) and an agent (such as a company’s CEO), or the explicit exchange relationship between a buyer and seller. “In isolation, knowledge is only productivity,” notes Bartlett (1989: 101). “It becomes power only when other persons do not have it.”

In neo-institutional economic analysis, this kind of power is modeled through the concept of information asymmetry. North (1990: 186) tells us, for example, that: “Not only does one party (sometimes the buyer and sometimes the seller) know more about the valued attribute than the other party, but that person may stand to gain by

concealing that information, which takes us to the behavioral assumptions we use in economics. Following a strictly wealth-maximizing behavioral assumption, a party to an exchange will cheat, steal, and so on, when the payoff to such activity exceeds the value of the alternatives available to that person.” Thus, when information is unevenly distributed, those who have it can maximize the potential gains from trade at the expense of those who do not have it.<sup>26</sup>

These conceptions of “relational power” mark a significant improvement over earlier notions of power as a stock of capabilities. Unfortunately, though, they cling to the fiction that exchange, whether political or economic, involves only two actors. In fact, exchange is almost always nested in a social system, a network of opportunities and -- if those opportunities are utilized -- a network of exchange relationships. Consider these scenarios in buying a car: 1) After looking at two different vehicles from two different sellers, A opts to purchase the one from B rather than the one from C; and 2) A buys from B with the expectation of re-selling it to C, who does not own a car and is eager to purchase one. In both cases, A has engaged in an exchange relationship with B that clearly involves C. A’s relationship with one is thus integrally connected to its relationship with the other. “Connection” is defined by Cook et al (1983: 281) in the following way: “Two exchange relations between actors A-B and actors A-C are connected to form the minimal network B-A-C to the degree that exchange in one relation is contingent on exchange (or nonexchange) in the other relation.”

This feature of exchange (that it is often contingent on, or embedded in, a larger network of relationships) makes possible the attribute I am calling “positional power.” (Indeed, on a macro level, the likelihood that elites will possess positional power is positively correlated with the density of relational networks in any political economy.) For the sake of simplicity, assume that the network described above is indeed as minimal as suggested (that is, it includes only those three actors: A, B, and C), and assume further that B and C are linked only indirectly through A. In that network, A enjoys positional power or what Burt (1992) calls “structural autonomy.” Under either scenario, A has alternatives that B and C do not have – *solely as a result of its position in the network structure*. Under Scenario 1, it is a monopsonist that can play the two sellers off against one another. Under Scenario 2, it can inform B that his asking price is too high for C, the ultimate buyer, and then – after B relents – inform C that his offer is too low given B’s initial price. If they wish to make a deal, B and C must go along with A; by virtue of their positions, they have no choice.<sup>27</sup>

To recapitulate: The position an actor occupies in any network structure determines his power over others in that structure. If he commands a central position through which others must “pass” to gain access to resources within that network, then he enjoys positional power. In the words of Knoke (1990: 9), power

emerges from [an actor’s] prominence in networks where valued information and scarce resources are transferred from one actor to

another. Positions are stratified according to the dependence of other positions on them for these essential resources. Not only the direct connections are important in determining positional power, but the indirect connections are critical because they comprise limits and opportunities for obtaining desired ends.

Emerson (1962) was perhaps the first sociologist to develop a model to use in analyzing this kind of power. He began with an elegantly simple proposition: power is the inverse of dependence; that is, a particular actor's power is measured by the extent to which others in an exchange network rely on that actor to achieve outcomes, or -- conversely -- by the extent to which that actor can achieve outcomes without relying on others. This is similar to the concept of "substitutes" in consumer economics; one's power increases as the number of equally accessible but alternative paths ("substitutes") to a goal (utility) increase. Marsden (1983) has refined this model further to show that centrally positioned actors may act as discriminating monopolists, as price-makers, restricting the flow of resources (primarily information) and thereby increasing the value of resources under their control by "capitalizing on the fact that their trading partners lack valuable alternatives to an exchange relationship" (p. 714). In other words, they may engage in "information hoarding."

As a practical matter, elites should find it easier to hoard information in networks that are, at the core, more cohesive than open. Thus, as relational ties become



stronger, the opportunity to exercise positional power increases commensurately. This correlation is illustrated conceptually in Figure 1.2.

In chapters two and six, I discuss how Japanese elites have used (or abused) their positional power to hoard information from non-elites. Here I note only that Japanese elites are in good company; in political economies marked by high levels of relationalism, this behavior is common. Pastor and Wise (1994: 480-1) offer an example from the experience of Mexico, where the regime of Carlos Salinas de Gortari won domestic support for the North American Free Trade Agreement (NAFTA) in the early 1990s by forging even stronger ties with members of the big business community, while working with them to exclude likely opponents. Their discussion reveals a great deal about the correlation between exclusionary networks and positional power, and thus I quote the following rather lengthy passage:

...approximately eighty sectoral studies of NAFTA's projected effects were commissioned by an elite working group comprising the leading big business representatives from ...the Mexican Business Coordinating Council for Free Trade (COECE) and the upper ranks of SECOFI [the government's trade ministry]. Most of these studies were done by local private consulting firms under contract to various chambers of industry and commerce. Although debates over the findings of these studies have gone on at the highest levels of the state-business coalition, the results

themselves have been held under virtual lock and key. Thus, those few industrialists with access to this information have a more accurate idea of the likely macroeconomic consequences of NAFTA than have small and medium-sized producers or labor leaders. Due to their close working relationship with the state economic bureaucracy, larger firms also have had much more knowledge about and input into the specific sectoral adjustments that are part of the NAFTA. Financial capital, which played a leading role in COECE, has been especially well-placed; our interviews with top bank officials revealed an uncanny foreknowledge of the details of the financial aspects of the treaty (helped along perhaps by their monthly joint meetings with the Ministry of the Treasury), while representatives of smaller industrial and service companies seemed much less aware about the trade treaty details and even complained about being less informed.

In his seminal analysis of the political deals that led the U.S. Congress to approve the Smoot-Hawley Act, Schattschneider (1963: 212) provides another good example of the correlation between relationalism and positional power. Specifically, he reveals how lobbyists for corporate interests seeking tariff protection used their status as “insiders” to secure privileged access to information and thereby rewrite the rules of the game.

[T]he activity of economic groups in the tariff revision of 1929 was variable, in part because they were not equally well informed of the event. The public authorities aggravated this situation by two varieties of negligence. The committees did not circulate the notice of the hearings with sufficient energy and published the specific proposals made to them too late to be useful to interests adversely affected, in most cases. On the other hand, the government did not maintain a discipline sufficiently stringent to prevent favored groups from obtaining confidential information in its possession by private channels. The groups affected by the tariff may be divided, therefore, into two categories: outsiders who knew too little, and insiders who knew too much.

Positional power, then, is a kind of structural power that is determined by relative *access* to resources (primarily information) embedded in a network of relationships rather than actual *possession* of such resources. Insiders, those who are centrally positioned in the network and thus able to tap its embedded resources with relative ease, have power over outsiders who must rely on the insiders to gain access to those resources. The concept of positional power, however, should not be confused with the more amorphous concepts of “structural power” advanced by Strange (1988),

“meta-power” advanced by Krasner (1985), “hegemony” advanced by Gramsci (1992), or tacit power advanced, in different ways, by several others.<sup>28</sup> Unlike these concepts, which tend to obliterate all agency (and thus defy measurement – and sometimes even empirical observation), the concept of positional power specifies actors and intentions, and the shape of the structures in which they operate.

### **Application: Relationalism and Positional Power**

I apply this theoretical model to a case study of exchange networks in the Japanese political economy during the postwar period. Although the case study touches on other sectors such as banking, it tends to focus rather closely on manufacturing, particularly machine manufacturing.<sup>29</sup> This is not accidental. Manufacturing has occupied, and still occupies, a central -- even privileged -- position in the Japanese economy. Today, nearly three decades after Japan completed its second industrial revolution and achieved technological “catch-up,” manufacturing continues to account for as much as one-quarter of its GDP. (It accounts for only 21 percent in the United Kingdom and only 17 percent in the U.S.) And when Japanese elites, including economists, discuss the Japanese economy, they invariably emphasize the pivotal role of manufacturing. For example, Jin (1996: 3) voices the common view that manufacturing is the engine of Japanese economic power, the locomotive that drives the service and commercial sectors:

**If the ability to produce things is neglected, and if the technological capacity and competitiveness associated with that skill begins to disappear in Japan, the impact will not stop at manufacturing. All industries, including service industries, will lose their vitality.**

**In chapter two, I argue that selective relationalism served Japan well in the early part of this period, when it was still trying to achieve technological parity with the West, but not well at all in the later part of this period, when Japan had achieved its goal of catching up. In other words, Japanese firms (particularly manufacturing firms) used a web of cooperative networks in the 1950-1973 period to move to the edge of the global technological frontier; once they got there, however, they found themselves unable to push aggressively beyond it. As I discuss in chapter two, the structural weakness of the Japanese economy was not readily apparent during the 1973-1991 period because its firms continued to invest heavily, even though they received lower and lower rates of return on capital. In the 1990s, of course, this weakness became painfully obvious, and was evidenced by a sharp drop in total factor productivity (MITI 1997: 252-6), a rising deficit in intellectual property royalty payments, lagging sales growth in key industries such as computers, and rising un- (and under-) employment. Japan's network capitalism suddenly, and dramatically, began to show its age.**

**This represented a very real crisis for Japanese elites, from the bureaucrats in Kasumigaseki to the industry executives in Ôtemachi, from the factory foremen in**

Hitachi-city to the lifetime blue-collar employees in Toyota-city. It was, for them, more than an economic problem of diminished profits, reduced budgets, leaner paychecks; it also was a *political* problem. Political and market forces (which, summed up, can be called “globalization”) threatened to rip apart the web of strong ties those elites had sewed together over the years, and that they continued to dominate.

For more than a decade now, Japanese elites have employed a variety of schemes to try to shield their exchange networks from the forces of globalization, to try to maintain the status quo as much as practically possible. Chief among these has been an effort – documented in chapter three – to extend existing production and administrative networks into developing Asia, a region in which selective relationalism might still be effective and yield overall net gains.

In taking such a step, Japanese elites are doing what Schattschneider (1960: 3-7) claims threatened individuals or groups routinely do: They are trying to overcome a serious challenge by reconfiguring the space in which that challenge presents itself. In this case, they are trying to shrink (regionalize) the arena of conflict. Or, in other words, Japanese elites are trying to resist the forces of change by moving the struggle from the global to the regional level.

Yamazawa Ippei, president of Ajiken (the Institute of Developing Economies) and JETRO (Japan External Trade Relations Organization), notes that Japan now suddenly finds itself “exposed” to the outside world and a cross-current of external

pressures. Globalism, he suggests, is likely to rip apart the nation's institutional fabric; but regionalism will not.

People must become “fully naked” to move toward globalism, but only “half naked” for regionalism. The Japanese hate being “naked.”<sup>30</sup>

At this point, one may wonder why Japanese elites would want to hang onto the gown of selective relationalism in the first place, particularly if – as asserted earlier – it no longer fits. This is yet a third important puzzle that, like the first two, can be stated as a general question with testable hypotheses:

- 3) If relationalism no longer works at home, why would Japanese elites bother to maintain it (and its anachronistic policies, its counterproductive practices) – even though they have the wherewithal to do so? In broader terms that transcend the Japanese case, we must ask: Why would the principal actors in a society attempt to preserve a set of institutions (policies and practices) that produced net benefits in the past but that now produces net costs?
  - a) Rational or public choice theory would call this a classic collective action problem in which some actors seek to maximize their own narrow, short-term interests at the expense of the larger, longer-term

interest of society. The state, in this case, becomes “captured” by rent-seeking interests, such as business executives and labor leaders in a declining industrial sector, that are able -- by virtue of their small numbers -- to organize themselves effectively for collective action. Large groups within society, such as consumers, taxpayers, and employees in general, are unable to organize themselves so effectively and thus are penalized as the market's invisible hand is cuffed (Olson 1982; Bates 1981).

- b) The other school, historical institutionalism, would call this a classic example of “path dependence” in which actors, rather than calculating their own interests at every turn, stumble forward out of historically formed and institutionally reinforced custom. They do so because they have invested heavily in particular institutional structures that create common expectations about the future, thereby reducing uncertainty (Krasner 1984: 235). These institutions, then, represent “sunk costs,” and serve to constrain the actions of individuals and inhibit their ability to undertake change -- even when such change, as in this case, may yield a positive result (Steinmo, Thelen, and Longstreth, 1992; Evans and Stephens, 1988).



These approaches offer valuable insights. The rational choice school, for example, notes correctly that actors are motivated by competing interests, and often behave strategically in pursuit of them. Historical institutionalists, on the other hand, remind us that actors cannot easily secure those interests; in reality, they must operate within limits created by their environment. Both approaches, however, fail to answer our question adequately because they: 1) rely on a unit of analysis that is, as noted already, either under-socialized (the atomistic, individual utility-maximizer of rational choice theory) or over-socialized (the Leviathan of hierarchy in historical institutionalism); and 2) ignore the critical variable of power.

Japanese government, business, and labor elites have developed relatively tight - - albeit segmented -- horizontal networks among themselves, as well as vertical networks they have tended to dominate. As noted earlier, these reciprocal ties helped Japanese firms adopt and diffuse technology quickly, and thus achieve rapid economic development in the early postwar period. In the process, however, they also allowed elites to rather tightly control the flow of information within Japanese society.

With the control of information flow comes elite privilege in the form of positional power. This, finally, explains why the principal actors in a society would resist institutional change, even at the risk of jeopardizing that society's economic well-being and thus, in the longer-run, their own economic well-being. In controlling information, elites gain an important privilege -- relatively free access to network resources -- they are not inclined to relinquish. Rational choice theory, with its

emphasis on maximizing utility, and historical institutionalism, with its emphasis on path dependence, overlook this motivation in their equations.<sup>31</sup>

My hypothesis, which builds on network and social exchange theory, can be restated in the following way:

- c) Elite actors who occupy central positions (critical nodes) in exchange networks enjoy “positional power,” which they use to control access to resources, particularly information, in a political economy. They are therefore unlikely to voluntarily relinquish this power even if the resources they control begin to diminish.

To summarize, then, this dissertation advances three inter-related hypotheses:

1. Despite steady pressure from global market and political forces, Japan’s system of network capitalism, or selective relationalism, avoided structural change in the years following the Plaza Accord (post-1985).
2. The regionalization of Japanese production and administrative networks is a distinctive process that reflects both the selective relationalism of Japan’s domestic institutions and the positional power of the Japanese state and of

Japanese MNEs in Asia. It has actually served to slow down the pace of structural change at home.

3. In regionalizing domestic networks, Japanese elites have been motivated not by narrow economic self-interest or by institutionally constrained path dependence, but rather by a desire to preserve exchange relations that give them a measure of positional power, and thus privileged access to network resources.

### **A Preview of the Findings**

I test the first of these hypotheses by comparing relevant data between two periods: 1973-85, following the first oil “shock,” when Japan’s current system of network capitalism, or selective relationalism, became fully consolidated; and the post-1985 period, when those institutions became fiercely challenged by market forces (most notably *endaka*, the skyrocketing appreciation of the yen) and political pressures (symbolized by the Structural Impediments Initiative launched by the United States). Specifically, I look at data on three nexuses of cooperation within the domestic political economy of Japan: ties between government and business; between otherwise independent firms (*keiretsu*); and between labor and management. Altogether, these nexuses form an integrated unit, something I call the “three-legged stool” of relationalism in Japan.<sup>32</sup>

The results, detailed in chapter four, confirm that Japan is indeed undergoing dramatic change, but indicate – contrary to conventional wisdom – that this change is distributional rather than structural in nature. While no one can deny that the Japanese state has moved to liberalize some markets, such as banking and insurance, that Japanese manufacturers have reorganized *keiretsu* networks, or that Japanese managers have reduced payroll expenses in many corporations, a closer look shows that network structures based on strong relational ties have been maintained and, in most cases, even strengthened in the process. What is new or different is that those network structures are narrower, accommodating fewer and fewer actors.

More specifically, in terms of government-business ties, the results show that efforts to liberalize markets have not reduced the regulatory reach of Japan's economic ministries, and – perhaps more importantly – that the practice of *amakudari* (“descent from heaven”), a practice by which bureaucrats retire into private sector posts, often at firms they used to regulate, has continued unabated. Regarding interfirm linkages, the data indicate that individual investors remain insignificant players in the Tokyo stock market, which is still dominated by institutional investors holding shares that reflect longstanding alliances with other firms. And they suggest that, while many of the smaller subcontractors in the automobile and electronics industries have fallen out of once pyramid-shaped supply groups, the larger subcontractors have forged tighter ties than ever with parent firms. Finally, with respect to labor-management cooperation,

comparative data indicate that large Japanese manufacturing firms continue to provide relatively long-term employment – at least for their core employees.

The second hypothesis actually consists of three parts. I test the first part (on the distinctively relational character of Japanese regionalization) by considering various data, including statistical surveys, that compare Japanese versus non-Japanese corporate practices (in trade, such as procurements and sales, and in internal relations between parent and affiliate) in Asia, as well as interviews and case studies that explore Japanese government and business activities in the region.

I test the second part (on the positional power of Japanese elites in Asia) by examining data on the extent to which Asian actors in regional exchange networks depend on their Japanese counterparts for access to resources -- such as capital, technology, policy advice, and so on -- embedded in those networks. These data show rather plainly that Japanese elites have managed to assume pivotal roles as advisors, capital and technology providers, and deal-makers in the increasingly integrated regional economy of Asia; in this way, they have managed to acquire positional power.<sup>33</sup>

The third part of this hypothesis is rather tricky because it assumes a counter-factual (that Japan would have undergone structural change in the absence of regionalization). I try to overcome this by examining data on the same three networks of cooperation considered earlier. For example, I examine the number of government officials dispatched as “experts” to host economies in the region, as well as the amount

of Japanese government financing to underwrite Japanese private investment in Asia. I conduct a regression analysis to determine whether Japanese automobile assemblers are replicating their core supply networks as they invest more heavily in Asia. And I explore data on white collar employees dispatched to overseas affiliates in Asia via *shukkô* (or “seconding”). These results are provided in chapter five. In highlighted fashion, however, I can note here that they suggest the following about our three nexuses of cooperation:

- **government-business ties.** Japan's economic ministries are increasingly active at home and in Asia at promoting and guiding the process of regionalization. MOF and MITI-affiliated banks, which had been targeted for closure or merger only a few years earlier, now are making record loans to firms looking to expand into Asia.
- **business-business ties.** Japanese machine manufacturers in Asia have encouraged their favorite suppliers in Japan to follow them into the region and continue supplying them from parts manufacturing bases in host countries in the region.
- **labor-management ties.** Japanese manufacturing affiliates in Asia are serving as “buffers” to help their parent firms in Japan cope with bloated internal labor markets. Affiliates soak up a small but increasing share of the parents’ excess white-collar labor.

I test the third hypothesis via structured interviews with Japanese political and business elites. The results are presented in chapter five, but do suggest that those elites are anxious to hold onto their positional power in critical networks of cooperation. They view regionalization as a source of breathing room for the embattled, encrusted networks in which they occupy central positions.

One should be careful not to overstate one's case; the argument here is not that regionalization is the one and only factor allowing Japanese elites to forestall if not avoid structural change at home. Resourceful government officials and business executives always can find other means. For example, managers in large corporations with low rates of job turnover have sought to protect their core, embedded staff by using more and more part-time workers; the use of part-time employment outside of agriculture skyrocketed from 11 percent to 20 percent of Japan's total workforce from 1987 to 1996. Regionalization, like the use of part-time workers, is simply another, but increasingly important, means of preserving the institution of long-term employment for core employees.

What are the implications of these results? I discuss them in detail in chapter six. By protecting relationalism, Japan's economic and political elites are able to hang onto their positional power for a little longer. This means that, in the short run, they win. Others, however, including consumers, many small and medium-sized firms, and the workers in those firms, lose. With the regionalization of Japanese production and administrative networks, Japan's dual economy becomes even more polarized, with a

regionally organized and (for the moment) globally competitive system at one end and a nationally organized, increasingly uncompetitive system at the other. The wage gap between workers in the largest and smallest firms widens. And at the same time, the biggest, most specialized suppliers tend to deepen their ties with their parents/primary customers as they expand into Asia, while small suppliers are left behind to go into other lines of business or go bankrupt.

So what is wrong with that? Standing at a safe distance, a neoclassical economist might call that “structural adjustment,” a reallocation of resources from declining to rising sectors. The problem is that the Japanese economy is not in fact undergoing any such adjustment. Small-scale, risk-taking entrepreneurs remain, for the most part, outsiders in a system of selective relationalism; that is, they are seriously handicapped by a plethora of government regulations, strong and exclusionary business ties, an inflexible labor market, and a shortage of venture capital. In fact, independent firms, a vital source of innovation in most developed (or “mature”) markets, emerge on the scene far less frequently than they used to. In the period from 1965-1984, nearly 20 percent of all start-ups were entirely unaffiliated with a parent company; in the period from 1991 to 1995, fewer than 10 percent were.<sup>34</sup> And in the 1990s, the birth rate for small and medium-sized enterprises (SMEs) fell below the death rate for the time since World War II.<sup>35</sup>

One could argue, of course, that these grim statistics merely reflect the crushing weight of the post-bubble recession. But such an assertion ignores the fact, highlighted



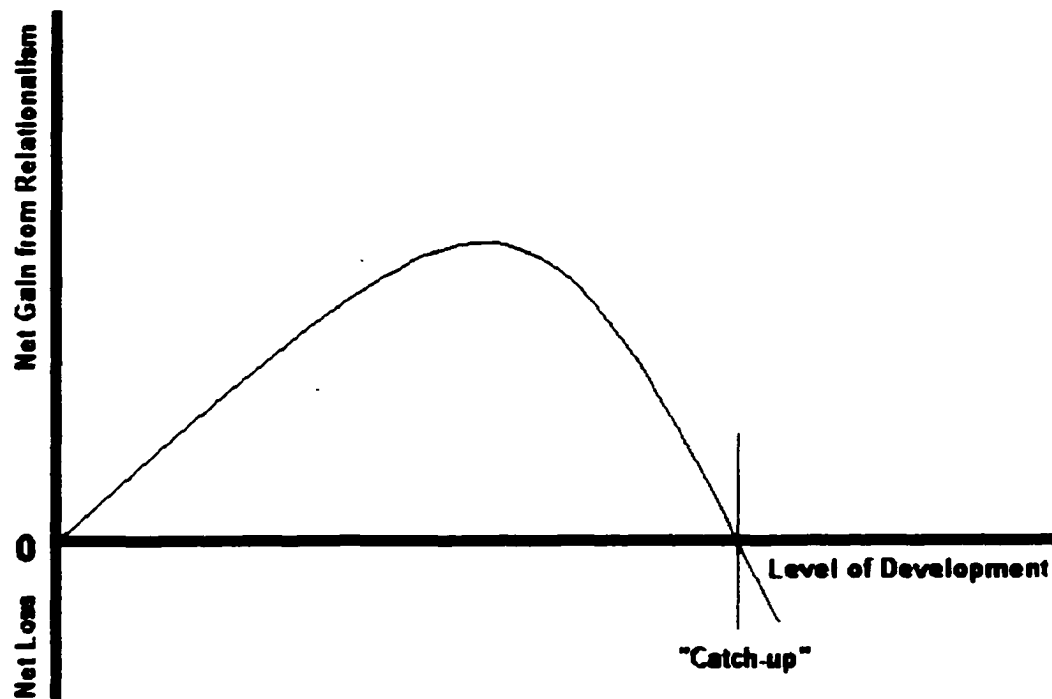
earlier, that relationalism itself has been the underlying cause of Japan's economic woes.

Meanwhile, the net costs of maintaining such an antiquated system of political economy continue to mount. In the long run, elite insiders can preserve relationalism, and thus hang onto their positional power, only at the expense of the Japanese economy – and, indirectly, themselves. It is true that they bought themselves time by regionalizing this system; it is just as true, though, that they have weakened the economy further in the process. Ultimately, badly needed reforms will have to be made.

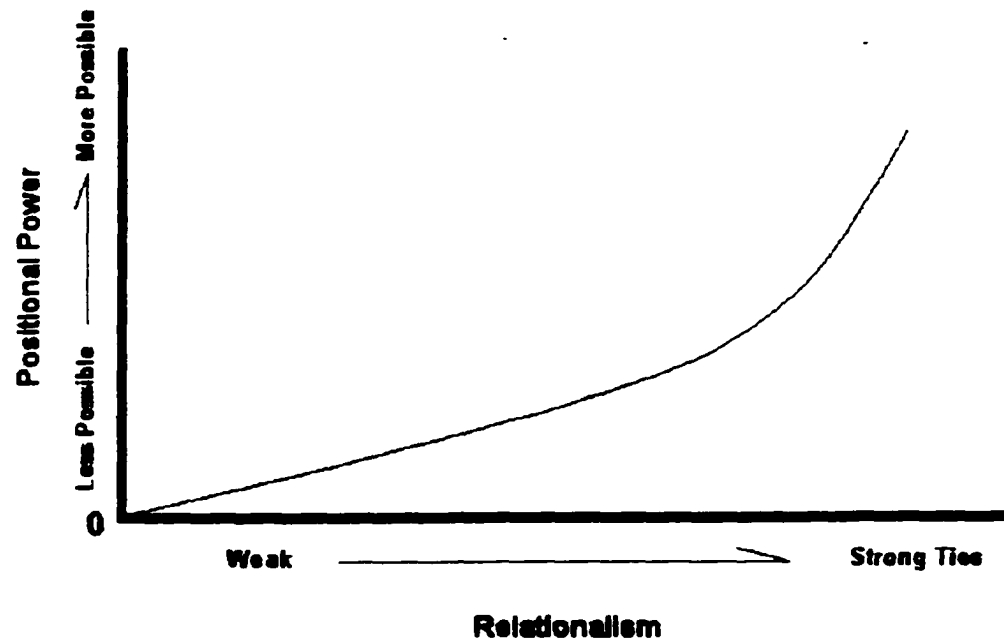
What, though, does relationalism yield elsewhere in Asia, in the developing countries receiving Japanese capital and technology? I briefly address that question in the concluding chapter (seven). Evidence suggests that Japanese dominated production and administrative networks have provided invaluable public goods (linkages), allowing those political economies to overcome some of the early obstacles to development. This appears to have come, however, at the cost of long-run technological dependency. Because regionalized embeddedness forestalls change that would allow Japan to pursue cutting-edge technological development at home, this process might also lower the development trajectories of excessively dependent political economies in Asia. Before reaching such a sweeping conclusion, however, we must await further research, especially comparative research on Southeast Asia (where Japanese multinationals dominate), Central America (where American MNCs “rule”), and Eastern Europe (where Germany firms are the biggest players).

In that concluding chapter, I also try to lay the groundwork for further comparative research on the “feedback” effects of regionalization. If my model is able to travel, it should, for example, be able to highlight possible causal linkages between German FDI in Europe and continuity (or change, depending on the original conditions) in domestic German institutions such as “co-determination.”

But the immediate task ahead, a far less ambitious one, is to examine the political economy of Japan in the 1970s and 1980s, before it was hit by the gale winds of globalization. I turn to that task now.



**Figure 1.1**  
**The Net Effect of Relationalism: A Function of**  
**Technological Development**



**Figure 1.2**  
**The Correlation Between**  
**Relationalism and Positional Power**

## Notes to Chapter One

<sup>1</sup> Unless identified otherwise, "Asia" means China, the four Asian Newly Industrializing Economies, or NIEs (Hong Kong, Singapore, South Korea, Taiwan), and the four core members of the Association of Southeast Asian Nations, or ASEAN (Thailand, Malaysia, Indonesia, and the Philippines).

<sup>2</sup> As always, Ohmae (pp. x-xi) is the most quotable. Globalization, he writes, is a powerful force for convergence that "has swallowed most consumers and corporations, made traditional national borders almost disappear, and pushed bureaucrats, politicians, and the military toward the status of declining industries."

<sup>3</sup> Eckstein (1975) would thus call this a "critical case."

<sup>4</sup> See Field and Higley (1980) or, for a more rigorous and technical definition, see Laumann and Knoke (1986). Sonoda (1999) applies a definition of this kind to the Japanese case.

<sup>5</sup> I have been influenced here by Hirst and Thompson (1996) and Weiss (1998), who have critiqued the more ambitious view that distinguishes globalism from internationalism and that predicts, in sometimes apocalyptic language, a coming convergence.

<sup>6</sup> Data come from Bank of International Settlements.

<sup>7</sup> In defense of its decision to reject Turkey's 1989 application to join the EU, the Council of Ministers cited that country's weak record on human rights.

<sup>8</sup> Milner (1988) argues eloquently that multinational enterprises, in general, generate pressure for liberal reform of the domestic economy in which they maintain their headquarters. But she ignores the institutional structure in which those MNEs act.

<sup>9</sup> Convergence here means much more than the coordination of macroeconomic policies, and thus an end to state autonomy in policy-making. It also means the harmonization or unification of otherwise divergent institutions (policies and practices) from one political economy to the next. For more on this issue, see Berger and Dore (1996).

<sup>10</sup> The most useful "primer" on network analysis is probably Knoke (1990). For those seeking a more technical discussion on the mapping of networks, please note his appendix (pp. 235-240).

<sup>11</sup> Kumon (1982) uses a Japanese term, "aidagara-shugi," which he translates as "contextualism," to mean something quite similar. I discuss Kumon's work further in chapter two.

<sup>12</sup> Scholars now use this term more often to explain why institutions tend to vary from one setting to the next. Hollingsworth and Boyer (1997), for example, suggest that institutions are embedded in different "social systems of production."

<sup>13</sup> Although heavily influenced by the "substantivist" (Polanyi 1944) and "moral economy" (Thompson 1971) schools of economic history, Granovetter distinguishes himself from them in this manner. That is, he does not envision a radical break between the level of embeddedness in premarket economies and modern, market economies.

<sup>14</sup> The distinction here between "thin" and "thick" relationalism has an interesting parallel in the distinction made by some rational choice theorists between "thin" and "thick" rationality. The latter is rationality embedded in social norms and values. See, for example, Ferejohn (1991).

<sup>15</sup> These findings from Mitsubishi Research Institute ("Purchasing Behavior of Major Producers of Finished Products in Japan, the United States, and Europe") are reported in Tsuru (1995: 68-70.)

<sup>16</sup> It is, I concede, far more difficult to quantitatively measure relationalism along the state-industry nexus. But qualitative studies invariably show that Japan scores "high" on this indicator as well.

<sup>17</sup> The concept was developed first by Coleman (1988).

<sup>18</sup> To his credit, Putnam (1993) does try to tackle this question. His answer, however, only pushes the question back in time. All the way back, in fact, to the 12th century, when the division he finds between northern and southern Italy was still evident.

<sup>19</sup> This begs a further question, which will not be pursued in detail here. That is, why do elites choose to invest in social capital in the first place? One suspects they do so in response to an exogenous shock, such as a domestic or international crisis that threatens to erode the central positions they occupy in exchange networks.

<sup>20</sup> Aoki, Murdoch, and Okuno-Fujiwara (1996: 9) make a similar point when they assert that “the government’s role is to facilitate the development of private sector institutions that can overcome these (market) failures.”

<sup>21</sup> This remains largely true despite valiant efforts by “new growth theorists” such as Romer (1986) and Lucas (1988). New growth theory has sought to endogenize the variable of technological change. Unfortunately, however, this approach is still not very useful in that it is highly abstract and comes with a number of strong assumptions designed to improve its mathematical tractability.

<sup>22</sup> In neoclassical economic theory, the market autonomously and automatically reallocates surplus factors of production to their highest and best use. In reality, though, physical and human capital represent sunk costs that are not so easily reallocated.

<sup>23</sup> Western economists have ridiculed the concept of “excess competition,” an oxymoron in neoclassic theory. They are certainly correct that, for a fully developed economy, competition nearly always yields social benefits by reallocating resources to their most efficient use. However, they often do not seem to appreciate the fact that, for a developing economy in which firms are able to achieving declining LRAC by adopting successively more sophisticated technology, this “investment race” or “excess competition” may indeed generate net costs.

<sup>24</sup> State-industry cooperation, as neoclassical economists note correctly, often leads to rent-seeking activities. But this is not a pre-determined outcome; when state officials are motivated by a sense of national urgency or crisis, they are likely to refrain from paying rents.

<sup>25</sup> Silicon Valley is quite different – at least according to Saxenian (1994) and Micklethwait (1997). The subregion is organized around horizontal exchange networks that are decentralized, outward-looking, and highly fluid. Thus, it was able to quickly re-tool during the economic slowdown of the early 1980s.

<sup>26</sup> This simple insight is the basis for important work done by neo-institutional economists on problems such as “adverse selection.” See, for example, Akerlof (1970).

<sup>27</sup> Hirschman (1970) counters that actors dissatisfied with market conditions almost always have two choices: They can “exit” (take their business elsewhere) or they can exercise “voice” (seek redress in the political arena). But under both of the scenarios above, the “exit” option is unavailable. There is no “there” to exit to. And what about “voice?” Hirschman himself (on p. 40) concedes that “voice” is a costly option, and that it relies on a given level of bargaining power. But it also relies on a given level of knowledge, which is exactly what B and C – under both scenarios – do not have access to.

<sup>28</sup> For an insightful discussion of the problems with both neorealist and structuralist conceptions of power, see Guzzini (1993).

<sup>29</sup> One could, I am sure, argue that this represents case “selection bias.” After all, Japan’s tertiary sector – particularly financial services – has undergone dramatic change as a result of liberalization. But this assertion, itself quite arguable, may signify nothing more than just how woefully troubled and inefficient – compared to manufacturing – Japan’s service sector has been. Without sweeping change, the financial services industry, for example, probably would have become either completely protected by the government, or it would have been overtaken in the global marketplace.

<sup>30</sup> *Daily Yomiuri*, “Japan Sees Priorities Changing Amid Conflict Between Regionalism, Globalism,” May 20, 1997.

---

<sup>31</sup> Rational choice advocates might counter that their approach can accommodate this analysis, asserting, for example, that Japanese elites – as self-interested actors – act to maximize power, not economic well-being. One can certainly accept this assumption in the case of bureaucratic elites, whose utility must have something to do with expanded turf or jurisdiction, but not in the case of private sector managers, whose utility must have something to do with the economic performance of the firm (even if performance is measured in terms of market share rather than profits). If an actor's utility can be defined in an entirely *post hoc* fashion, then the rational choice model becomes so plastic, so inclusive that it can explain everything – and nothing.

<sup>32</sup> One reader asks whether I have biased my case study by failing to consider other forms of cooperation that have undergone more significant change. Specifically, he suggests a possible “Japanese-Japanese” national tie that might reveal the increasing presence of once-excluded foreigners in the political economy of Japan. I do not consider such a tie because it does not fit into any network configuration (the actors here are linked by nationality, not by an opportunity or exchange relationship). For what it is worth, though, one could possibly measure variation in the presence of foreigners in the Japanese political economy by using data on inward foreign direct investment. These data show a rising level of inward FDI into Japan, particularly in sectors such as financial services. But it remains a tiny fraction of the level of outward FDI from Japan. I discuss this again in chapter six.

<sup>33</sup> We can measure the positional power of Japanese elites in Asia by evaluating how much other members of the emerging regional network structure actually depend on them. Specifically, we ask how much others in the region turn to those elites for access to critically important network resources such as capital and technology, distribution outlets, parts inputs, and policy advice.

<sup>34</sup> SME Agency (1997: 320).

<sup>35</sup> SME Agency (1997: 309).

## **Chapter Two**

# **The Political Economy of Japan**



The Japanese political economy of the 1950s and 1960s, characterized by such heretical institutions as industrial policy, performed magnificently – a fact that has raised serious questions about the laissez-faire prescriptions of neoclassical economic theory. By the same token, the Japanese economy of the 1990s, characterized by the same illiberal set of institutions, performed miserably – a fact that has undermined the so-called revisionist analysis that led to calls for state activism. Japan, it seems, is sending us all back to the drawing board, one more time.

This chapter has three goals. First, using a consistent theoretical model, it tries to explain why Japan's system of relational capitalism fared so well in the early postwar period only to fare so poorly at the end of the 20th century. Second, it attempts to demonstrate both how elite interests derive power from this system's architecture, and why they might therefore endeavor to breathe new life into it, even as this outmoded system of exchange slowly undermines their economic welfare. Third, this chapter strives to establish a baseline against which to measure (in chapter four) the extent of change or continuity in the Japanese political economy.

As noted in chapter one, political economies are products of contested politics, not manifestations of ontological coding or "pure" reflections of cultural identity. As a result, they are never completely static, even though they may enjoy periods of remarkable stability. The Japanese political economy, which evolved over time to

assume its current form, is no exception. Still, we ought to be able to determine when, if only approximately, it began to assume its current shape as a complex of institutions; when, that is, we first saw even the blurry outline of this distinctive form of capitalism.<sup>1</sup> A handful of scholars, including Harada (1998) and Tabata (1987), say the current system did not emerge until the mid-1970s, when Japan was trying to regain economic stability after it was rocked by the first oil crisis. Others, such as Pempel (1998) and Hashimoto (1996), trace its origins back to the early postwar period, when Japanese bureaucrats mobilized a nation to rebuild its devastated economy and catch up with the West.<sup>2</sup> Still others, such as Noguchi (1995) and Dower (1990), point to the wartime planned economy of the 1940s. Finally, some like Baba (1986) and Dore (1973) go back even further to the interwar period, particularly the 1920s, to find the roots of Japan's contemporary capitalist order, often referred to as "companyism."

This disagreement over historical origins flows from a more fundamental disagreement over how to characterize the Japanese political economy. Which institution or institutions serve as its locomotive? One is reminded of the six blind men who touch different parts of an elephant -- the legs, tail, trunk, ears, belly, tusk -- and then attempt to define its essence. Here, too, some scholars emphasize bureaucratic guidance of industry; others focus on informal business linkages (especially *keiretsu*); still others point to cooperative labor-management relations. This debate, however, turns out to be just as superficial as the one over history. When one digs a bit deeper,

one finds the same socio-political dynamic -- selective relationalism -- driving all of these institutions, and in turn driving the Japanese political economy.

In chapter one, I suggested that Japan was a “thickly relational” political economy because long-term reciprocal ties, or networks of affiliation, exert inordinate influence over the terms of political and economic exchange. This is not an altogether new concept. Gerlach (1992), as well as Imai and Kaneko (1988), have written about the Japanese economic system as a “network,” while Okimoto (1989) uses the same modifier to describe the Japanese state. All of these authors are referring to cooperative sinews that entangle major actors in the fate of the other.

This does *not* mean, however, that Japanese society is broadly “group-oriented,” or marked by high levels of social capital, civic participation, and undifferentiated trust. Indeed, Yamagishi (1989 and 1999) describes Japan as a society in which “reassurance,” maintained through participation in longstanding relational networks, substitutes for “trust,” a more diffuse quality that transcends particularistic relationships. Cross-national surveys bear him out. Nishihara, for example, found that Japanese were far less likely than their counterparts in the United States, Europe, and South Korea to offer help to someone at a loss on the street (please see Table 2.1), and have less trust in loosely defined institutions such as “labor unions,” “the legislative branch of government,” “business enterprises,” and “religion” (see Table 2.2).

How can Japan's political economy be characterized by "networks of affiliation" while its social system is apparently plagued by general (or diffuse) suspicion and mistrust? This riddle is answered in part by those sociologists who emphasize the highly localized, particularistic context in which exchange occurs in Japan. Kumon (1982), for example, argues that contemporary Japanese tend to behave neither as individualists nor collectivists (individualists who have submerged their individual selves into a collective self), but as "contextualists" who define themselves according to the particular context, or relational setting, in which they find themselves at any particular time.<sup>3</sup>

A contextual, when separated from or not in a context, is like an amoeba and has no definite shape because he does not possess a hard "shell." However, once he joins a certain context and occupies a specific *bun* ["part"], his shape is determined. He then becomes himself, or in Japanese, he becomes *jibun*, which literally means "my share" (pp.19-20).

Kumon relies heavily on Hamaguchi (1977), who used the concept of "relationalism" (*kanjinshugi*) to mean much the same as Kumon's "contextualism." Likewise, Rohlen

(1989) describes Japanese society as a set of overlapping “patterns of connectedness” that do not rely on a legally sanctioned and abstractly acknowledged center.<sup>4</sup>

While this sociological/anthropological model illuminates the paradoxical nature of relationalism in Japan (which is simultaneously inclusionary and exclusionary), it also obscures the political forces that created it and that have since maintained it. It is quite correct to assert that the web-like political economy of Japan lacks a “center,” a unitary power that oversees the entire grid, but it is quite inaccurate to say that it also lacks a “spider” (or, more properly, “spiders),”<sup>5</sup> or a *raison d’être*, or purpose. Japanese manufacturing interests initially spun these ties to help them adopt technology from the global reservoir of developed know-how and, consequently, allow them to keep expanding output. As the web expanded over time, however, this goal became subordinate to the broader objective of preserving network ties from which “nodal” members derived positional power and thus access to valuable resources, such as information. Centrally positioned actors have thus continued to invest in network ties they dominate.

Although he utilizes an institutionalist model, not a structuralist model, Vogel (1999a: 30) hints at this same objective of maintaining positional power when he attempts to explain why potential agents of economic reform in Japan have been slow to embrace the Anglo-American model of laissez-faire capitalism -- even slower than state officials, business executives, and labor leaders in Germany, the other leading

example of an alternative model of capitalism, which he calls the “organized market economy.” Japanese firms, he notes, “are linked to banks, other firms, and government agencies in even denser networks of inter-relationships than their German counterparts, making them more reluctant to undermine these ties or to support reforms that might jeopardize them.”

### **Three-legged Stool**

Relationalism in Japan today sits on a three-legged stool of cooperation between elite actors: manufacturers and bureaucrats; legally independent firms (in particular, assemblers and suppliers); management and labor.<sup>6</sup> Each leg of the stool is critical in supporting the whole. Business interests cooperate with the state, allowing centrally positioned firms to forge long-term ties with others, which in turn allows management inside those larger firms to collaborate more closely with their workers. The result is a complex, politically constructed system that is biased in favor of producers seeking to expand market share, and that looks in some respects like what Dore (1986: 77) refers to as “relational contracting.”

The interests of elite actors converge on the most fundamental, salient issues of economic growth and economic security, creating a centralized or corporatist political structure. Labor policy includes a number of such issues -- from collective bargaining rights to labor standards. Kume (1998: 37) refers to a cross-class “accommodationist

alliance” on labor policy that encompasses conservative but conciliatory representatives of the state and the business community, as well as private sector union representatives who shun left-wing ideology. This is buttressed by the findings from a comparative study of labor policy networks in Japan, Germany, and the United States. Knoke et al (1996: 219) report that “peak” organizations representing the most powerful government, business, and union interests form a unified “center” in Japan, and that “all other positions revolve around this single center of gravity.” The authors find less compact networks of elite interaction in Germany and the U.S.

On many other issues, however, Japan’s three-legged stool of relationalism does not represent a broad, corporatist platform that encompasses all elite interests at all times. In other words, it often looks quite unlike the mythical, unitary actor caricatured in the phrase “Japan Inc.” In those instances, it looks much more like a bundle of relatively narrow, segmented networks that overlap from time to time. Such a compartmentalized but overlapping structure or *tatewari gyōsei* (vertical administration) exists inside the Japanese bureaucracy, where -- as Muramatsu (1981: 96) noted -- “each ministry and agency has different interests, and each takes a stand on the battlefield of political competition.” Indeed, it even exists within the Liberal Democratic Party, where policy “tribes” (*zoku*) in the Diet jostle with one another to bring home the bacon for their particular “clients,” whether they be general contractors or doctors. In all cases, however, the cohesiveness of these networks of economic and

political exchange is maintained by limiting access to selected “insiders” and thereby hoarding relational resources, particularly information.

Although inchoate patterns of relationalism did surface during prewar and wartime years, especially within innovating and expanding manufacturing firms hoping to protect their investments in human capital, the system as a whole did not actually begin to take shape until the early postwar period. It developed incrementally, in a series of accretions, over the two and a half decades from 1947 to 1973.

U.S. Occupation policy, which veered sharply from “reform” to “reconstruction” in the late 1940s, served as the lathe that turned the first leg of the stool: government-business cooperation. In its quest to democratize and pacify Japan, the U.S. government undermined most elements of the old, prewar regime -- the military, landholding elites, the family-owned *zaibatsu* (financial cliques) -- sparing only the civil bureaucracy and, of course, the emperor. Then, in its subsequent effort to rebuild Japan as a “bulwark against communism,” the U.S. pushed Japanese bureaucrats to collaborate with their counterparts in big business. Pempel (1998: 103) notes how American authorities in Tokyo, under the direction of the Supreme Commander of the Allied Powers (SCAP, embodied in the person of Gen. Douglas MacArthur), promoted “fusion” among economic bureaucrats and business executives. For bureaucrats, cooperation with business became increasingly necessary because the U.S. Occupation’s economic austerity program (the Dodge Line) had reduced the size



of government, leaving them dependent on front-line actors for information about factor and product markets that could be used to kick-start a stalled economy.<sup>7</sup> For business executives, cooperation with the bureaucracy was vitally important because, crippled by the war, they required help in securing resources such as capital and technology, and in repelling rival imports. The result of this interdependence was a form of government-industry collaboration that Samuels (1987) aptly calls “reciprocal consent.”

In the 1960s, an increasingly liberal trade regime began to impinge on Japan’s protectionist policies. Under article 8 of the International Monetary Fund and article 11 of the General Agreement on Tariffs and Trade, member countries -- including Japan -- relinquished the use of quantitative import restrictions to improve their Balance of Payments. It was the threat posed by this earlier incarnation of globalization that pulled so many Japanese firms together in horizontal and vertical networks and thereby created the second leg of this three-legged stool (Aoki 1987). But the government was not an insignificant player in this process. Indeed, the Ministry of International Trade and Industry (MITI) then faced pressure to reduce tariffs that had protected domestic markets from foreign imports and the Ministry of Finance (MOF) faced pressure to reduce capital restrictions that had shielded domestic industries from inward foreign direct investment. In response, these agencies actively encouraged major firms to cement existing interfirm ties through intensified cross-shareholding,

personnel and technology exchange, and other forms of “hostage-taking” (Vestal 1993: 53). In the automobile industry, for example, Tate (1995: 55) notes that MITI “made extensive efforts to encourage rationalization of automobile suppliers that supported the formation of vertical *keiretsu*.”

These efforts were referred to unabashedly as “liberalization countermeasures” (Katz 1998: 158). But while they functioned as private barriers to foreign goods, services, and capital, they also served to insulate members of newly emerging relational networks from domestic “outsiders” in the Japanese political economy. For example, MOF set up quasi-governmental organizations such as the Japan Joint Securities Corporation and the Japan Securities Holding Association, which bought publicly traded shares and resold them to “stable” shareholders. And MITI revised the Japanese commercial code to make it easier for firms to “stabilize” holdings of their stock by a) raising capital through private, undisclosed sales of equity, often at bargain prices, to selected individuals or firms, including trusted suppliers and distributors; and b) limiting stock purchases to preferred insiders. Electronic and automobile manufacturers, just beginning to enjoy a boom in the 1960s, were heavily represented among firms capitalizing on this new opportunity. Toyota, for example, changed its articles of incorporation to limit shareholding to Japanese nationals and legal persons (Suzuki 1977).

Following the extraordinarily bitter labor strife of the early postwar years, Japanese employers, particularly large, export-oriented firms, tried desperately to isolate radical, industry-level unions and nurture moderate, enterprise unions. But it was not until the 1970s that they managed to achieve a general understanding or implicit contract that swapped employment security for wage restraint.<sup>8</sup> As Hiwatari (1996) demonstrates, this was possible with the help of state intervention in the market and the expansion of interfirm ties, especially vertical *keiretsu* ties between assemblers and their parts suppliers. The former spurred the creation of oligopolistic industries that could control wage competition, while the latter allowed employers to protect “core” employees by transferring older or surplus workers to subcontractors. With the consolidation of this system of enterprise unionism, a system of stable wages and long-term employment, the third leg of relationalism was finally attached.

Having laid out a chronology of the evolution of selective relationalism in Japan, it may be useful here to examine more closely the specific institutions that make up these three distinct but occasionally overlapping networks of cooperation.

### **State-industry Cooperation**

In his seminal work, Johnson (1982) repudiated the prevailing neoclassical view that Japan had grown up to become an Asian version of the United States with a pluralist polity that would make John Dewey smile and a free market system that

followed price signals.<sup>9</sup> No, he argued, Japan was ruled by its elite, “plan-rational” bureaucracy, particularly MITI, which enjoyed autonomy from society and non-state actors. While Johnson exposed the shortcomings of the prevailing wisdom, his “corrective” also missed the mark -- particularly in the era of slower growth and creeping globalization/liberalization in which he wrote. In the 1970s and 80s, when depressed industries were particularly vocal and industrial policy tools were suddenly blunt, MITI did indeed try to coordinate the interests of industries and firms -- but largely at the behest of the “coordinated” interests.<sup>10</sup> Even earlier, in the 1950s and 60s, when the interests of state and capital more neatly converged, one must ask: “Who co-opted whom?”<sup>11</sup>

The answer is not clear, but much of the current literature suggests that the Japanese state was never as autonomous as Johnson asserted.<sup>12</sup> Okuno-Fujiwara (1997: 396-7), for example, refers to Japan’s as a “relation-based” government that engages routinely in efficiency enhancing, *ex-post* bargaining with business interests (i.e., bargaining that takes place after formal rules have been established). This is possible, he writes, because bargaining is iterative (repeated constantly over a long term) and is carried out by familiar “insiders” with sufficient resources to make side payments to concerned but marginalized actors (“outsiders”) who otherwise might try to sabotage agreements. These insiders often are representatives of “lower” levels of government (for example, officials in sections or bureaus that oversee specific

industries or even sectors) and representatives of “peak” organizations (such as trade associations) that can aggregate the competing interests of different firms.

It is true, of course, that government heavily regulates business in Japan -- so heavily, in fact, that input costs now greatly exceed costs in other industrialized economies. MITI (1995a: 140) estimated that Japanese prices for inputs (raw materials, parts, and capital goods) were, on average, 30 percent higher than in the U.S., 19 percent higher than in Germany, and 46 percent higher than in South Korea. The gap in prices for services, which in Japan is regulated even more doggedly than manufacturing, was found to be even wider (51 percent, 96 percent, and 475 percent relative to the U.S., Germany, and South Korea, respectively).<sup>13</sup>

But what really distinguishes the relationship between government and business in Japan is not the heavy load of formal rules that the public sector imposes on the private sector. Most other industrialized nations, even those imposing less onerous regulations, have larger bureaucracies.<sup>14</sup> Rather, what distinguishes Japan is the informal and iterative bargaining between state and industry, or what respected Japanese economist Iwata Kazumasa calls “participatory interaction.”<sup>15</sup> In other words, representatives of these two interests engage in an unusual amount of mutual consultation.<sup>16</sup> Moreover, they rarely allow “outsiders” (such as consumers) to participate. A survey by the Management and Coordination Agency confirms the exclusionary nature of this bargaining process: The government introduced, revised, or

abolished 10,000 regulations between April 1986 and July 1998, but issued a public notice before acting in only 100 of those cases, and considered public comment in only 16 cases.<sup>17</sup>

In his study of the regulation of private utilities, Kishii (1999: 56) provides an example of this sort of exclusionary consultation, which he argues is “peculiar” to Japan and which, as he puts it, ultimately can “fuse the interests of the regulator and the regulated.”

**Bargaining is not held between an individual utility operator and a government office, but collectively between a trade association or a group of utility operators and a government office. Direct involvement in the bargaining process by representatives of consumers, the ultimate beneficiaries, only seldom occurs; from the outset, information about the process, let alone effective participation in it, is off-limits for consumers and the general public. Thus, the bargaining is done almost invariably behind closed doors, involving only the existing utility operators, or their trade associations, and government offices.**

**This mutual but exclusionary consultation is carried out through a host of institutions -- all of which represent credible commitments designed to manage the**

inevitable conflicts that plague government and business. One of the most important of these consultative institutions is “administrative guidance” (*gyōsei shidō*), a highly informal, flexible system of bureaucratic rule-making and enforcement. Some view it as an example of unbridled state authority; indeed, the economic ministries (particularly MITI and MOF) enjoy broad, discretionary powers under the so-called “establishment laws” that created them.<sup>18</sup> But administrative guidance does not -- in spite of its name - - allow bureaucrats to unilaterally control the bargaining process. Indeed, business interests appear to prefer such informal regulation because of the greater opportunity to negotiate and renegotiate outcomes.<sup>19</sup> But the system would not work so effectively, so flexibly, were it not for the fact that outsiders are kept on the outside. Upham (1987: 202) makes this point bluntly: The relationship of mutual trust between “guiding” bureaucrats and “guided” firms “is maintainable only because of the closed, informal nature of the industrial policy process whereby interim decisions are rarely challenged publicly and are frequently unknown outside the industrial policy community until they have become a *fait accompli*.” Likewise, Young (1984: 947-9) refers to a process that systematically excludes outsiders -- the inevitable flip side of a process that binds participants together via reciprocal ties.

State-industry ties are reinforced by the practice of *amakudari*, literally “descent from heaven,” in which bureaucrats retire into management positions in the private sector, and often at firms they used to regulate. This reflects neither state

domination of industry, nor the reverse, but rather a system of hostage-taking and embedded information exchange that benefits both parties.<sup>20</sup> The state can utilize retired employees who have “descended” into the private sector (including the rapidly expanding not-for-profit sector) as conduits for information about rules and regulations. From the other side of the network, firms can deploy them as well-connected lobbyists for whatever cause they are promoting.

These ties are also reinforced by the routine installation of *shingikai* (deliberation councils), in which affected parties negotiate over policies proposed by bureaucrats. As Schwartz (1998) has shown, *shingikai* serve to mediate conflicts or coordinate competing interests in Japanese society, particularly those between bureaucrats and industry. In this way, as Abe (1978: 8) notes, they reflect the weakness of Japan’s legislative process.

In regimes marked by a representative government, the legislative branch has traditionally assumed responsibility for managing conflicts among different interests and promoting political integration. But with the bureaucratization of the state, this function of political integration has often come to be played by the administrative branch. One problem for bureaucrats is the lack of a proper mechanism to perform those functions otherwise performed by means of the legislative branch,



including the collection of information necessary for coordinating various interests in society. As the Japanese state has become bureaucratized, *shingikai* have proved useful by performing this coordination function.

Bureaucrats staffing *shingikai* not only provide the informational grist for the deliberation mill, they also hand-pick members. Widely divergent or strident views are unwelcome (Harari 1986: 32). In the past, *shingikai* considering economic policy consisted almost exclusively of industry and government officials, particularly bureaucratic OBs (“old boys” from a certain ministry or agency), but now typically include representatives from labor, academia, and the media as well. These “outsiders” bestow legitimacy -- a cover, according to Kusano (1995) -- on a relatively closed system of bargaining without, in most cases, ever really challenging its system of fundamental operating principles. As experts in the particular policy arena being discussed, these “outsiders” tend to be closely aligned with the “insiders” from business and government. In fact, they are sometimes referred to as “*zoku* scholars” or academics who belong to a particular policy tribe.<sup>21</sup>

Sekimoto Tadahiro (1996: 104), the former chairman of NEC, has justified these relatively closed policy circles of the past, saying they should have been called “golden triangles” rather than “iron triangles” because they contributed greatly to

information exchange and thus economic development. At the same time, however, he has called for a new network of cooperative ties that reflects the make-up of many present-day *shingikai*. In place of the former “golden triangle,” he writes, Japanese policy should be constructed by what he calls a “neohexagon” that includes representatives from academia, labor, and the media -- in addition, of course, to those from industry, the bureaucracy, and the Diet. Sekimoto’s “neohexagon” model is clearly more inclusive than previous (neo-corporatist) models of interest mediation in Japan, but is powered by the same elitist philosophy that policy-making should be conducted within closed networks dominated by “experts.”

### **Business-business Cooperation**

Japanese firms compete aggressively -- but not always in terms of price, and not always as atomistic agents in the market. That is, business competition in Japan often revolves around non-price factors such as quality and service, and often occurs between affiliated blocks of firms rather than individual companies. Indeed, Japanese elites have been so skeptical about unbridled price competition that, as noted in chapter one, they invented a concept -- “excess competition” (*katô kyôsô*) -- that one would never find in a modern economics textbook in the United States or Europe. Morozumi (1966: 61) explains this seemingly radical concept: When firms compete so fiercely and

cut prices so low that one or more of them can no longer survive in a strategic industry, then “the losses to the national economy exceed the gains from that competition.”

The antidote for “excess competition” is, of course, cooperation, and Japanese firms cooperate with one another in a variety of ways. For example, erstwhile rivals in an industry characterized by overcapacity will often form a cartel to guard against lethal price-cutting. Firms in basic industries such as steel and petrochemicals, struggling to keep pace with lower cost competitors in less developed countries, routinely engage in such collusive behavior. And construction firms typically rig their bids on public contracts, using an informal practice of consultation (*dangō*) whereby they divide the market among themselves and exclude outsiders. These collusive structures overcome collective action problems in the market, but are nonetheless unstable because they present a classic Prisoners’ Dilemma; that is, members face powerful incentives to cheat. For this reason, the state plays a pivotal role as a third party guarantor over the tacit agreement to cooperate. Thus, to cite only one example, the Fair Trade Commission of Japan outlaws retail discounting that could, if continued for an extended period, harm competitors.<sup>22</sup>

Japanese firms with complementary assets are able to cooperate more freely through *keiretsu*, the controversial “lineage groups” that are largely misunderstood outside of Japan. Members of these groups are legally independent but bound together over time by a set of tangible and intangible commitments, which may include cross-

shareholding, interlocking directorates, and intra-group trade, as well as capital, technology and personnel transfers. *Keiretsu* do not operate within the framework of hierarchy directed by a central power (the “visible hand” of Alfred Chandler’s ideal bureaucratic organization), nor as autonomously self-regulating and impersonal units (the “invisible hand” of Adam Smith’s ideal market organization). Rather, they function as “hands interlocked in complex networks of formal and informal interfirm relationships” (Gerlach 1992: 3).

There are three different kinds of “lineage groups,” including the relatively famous (or even infamous) horizontal or intermarket *keiretsu*. Some of these horizontal *keiretsu* are offspring of the prewar *zaibatsu* that emerged in the late 19th and early 20th centuries to capitalize on new opportunities created by Japan’s massive campaign to industrialize and catch up with the West. After World War II, the U.S. occupation force in Japan dissolved the family-owned holding companies that controlled each group. But as soon as the occupiers left, the Japanese state encouraged the largest, most strategic members of these now disbanded groups to cluster again - this time around a city bank that would serve as a conduit for the allocation of cheap credit.<sup>23</sup> Four former *zaibatsu* groups -- Sumitomo, Mitsui, Mitsubishi, and Yasuda (now called Fuyo) -- recreated themselves as *keiretsu*, and two new groups -- Dai-Ichi Kangyo and Sanwa (all named after their main banks) -- eventually followed suit.<sup>24</sup>

Each group tries to maintain one and only one company in every sector of the Japanese economy -- a practice that has come to be called "*Wan Setto Shugi*" (One Settism). Thus, the Sumitomo Group has a major automaker (Tôyô Kôgyô, better known as Mazda), a major electronics firm (NEC), a major chemical manufacturer (Sumitomo Chemical), a major brewery (Asahi) and so on. In addition, each group has a General Trading Company (GTC) with its own worldwide network of branches and stations; it handles exports and imports, coordinates complex logistics, and serves as the international intelligence unit for the entire *keiretsu*. Finally, a large commercial bank (or "city bank") not only allocates capital to group members; it also performs an oversight or monitoring function that, for Western firms, is typically provided by a board of directors.<sup>25</sup> In the late 1970s, when Mazda's financial health was jeopardized by its ill-timed decision to produce gas-guzzling rotary engines, Sumitomo Bank grabbed control of the automaker. It used a combination of no-nonsense management and abundant group resources to rescue the firm.<sup>26</sup>

Cooperation in this kind of *keiretsu* is achieved through different means, including the president's club (*shachô-kai*) that meets each month to exchange information on employment, production and marketing issues. These meetings, according to Imai and Kaneko (1998: 40-41), serve to "reduce uncertainties, meet growing mutual demands and settle investment decisions."

Moreover, as a result of such information exchange, affiliated firms feel confident in making joint investments; investment decisions are made easier; and risks are reduced in an environment that calls for interdependent development. Because of potential competitive relations within the same group in the sector of the new venture, information exchange has an accelerating effect on investment decisions.

Nakatani (1984), and more recently Lincoln, Gerlach, and Ahmadjian (1996), have demonstrated empirically that horizontal *keiretsu* serve a useful purpose -- at least in the event that the economy is still developing or maturing. That is, they function as a kind of insurance mechanism, easing or distributing risks (and thus curtailing and reassigning profits) within the group. Tsuru (1995: 40), focusing on the main bank in the *keiretsu*, has identified an additional purpose for these groups: They encourage financial institutions to produce and use information about member firms/borrowers. "With a greater amount of lending, the advantage associated with information production becomes greater, and the cost of failing to produce information is also greater. This provides incentives for costly monitoring. Long-term and sustained business relationships are also likely to result because the production of information about companies by financial intermediaries becomes possible only under relationships of this kind."

A second form of “lineage group” -- vertical or supply *keiretsu* -- links the assemblers of machinery and the suppliers of parts. Of all the different patterns of business-business cooperation, this one receives the most attention in this thesis because it has played a critical role in shaping the political economy of Japan. Vertical *keiretsu* emerged in the 1960s as manufacturers hoping to reduce transaction costs began to rely more and more heavily on subcontractors for parts production.<sup>27</sup> Automakers and electrical appliance manufacturers, in particular, constructed and dominated their own supply clubs. Toyota was one of the first to do so. It built a massive pyramid, using a number of first tier subcontractors who called on a larger number of second tier subcontractors, who relied on an even larger number of third tier subcontractors, and so on. Nishiguchi and Beaudet (1999) have documented the solidarity of Toyota’s supply club. In 1997, when a fire destroyed production capacity at Aishin, a major producer of brake parts, other Toyota suppliers came to the automaker’s defense. They used Aishin’s drawings and, within days, came up with suitable brake parts for Toyota.

To be sure, resources flow in both directions inside a vertical *keiretsu*. In most instances, parent firms -- the assemblers -- provide their trusted suppliers with capital and technology, as well as a relatively stable market. In exchange, they receive high-quality parts “just in time” through the so-called *kanban* system. Kodama (1991; 144-6, and 151-2) has called this a “national system of demand articulation,” a system of

linkages that allows for the rapid integration of market requirements into a product concept and the equally rapid decomposition of that concept into development projects. It is an interactive system that relies on instantaneous feedback and results in shorter production cycles.

Mindful of this two-way flow of resources, some scholars have concluded that vertical *keiretsu* represent another mechanism for sharing risks and redistributing profits from assemblers to suppliers. It is, they say, a system characterized by mutual restraint and non-exploitation.<sup>28</sup> In a statistical study, Okamuro (1995) confirmed that a Japanese automobile assembler typically absorbs some of his supplier's risk of increasing production costs; however, he also found that the assembler routinely shifts onto the supplier some of the even greater risk of softening demand for finished goods. One might also note that prices for parts are rarely negotiated upwards. In a personal account, Sakai (1990: 40) argues that suppliers like him actually lose their freedom when they enter into a subcontracting relationship. The supplier

is told what to make, when to put it on line, and how much it will get for it on delivery. If the company that placed the order feels a profit squeeze, it can easily order the subcontractor to reduce its final price. If hard times continue, the larger company can demand yet another cut. If it gets to the point that the subcontractor is losing money on each unit it



is producing and has cut expenses and streamlined production to the utmost, the “parent” company could demand that it buy some new piece of equipment to increase productivity. And even if the subcontractor neither needs nor wants the equipment, it has no choice: if it refused, the flow of orders from the parent would dry up overnight -- and its business would be gone.

The third and final kind of “lineage group” is the distribution *keiretsu*, a legacy of the early postwar years, when the growth of the manufacturing industry in Japan outstripped the capability of wholesalers and retailers to move and sell all the newly produced goods. Manufacturers, particularly those producing consumer electronics, automobiles, cosmetics, and pharmaceuticals, overcame this obstacle by setting up and maintaining their own distribution networks. Each one established a complete marketing channel, investing in and providing management and technical support to selected members of the network. And each secured nearly absolute control over that channel, using rebates, territorial sales restrictions, single-outlet-single-account systems and other mechanisms to exert ongoing pricing authority. Although this is less true today, manufacturers in those days had “life and death power over dealers, who [had] no alternative but to agree to the regressive practices effected by such standard terms

of trade as 'application sales' and blank promissory notes," writes Ishida (1983: 324), a former official of the Japan Fair Trade Commission.

In the late 1980s, one newspaper (*Japan Economic Journal*, November 25, 1989) identified 70,000 wholesalers and retailers that were tied exclusively to a single manufacturer. And in the early 1990s, a study carried out jointly by MITI and the U.S. commerce department found that Japanese manufacturers controlled a majority of the shares in 32 percent of the members of the Japan Automobile Dealers Association. In the U.S., by contrast, a study conducted as part of the MOSS (market-oriented sector-specific) trade talks, found that "equity participation by vehicle manufacturers is very uncommon. A Big Three vehicle manufacturer participates in equity, either entirely or partially, in only about 1.5 percent of its dealerships."

On top of these formal groupings (horizontal, vertical and distribution *keiretsu*), the political economy of Japan is sewn together by scores of more loosely organized alliances. Even nominally independent firms (that is, firms that are unaffiliated with any particular *keiretsu*) tend to cooperate with one another more than their counterparts in other industrialized economies. Consider just one industry: medical equipment sales. A June 1996 study by JETRO found that Japanese dealers of such equipment routinely provide extensive after-market service to their customers (hospitals and clinics), and that this "standard practice" serves to build "long-term, stable relationships" between

seller and buyer. Price becomes merely one among many considerations, and is often a secondary consideration.

Itami (1989: 57) argues that Japanese firms are more likely than Western firms to steer clear of the spot market.

One can hardly say that trading relations among Japanese firms are based on the principle of free market trade. Once a trading relationship is begun, it usually lasts for a long period of time, and thus trading partners as a rule become fixed. In most cases, the number of trading partners does not grow. What Japanese firms attempt to do is maintain intensive, cooperative, and long-term relations with a limited number of firms.

Scher (1997) has attempted to build a formal model, which he calls the “relational access paradigm,” to explain the relatively high levels of interfirm cooperation in Japan. In his model, which is similar to the model of relationalism presented here, network ties are graded along an *uchi* (insider) - *soto* (outsider) continuum ranging from “belonging” to “no relationship” (p. 41). Japanese firms tend to land on the *uchi*-side of the continuum, where implicit and opaque rules govern access to information. Thus, Scher argues that the Japanese firm represents a “nexus of

implicit relational contracts, indicative of a high-context, communal form of industrial organization,” while the Western firm represents a “nexus of linear contracts in a freely negotiated market” (p. 131).

### **Labor-management Cooperation**

The nature of interfirm relations in Japan is determined in part by the nature of intrafirm ties; that is, the ties between labor and management. And vice versa. If the entrepreneur or stockholder (the presumed “principal”) loses hegemony over a firm, as he/she did routinely in Japan with the postwar emergence of a system of stable or cross-shareholding, managers (the presumed “agents”) are free to aggressively represent the interests of other concerned “stakeholders,” including -- of course -- longtime employees. And they may be inclined to use *keiretsu*-type relations to reduce risks, secure market share, and preserve jobs in the firm, even if this means sacrificing some amount of profit taking. Aoki (1988: 165) has argued that, unlike the ideal-type Western firm (that is, a large U.S. firm), the ideal-type Japanese firm (that is, the large innovating Japanese firm) is “dually controlled” by stockholders and employees. Management serves as an arbiter, carefully balancing the interests of these two parties. It pursues a long-run growth strategy that defies the “Western” law of short-run profit maximization and thereby delivers extra benefits to employees.

This distinction between corporate governance structures and thus management philosophies in the United States and in Japan was made quite clear in a discussion between General Electric president Welch and Toshiba president Nishimuro, which was reported in the *Nihon Keizai Shinbun* (December 3, 1996, p. 1). In response to Welch, who noted that profit margins generally are much lower in Japan than in the U.S., Nishimuro commented that: "Of course, no business should be loss-making, but there are low margin businesses that are socially meaningful, such as satellites or power equipment, and our top mission is not to give up on them but to try to improve them . . . It is not the Japanese custom to cut personnel in one fell swoop. Neither the employees nor the shareholders demand exclusive pursuit of profit maximization. ROE [Return on Equity]-only management is not suitable for firms that want to be respected and that employees can be proud of."

Likewise, Miyauchi Yoshihiko, the chairman of Orix, used a symposium on corporate governance sponsored by the *Asahi Shinbun* (April 12, 2000, p. 17) to express serious doubts about a U.S.-style system that gives ultimate authority to shareholders. "Whom are we [in management] supposed to work for?" he asked. "Shareholders who have stayed with us from the very beginning? Or those who only wish to make a killing? And what about foreign investors?" Miyauchi acknowledged that Japanese firms should pay more attention to shareholders, but insisted they should

not neglect other stakeholders, such as company employees and long-time transaction partners.

To understand these views on the proper role of management, we need to go back in time, all the way back to the 1920s, when Japan's industrial sector was divided neatly into two pieces: a traditional sector made up of thousands of small, labor-intensive firms; and a modern sector made up of a handful of large, capital-intensive firms trying to adopt Western technology.<sup>29</sup> The oligopolistic firms at the top end of this dual economy were spending a great deal to train their workers to operate the new machinery, and they did not want to lose their investment in human capital. So they made an informal pact with labor, a pact that could be called the innovation bargain. In exchange for the loyalty of their skilled employees, management offered two important benefits: long-term if not permanent employment (*shūshin koyō*) and a related system of seniority-based pay (*nenko jōretsu*) that rewarded those who remained with the firm.

But the innovation bargain of the 1920s did not yield cooperation between labor and management. In those days, labor agitated for political influence, and management persuaded the state to respond with all its repressive power, using both the police and the law. It was not until the postwar period -- and more specifically, not until the 1970s -- that the two sides found a way to collaborate through the vehicle of the enterprise union. (Unlike a Western industrial union, which represents coal miners, machinists or other occupationally specific workers who perform the same function across an entire

industry, an enterprise union represents the entire spectrum of long-time or “core” workers inside one firm, including those with white, pink and blue collars.) *Keiretsu* had, by that time, become a solid fixture in the Japanese political economy, and members increasingly cemented intra-group ties via cross-shareholding. In the process, management gradually acquired more and more autonomy to act on behalf of -- and to bargain directly with -- employees. This bargaining takes place within the firm at the level of the enterprise union.

Although it is true that management and labor, like assemblers and suppliers, cooperate closely in Japan, it also is true that they, like assemblers and suppliers, do not function as equal partners. Employees are important but subordinate members of the team. Through QC circles, factory workers frequently get a chance to suggest ways to improve the production process. And through the *ringi* system of widely circulating draft policies for the company, lower-level managers often can participate in the decision-making process. In return, however, employees are expected to work hard, unflinchingly, for the welfare of the firm -- even if that means bowing to a sudden request from management to stay late to meet a critical deadline.

In addition to tangible benefits such as firm-specific training and seniority-based pay, management uses the ideology of “familism” to instill in workers a sense of belonging, a spirit of “we the company.” This often takes on the character of a political

campaign, complete with buttons and banners urging workers to identify with the corporate “family” and its goals.

Although the large manufacturing firm operates as a “family,” and thus sets up a barrier between insiders and outsiders, it also is internally divided into different groups -- some of which are more “inside” than others. In his case study of a VCR manufacturing plant, Nakamura (1996: chapter one) shows that “core workers” in product innovation teams are set apart from less permanent, basic production work groups. The former, which enjoy the full range of company benefits, are predominantly male; the latter, which include many women, tend to be “contract” or temporary workers who are, by definition, not fully vested in the team.

### **Other Examples**

Although selective relationalism shapes the Japanese political economy through these three nexuses of cooperation, it emerges in other forms as well. Japanese journalists, for example, have organized press clubs (*kisha-kai*) that bargain over access to information with the government agencies their members are supposed to monitor. The watchdogs of the press, in this case, become guard-dogs (if not lapdogs), officially restricting the flow of information to members only.<sup>30</sup> In another example, large corporations cultivate personal ties with academics to recruit new talent from elite schools.



A Sony official tells how his firm, known as an organizational maverick in Japan's otherwise clubby corporate world, polished this image by announcing in the 1990s that it would consider job applicants "blindly;" that is, only on the basis of individual merit, not the name of the university they attended.

That was true -- but only for our non-engineering staff. Just like all the big machine manufacturers, we continued to negotiate with engineering schools over the allocation of their graduates. For years, you see, individual professors have parceled their top students out on an equitable basis -- one to Sony, one to Hitachi, one to Toshiba, and so on. That's how the system has worked, and we felt we had to continue to play along. We worried that if we cut off our ties with those professors and tried to recruit students on our own, we would be locked out of the arena altogether.<sup>31</sup>

Although I have restricted my discussion here to selective relationalism in the political economy of Japan, one could cite numerous examples of such networks in other spheres of Japanese life. In traditional music, dance, Noh, kabuki, and even flower arrangement, for example, artists/performers belong to hierarchical organizations or schools led by a master (*iemoto*) who directs that organization, but

who also intervenes in the personal lives of his (or, far less often, her) disciples, even serving as a matchmaker. And in elementary and junior high school, students forge social ties through their club activities (*bukatsu*), and relate to one another as *senpai* (senior partner, or leader) and *kôhai* (junior partner, or follower).

### **Relationalism Succeeds**

The mutually reinforcing linkages of selective relationalism served Japan exceptionally well during the 1950s and 1960s (the rapid growth period), when it was trying to rebuild an economy devastated by World War II. Like all industrializing countries, Japan in those days faced a critical shortage of both capital and technology. The government was able to solve the more tractable of these two problems; it promoted capital accumulation by using tax incentives to encourage household savings, and by keeping itself relatively lean (thereby leaving room for private investment).<sup>32</sup> On its own, however, the government could do little to eliminate Japan's yawning technology gap; only relationalism, as it turned out, could correct that.

To appreciate the severity of this problem, some background is necessary. Until the mid-1960s, Japanese economic growth bumped into an intermittent barrier in the form of a Balance of Payments (BOP) crisis. It worked like this: Whenever the economy began to grow rapidly, imports would outpace exports and a trade deficit would result. To maintain the fixed exchange rate of the time (360 yen to the dollar),

the Bank of Japan was obliged on those occasions to raise interest rates and thereby cool down the economy. This slowed the flow of imports, and gradually restored balance to the current account. But it also interfered with the momentum of industrialization, which relied on a heavy flow of imported raw materials.

For Japan to truly achieve catch-up development, it needed to break through this macroeconomic barrier. And to do so, it had to somehow upgrade its industrial structure, and thus enhance the composition of its exports, so that it could earn more foreign exchange and thus more easily finance its imports. This means, Japan had to reduce its emphasis on the production of low value-added goods such as textiles (its largest export in the 1950s) that had low income and price elasticities of demand and only limited positive spillovers, and increase its emphasis on the production of higher value added goods with higher income and price elasticities and more positive spillovers. In other words, Japanese firms had to find a way to innovate more aggressively. Relationalism made this possible. How?

Consider, first, the government-business nexus. Close ties between bureaucrats and industrialists, many of whom graduated together from a handful of elite universities such as the University of Tokyo, allowed information about market conditions and possible policy responses to flow smoothly in both directions, minimizing transaction costs between the private and public sectors.<sup>33</sup> The state did not oversee a unilaterally scripted “master plan” for the structural adjustment of the Japanese economy. To

borrow a useful expression from Evans (1995: 13-16), it served instead as a “midwife” in the birth of these new industries. It not only offered a temporary, protective cover from imports, but also provided scarce resources to them -- in exchange for meeting certain performance criteria related to export volumes, product quality, and product variety.

The Ministry of Finance, for example, set a lid on interest rates, which created excess demand for capital. Its proxy, the Bank of Japan, then supplied that demand through a system of overlending to city banks, which – as noted earlier – had emerged as the financial hubs of the *keiretsu*. In doing so, MOF acquired enormous leverage over those banks. The banks, eager to gain access to artificially cheap credit, obediently followed MOF’s “window guidance” by loaning money to the targeted (“strategic”) industries that needed capital to import technology: shipbuilding, chemicals, steel, automobiles, and electronics.

In this sense, the state provided little more than what economists have long recognized as infant industry protection. As exports grew steadily, firms achieved economies of scale that allowed them to earn increasing returns. This produced the “investment race” that Murakami (1992) described and that we discussed in chapter one. As early entrants in these markets began to enjoy declining long-run average costs, they moved to expand capacity; others, meanwhile, sought to join the fray by building their own plants. Due to the phenomenon of declining costs, the market was

not clearing. Rather, it appeared likely that firms would engage in forward pricing (or what one might call “domestic dumping”), a mad dash to drive rivals out of the market by expanding output and cutting prices until one survived as the triumphant monopolist, or one of a small number of oligopolistic enterprises. A third party was needed to play a mediating role, helping to organize an institutional solution to this rather obvious problem of collective action. MITI played this role by coordinating the pace of investments. It “guided” each oligopolist in a market to invest an amount proportionate to its current market share, and thereby maintain the stability of that market. In many cases, especially those in which firms adopted new technology providing economies of scale in production, MITI authorized the use of cartels to reduce or eliminate excess capacity. This was particularly true in the late 1950s and in the 1960s.<sup>34</sup>

The steel industry presents perhaps the classic case study of state efforts to coordinate competing business activities. In the first half of the rapid growth period, the “Big Six” steel companies organized themselves into the Japan Iron and Steel Federation and independently coordinated their pricing. But this system began to break down in 1965, when overcapacity in the industry threatened to bankrupt some of the major producers. MITI stepped in, using administrative guidance to try to get the “Big Six” to reduce output and stabilize prices.<sup>35</sup> Only Sumitomo Metals resisted, and it gave up after a short but highly public fight. The others, which had former, high-

ranking MITI bureaucrats on their boards, happily went along.<sup>36</sup> Indeed, the former chairman of Yawata Steel (and later Nippon Steel), Inayama Yoshihiro, became known as “Mr. Cartel” for his strong advocacy of ordered markets.

This cozy arrangement proved durable, outliving even the rapid growth era, as evidenced by an article in the *Nihon Keizai Shinbun* (January 7, 1981):

Welcome to the Iron-Steel Building in Nihonbashi, Tokyo. Around noon every Monday, elderly gentlemen arrive in black cars .... They go to Room 704, where a sign reads, “Regular Monday Club Meeting.” The members consist of the senior executives of eight major steel producers. They sit at a rectangular table around the section chief of the Ministry of International Trade and Industry, who is seated at the head of the table.

The computer industry provides another example of the state acting as a mediator for potentially competing interests. In 1961, MITI helped set up the Japan Electronic Computer Company (JECC), which was jointly owned by the country's up-and-coming computer manufacturers - Hitachi, Fujitsu, NEC, Mitsubishi, Toshiba and Oki. Over the next two decades, the government provided about \$2 billion in low-interest loans to JECC, which in turn used the money to buy computers from its

member firms and rent them to users (primarily corporations hoping to computerize their operations) for low monthly fees. JECC thus served as the institutional nexus between the state and the industry.<sup>37</sup>

In the early 1970s, when IBM introduced its new 370 series, MITI jumped into action again by organizing a national research project. Fujitsu and Hitachi agreed to collaborate on the development of large IBM-compatible computers; NEC and Toshiba worked together to build medium-sized Honeywell-compatible computers; and Oki and Mitsubishi cooperated on the development of small, specialized computers.

The “New Series” project (1972-1976) allowed Japanese computer manufacturers to overcome many of their technological problems and begin to compete seriously, for the first time, in global markets. But in the next project (1976-1979), they made an even bigger leap by achieving Very Large Scale Integration (VLSI) of semiconductor circuits. This time, MITI organized reluctant firms into two groups. Fujitsu, Hitachi and Mitsubishi maintained one lab; NEC and Toshiba maintained another. In the end, the cooperating firms were able to produce 64K RAMs and ultimately the 1 megabit chip. And they began producing computers that matched or outperformed IBM’s top of the line machines, while beating them in price.<sup>38</sup>

A Japanese newspaper describes how the government coaxed, cajoled, goaded, and guided firms into cooperating on the VLSI project. Nebashi, the MITI official who headed the project,

did his best to eliminate the egoism of member firms and to create the harmony among researchers necessary for joint research. In the evenings, he went to the rooms and listened to the researchers' opinions and any dissatisfactions they had. At times, he drank *sake* with researchers... The monthly meetings, attended by senior officers of the member firms, were intentionally held at the joint research institute... The purpose was to let these officers become familiar with the different projects and boost the morale of the researchers. In time, tennis and golf clubs were organized among the researchers ... and the walls of secrecy dividing the research rooms were gradually removed.<sup>39</sup>

In both cases, government-business cooperation was a critical but not a sufficient factor behind the growth of Japanese manufacturing. One cannot forget the business-business nexus, which created a steeper trajectory of technological growth in Japan. Large manufacturers cooperated with one another, and also cultivated close but vertical ties with suppliers who belonged to an interfirm network or division of labor. This allowed technical know-how to diffuse upstream.<sup>40</sup> Likewise, the labor-management nexus played a key role. It sanctioned informal agreements within the innovating firm to promote and protect human capital.<sup>41</sup>



Viewed in total, relationalism allowed large manufacturing enterprises to sustain the otherwise destabilizing process of development, the process of adopting successively more sophisticated technology and thereby achieving declining long-run average costs. Because costs continued to fall over the long run, these innovating firms were able to maximize market shares and profits at the same time. A virtuous cycle of innovation and growth and innovation followed: In the short span of 15 years, Japan was able to increase its GDP per worker from 3,600 in 1955 to \$11,500 in 1970 (Katz 1998: 133). It achieved catch-up development faster than any other large economy in the postwar period.

### **Relationalism Fails**

Because it involves iterative bargaining and exchange over the long run, and thus encourages the two-way flow of information, relationalism reduces transaction costs between network members. However, to the extent that it is selective, and thus closed, relationalism will inevitably exclude outsiders through the hoarding of network resources, particularly information, and will just as inevitably enhance the positional power of insiders.<sup>42</sup> Two examples illustrate how this process has worked in Japan.

- In much of the postwar period, the Japanese state maintained a set of laws that required manufacturers to compensate individual consumers for damages from

dangerous or defective products, but that also allowed those manufacturers to withhold or hoard information about such products from the public-at-large (or from consumers as a class). This was possible because product liability cases were handled primarily as private matters, or face-to-face negotiations (*aitai kôshô*) between manufacturers and complaining individuals, and were kept out of the court system.<sup>43</sup>

- In the 1960s, the state collaborated with manufacturers in their frantic, almost monomaniacal pursuit of rapid growth, allowing them to continue to build and operate factories that badly polluted the environment -- despite the vocal warnings of scientists and the mounting fears of citizens. Not only did state and business elites refuse to listen to any outside testimony on the risk of environmental degradation and the danger to public health, they exercised what Broadbent (1998: 95-6, 281, 355) refers to as “soft social control” (or social hegemony) to silence local critics who dared to question them. Information hoarding here led to rather tragic consequences as Japan experienced some of the worst environmental disasters in history.<sup>44</sup>

Although Japan’s early postwar record on the environment is a glaring exception to the rule, we can safely conclude that selective relationalism in the rapid growth period did not typically impose unreasonable costs on outsiders. This is

because elites, both in the state and in industry, took steps to compensate outsiders -- often handsomely. Since 1955, when it was created in response to demands from Big Business for a merger of Japan's leading conservative (pro-status quo) parties, the ruling Liberal Democratic Party (LDP) has been preoccupied with providing these side payments.

For example, the LDP has generously subsidized rice farmers by purchasing their output at a mark-up well above the market price. And it has coddled small businesses, particularly "Mom and Pop" retailers outside the interfirm linkages in the Japanese political economy. Finally, the LDP has used the Fiscal Investment and Loan Program, which draws on funds in the government's massive postal savings system, to finance new bridges, railway lines, sewers and the like in less populated and underdeveloped areas in Hokkaido, Kyushu, Shikoku, and along the Japan Sea.<sup>45</sup> The Construction Ministry was the conduit for this massive income transfer. In the mid-1960s, public works projects consumed up to 19 percent of the total government budget.<sup>46</sup>

The LDP could afford to make these side payments in the 1950s and 60s because the economy was still growing rapidly. Selective relationalism was still working well. As studies by Denison and Chung (1976), Kuroda (1996), and Cameron (1997) have shown, Japan enjoyed sustained and rapid economic growth because it was

able to generate large increases in total factor productivity (TFP) -- the weighted average of labor and capital productivity.<sup>47</sup>

But TFP growth faltered in the mid-1970s. It averaged a measly 0.8 percent a year between 1973 and 1980, after reaching 2.2 percent a year between 1955 and 1973.<sup>48</sup> In part, this reflects the simple fact that, by the early 70s, Japan had caught up technologically with the West; that is, Japanese firms had, for the most part, adopted all they could from the global reservoir of existing technology. But it also reflects the fact that the institutions of Japanese capitalism had become increasingly obsolete. This assertion is counter-intuitive to many scholars and journalists, who note that Japan was the first industrialized country to recover from the first oil crisis and its stagflationary effects. What they do not appreciate is that Japanese firms disguised their problems during this period by investing phenomenal amounts of capital -- as much as 41 percent of GDP in 1973 -- far more than other industrialized countries at the time. These investments, however, proved less and less efficient, generating lower and lower returns. As table 2.3 demonstrates, the rate of return on Japan's gross fixed capital stock fell precipitously -- from 34 percent in 1955 to 18 percent in 1970, and continued to fall. Or, to use a slightly different measure, a \$1 increase in Japan's capital stock yielded less than a 20 cent increase in its GDP in the mid-1970s -- a miserable fraction of the \$1.20 cent increase it earned in the late 1960s.<sup>49</sup>

Capital investment remained high, eventually fueling a financial “bubble” characterized by massive asset inflation, but Japan’s technological development slowed during the 1980s. The value-added to sales ratio in the computer industry “plunged steeply” -- from 30 percent in 1982 to 22 percent in 1991, according to Yamada and Okumura (1997: 114). This industry, once imbued with great expectations for high growth, “joined the ranks of ordinary manufacturing industries . . . and is no longer a lucrative undertaking.”

What caused this poor performance? Some, like Katz (1998), blame the state, saying it quit supporting “sunrise” industries in the mid-1970s and began protecting only “sunset” industries. The protected, inefficient sectors of the Japanese economy, including many upstream suppliers of inputs such as steel and petrochemicals, are -- according to this argument -- dragging down the competitive, export-oriented sectors that use these inputs. This perspective, which is quite insightful as far as it goes, misses the larger picture: Finished goods producers, which themselves continued to receive government aid, willingly have paid the inflated prices of intermediate goods industries. They have agreed to “buy high,” as Elder (1998) puts it, because they seek to maintain relational ties that have yielded access to information resources and that have thereby provided them with positional power.<sup>50</sup>

Even though it reached the end of its catch-up phase by the early 1970s, the Japanese political economy did not undergo a major transformation. Instead of

structural reform, Japanese elites used what Sheridan (1998: 27) calls the “tried and true methods” of the past to restart the stalled economy.

**Approval of the superficial economic recovery worked to delay the much-needed reform of the foundations of the economic system. Rather than “flexible and creative,” the method of achieving recovery could as well be seen as a retreat, with a loss of the will and vision that were needed to adapt the economy to its new conditions of affluence and labour shortage.**

Thus, at the end of the decade, Japan’s political economy continued to be held together by roughly the same web of network ties. Indeed, that was the problem: Relationalism, which had worked so well for firms facing declining long-run average costs, no longer worked for firms that had already adopted much of the existing technology in the global supply of existing know-how, and that therefore faced increasing long-run average costs. The system, in other words, had begun to run its course. To borrow terms used by Yamamura (1997: 301-2), “institutional symbiosis” gave way to “institutional collusion,” and relationalism became a net drag on the economy.

**Political elites continued to cooperate with business in the formulation and implementation of industrial policies. But the results often were disappointing. As**

Callon (1995: 148) notes: MITI “discovered that pushing out on the technology frontier was much more difficult than the catch-up policies that targeted existing technologies that had been perfected by the United States.” Meanwhile, business elites continued to pursue market share maximization, as they had all along, but no longer seemed able to maximize profits.<sup>51</sup> It was during this period, the mid to late-1970s, that Japanese firms began to earn profit rates well below their counterparts in other industrialized countries, most notably the U.S. (Figure 2.1 starkly reveals this growing gap.) It was also during this period that prices began to soar to stratospheric heights, making the cost-of-living in a city like Tokyo much higher than in other major cities around the world. And, finally, it was during this period that political scandal became a commonplace event, recorded almost daily in the newspapers.

So why have outsiders -- individual investors, consumers, ordinary citizens -- put up with a system that increasingly has produced low returns, high prices, and systemic corruption? Institutionalists, such as Vogel (1999b), often emphasize the developmentalist policies and practices that have traditionally bound Japanese consumers to producers and, through custom or “path dependence,” continue to bind them. History, according to this view, has a kind of veto power over individual choice. Utilitarians, particularly neo-classical economists and advocates of rational choice theory, tend instead to plumb the psyche of Japanese actors in the marketplace. They behave the way they do, according to this view, because they have differently shaped

utility functions. For example, Sato (1997a and 1977b) documents a process of financial deepening in which households hold fixed-claim assets, such as postal savings accounts, and leave large industrial conglomerates to gobble up variable-claim assets, which offer both higher risk and higher returns. Japanese individuals, he argues, are risk averse. And this tendency has allowed Japanese corporations, especially the financial institutions that stand at the center of horizontal *keiretsu*, to increasingly control the nation's assets or wealth. "Corporate capitalism," writes Sato (1997b: 17), "is the devil's child born of people's risk aversion. It is people who must blame themselves. They are getting what they deserve."

What these explanations overlook is the structure of incentives facing actors who occupy peripheral roles in exchange networks in Japan. Individual investors, consumers, and ordinary voters have put up with this system of political economy not only because they have been compensated through side payments, as discussed earlier, but also because they have been denied access to information that would allow them to assess reasonable alternatives. That is, they are largely unaware of the opportunity costs they are paying to help maintain relationalism. Like outsiders in every other highly relational political economy, these actors lack positional power, and thus find themselves compelled to go along to get along.

Consider, for example, the plight of individual investors. They often are unable to acquire useful information about the financial standing of Japanese corporations,



especially when insiders dominate the boards of such corporations. According to Tsuru (1995: 19-20), less than one quarter of the directors of listed companies in Japan hail from outside the firm. This compares with 71 percent in the United States.

In some cases, Japanese firms go to great extremes to keep individual investors in the dark. They may hire *sōkaiya*, rough-and-tumble characters (and, in many cases, gangsters) who -- for a price -- will attend a firm's annual stockholders meeting and muzzle anyone trying to ask about questionable investments, low earnings, and other details that management would prefer to keep secret. In the Japanese press, these characters are usually cast as villains who extort money from corporations by threatening to disrupt annual stockholders' meetings. New research, however, suggests they are fulfilling a market demand for limits on the disclosure of corporate information.<sup>52</sup>

Ogino (1997: 17-18) describes his experience attending NTT's annual meeting for shareholders in 1994.

As I entered the room, I was struck by the fact that all front seats close to the podium were taken while about 30 percent of the remaining seats were open . . .

After the proceedings began, however, I realized why I could not take a front seat. Those seated in the first three rows were all men picked by

management -- employee shareholders and delegates from subcontractors. Those “bodyguards” and “mercenaries” had cornered the seats early in the morning, long before ordinary shareholders arrived. Every time the chair of the meeting . . . . put forth an item from the agenda, someone in the front shows shouted, “Igi nashi” (no objection) or “Sansei” (aye). About a dozen people, including a few men in gaudy suits -- possibly *sōkaiya* -- as well as bona fide shareholders attending for the first time, asked several questions. Among them were these:

Why is the company making less profit than before? What are you going to do about the counterfeit telephone cards? Will the company plow back the profits from listing its subsidiaries?

The question-and-answer proceeded smoothly in a businesslike manner . . . . In due course, the chairman called an end to questions and answers, although there was a man at the microphone waiting for his turn to ask a question. “We now proceed to voting,” declared the chairman, and then one item after another was voted on in rapid succession amid shouts of “Igi nashi” from the planted shareholders. The meeting ended before noon. I came away with a sense of emptiness, wondering whether an annual meeting like this was really worth holding.

Consumers also have been kept in the dark in Japan.<sup>53</sup> For example, in 1956, Japanese TV manufacturers formed a cartel to maintain high domestic prices for televisions marketed in Japan, and used the profits to subsidize cheap exports to the United States. For several years, the appliance makers controlled wholesalers and retailers through their exclusive distribution *keiretsu*, coaxing them with rebates and threatening them with supply restrictions if they failed to maintain listed prices. A decade later, in 1967, Japanese housewives finally learned about the price-fixing cartel - - but not from their own government, which had sanctioned the practice. The information came from the U.S. government, which had filed an anti-dumping lawsuit on behalf of American TV manufacturers. Furious that they had to pay twice as much for a Japanese product as their counterparts in the United States, Japanese housewives organized a nationwide boycott of Japanese TVs. But this action, like the U.S. anti-dumping suit, came too late. By then, Japanese manufacturers all but dominated the global market.<sup>54</sup>

Until fairly recently, the Japanese press overlooked scandals -- except those involving outsiders (i.e., firms such as Lockheed, Recruit, and Sagawa Kyûbin that are not well integrated into the core networks of the Japanese political economy). Voters rarely learned the nitty-gritty facts about the mutually reinforcing ties between bureaucrats and industry. This, however, has begun to change as marginal players in government-business networks have begun to receive fewer side payments for their

ongoing cooperation, or -- in this case -- silence. Whistle-blowers have emerged into this void, putting pressure on the media to write these once unwritten stories.

Outsiders can be expected, sooner or later, to challenge a system that keeps them on the outside. Indeed, this is happening already. Citizens increasingly are mounting campaigns to challenge local government actions, even though they usually run into a brick wall of officialdom.<sup>55</sup> Although one could cite many such examples, I mention only two here. In 1999, activists in Kagoshima Prefecture went to court to demand that local officials release the contents of an environmental impact statement about possible toxic run-off from a proposed golf course development in Kyushu. And the residents of the city of Tokushima on the island of Shikoku demanded that local government officials give them a chance to vote on a proposal to build a dam across the nearby Yoshino River.<sup>56</sup>

But the more maddening -- and thus, more interesting -- question is this: Why do the *insiders* -- those who have gained directly from these networks -- remain committed to them after they no longer yield economic benefits? In other words, why do they defend a system that is economically unproductive or even counter-productive? One can answer this riddle without resorting to the exceptionalism of institutionalism or the ad-hoc explanations of rational choice theory. The answer is that insiders want to maintain the advantages or privileges that come with being insiders. That is, they enjoy the power that comes from controlling access to information.

**As we shall see in the following chapter, Japanese elites relished their positional power so much that they were willing to regionalize selective relationalism, rather than dismantle it.**

**Table 2. 1**  
**Speaking to a Person at a Loss on the Street**

**Voluntarily speak to a person at a loss on the street**

U.S.	U.K.	Germany	Korea	France	Japan
60%	46%	43%	38%	34%	29%

Source: Nishihara (1987).

**Speak to a person at a loss on the street only when asked the way**

U.S.	U.K.	Germany	Korea	France	Japan
38%	52%	55%	60%	63%	68%

Source: Nishihara (1987).

**Table 2.2**  
**Trust in Social Institutions**

<b>%</b>	<b>U.S.</b>	<b>U.K.</b>	<b>Germany</b>	<b>France</b>	<b>Japan</b>	<b>Italy</b>
80-90		Police Military				
70-80	Military Religion Police		Police			
60-70	Education	Judiciary Education	Judiciary	Police	Judiciary Police	Police Religion
50-60	Executive Judiciary Legislative		Military Legislative	Education Judiciary Military Religion Executive	Education Mass media	Military Education
40-50	Mass media Business firms	Religion Business firms Executive Legislative	Religion Education	Legislative Business firms		Judiciary
30-40	Labor unions		Labor unions Executive Business firms Mass media	Labor unions Mass media	Military Executive Legislative	Mass media Business firms Legislative
20-30		Mass media Labor unions			Labor unions Business firms Religion	Executive Labor unions
10-20						
Average	39.7%	40.4%	44.3%	52.2%	55.6%	56.5%

Source: Nishihara (1987).

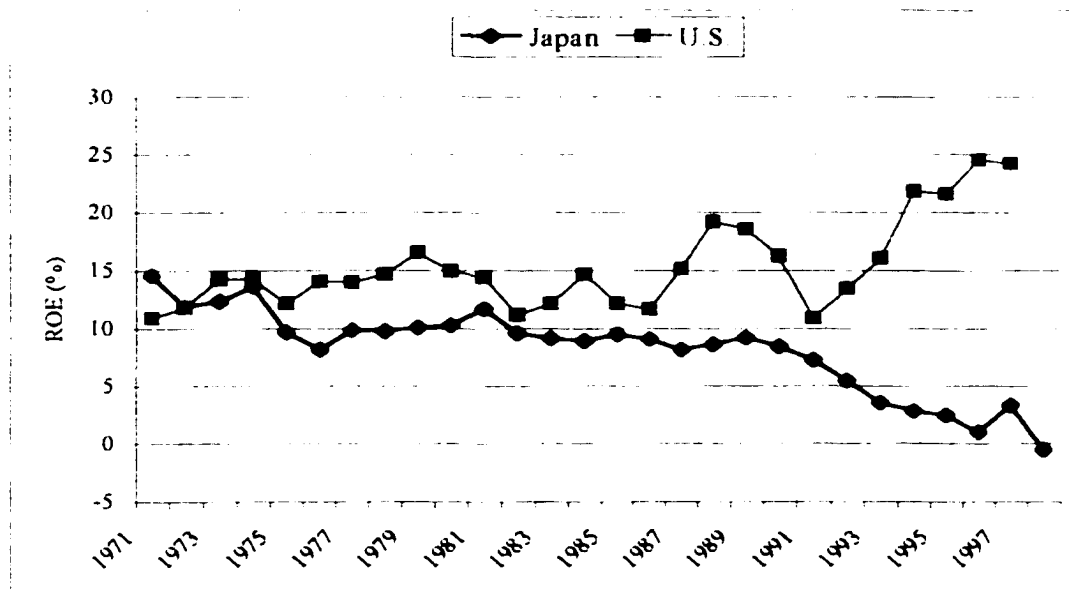
**Table 2.3**  
**Rate of Return on Capital: A Cross-National Comparison**

	<b>Japan</b>	<b>U.S.</b>	<b>U.K.</b>	<b>Germany</b>	<b>France</b>
<b>1955</b>	34	16			
<b>1960</b>	28	14	23	24	24
<b>1970</b>	18	12	15	14	18
<b>1980</b>	8	9	11	9	11
<b>1990</b>	4	6	8	5	6

Source: Alexander (1997), p.8. Reproduced in Katz (1998).

Note: Numbers refer to real aggregate rate of return on gross nonresidential fixed capital stock.





Source: Nomura Research Institute (1999), "Nomura 400," Tokyo, and Standard & Poor's Corporation (1998), "Standard & Poor's Analyst's Handbook," New York.  
 Note: The U.S. Data is return on book value for the "Industrials" in the S&P 500; the Japanese data is return on equity for Nomura's top 400 firms.

**Figure 2.1**  
**Diverging Gains: Profit Rates for Large Firms in Japan and the U.S.**

## Notes to Chapter Two

<sup>1</sup> Because I am restricting my analysis to *political economy*, I do not consider here any of the many efforts to explain the origins of contemporary Japanese *society*. The most important (and certainly the most ambitious) of these efforts was undertaken by Murakami, Kumon, and Satô (1979). They trace the collectivist nature of Japanese society all the way back to the 12<sup>th</sup> century, when agro-military communities in Japan began to organize themselves according to what they call the “*ie*” (literally “household”) principle.

<sup>2</sup> Samuels (1994) fits squarely in this camp. But because he is interested in the intellectual/ideological roots of Japanese “technonationalism,” he traces the origins of this system all the way back to the mid-19<sup>th</sup> century.

<sup>3</sup> Kumon’s analysis puts some meat on the rather thin or facile observation that sociologists often make about the sharp line between *uchi* (inside) and *soto* (outside) in Japanese society. Indeed, it is the confluence between individual identity and reciprocal relationships that makes this line visible at all in Japan.

<sup>4</sup> Rohlen, however, envisions this order as somehow organic (“intensely socialized”), rather than as politically constructed to benefit elites.

<sup>5</sup> Although this metaphor is most often associated with Karel van Wolferen (1989), it was first used in an analysis of the Japanese political economy by William Lockwood (1965).

<sup>6</sup> Elsewhere, Kozo Yamamura and I have called this “the triangle of cooperation.” See Hatch and Yamamura (1996: 75, 78).

<sup>7</sup> Toeing the Dodge Line, the Yoshida administration in 1949 reduced the number of administrative personnel in the central government from 1.6 million to 1.4 million. More personnel cuts followed in 1951 and 1954. See Ito (1995: 239). I should note, however, that bureaucrats had shown a willingness to cooperate with business executives even before these dramatic cuts came into effect. For example, in 1946, they collaborated with industry on programs such as reconstruction financing and “weighted production” (*keisha seisan hōshiki*).

<sup>8</sup> According to both Kume (1998: 175) and Price (1997: 255), the turning point came in 1975. Labor’s spring offensive (*shuntō*) that year achieved an average wage increase of 13 percent – even though inflation was running even higher at around 15 percent. Price, who adopts a Gramscian perspective, views this wage entente as the beginning of “market hegemony” and the end of militant unionism in Japan. Kume, like me, is less pessimistic. He views it as the beginning of an accommodation between labor and management to jointly defend job security in Japan.

<sup>9</sup> To be honest, this “prevailing” view never really prevailed anywhere except the United States. It is given ample voice in Patrick and Rosovsky (1976), but especially pp. 43-54.

<sup>10</sup> This same point is made by those using Marxist analysis (see, for example, Watanabe 1987), as well as those relying on pluralist analysis (see Uriu 1996).

<sup>11</sup> Gourevitch (1978: 907) asks this question of those who view Japan as a bureaucratic-led polity.

<sup>12</sup> In his account of efforts by Fairchild Semiconductor to do business in Japan in the early 1970s, Flamm (1996: 56-57) shows that the Japanese state sometimes *looks* more autonomous than it really is. After failing to win MITI's approval for its proposal to build a Japanese production facility, Fairchild tried to license its chip technology to NEC. It finally reached an agreement with NEC – but only after dramatically reducing its fee schedule. Fairchild believed it had no choice; MITI, it was told, would review the terms of the proposed agreement and insist on such a change. Fairchild learned only after the fact that NEC's president also chaired the MITI licensing approval advisory committee that would conduct the review.

<sup>13</sup> One Japanese electronics manufacturer reports that government rules and regulations account for half of the costs generated by its factory supervision unit. See Yamada and Okumura (1997: 111).

<sup>14</sup> In the mid-1990s, only 6.5 percent of the Japanese labor force worked in what the OECD (2000) calls the "limited public sector" (central and local government) – a small amount compared to France (20.2 percent), Italy (18.2 percent), the United States (14.2 percent), Germany (14.1 percent), or the United Kingdom (11.9 percent). Government expenditure as a share of GDP is also relatively small. Employment statistics collected by the OECD are available at the following website:  
<http://www.oecd.org/puma/mgmtres/hrm/pubs/table.pdf>

<sup>15</sup> Iwata is quoted by Edith Terry in "How Asia Got Rich: World Bank vs. Japanese Industrial Policy." JPRI Working Paper #10 (available on the web at <http://www.nmjc.org/jpri/publicwp10.html>). The Japanese state, he says, "played the role of catalyst, giving incentives to a dynamic private sector. That function as catalyst means that, in economic development, one plus one equaled three or four instead of two."

<sup>16</sup> See Schæde (1994).

<sup>17</sup> *Yomiuri Shinbun*, October 15, 1998.

<sup>18</sup> Kato Hideki, a former MOF official who now serves as president of Koso Nippon, a Tokyo think tank, expressed this opinion in an interview with the *Daily Yomiuri*, June 9, 1998. He has called for the repeal of these "establishment laws."

<sup>19</sup> See Young (1984).

<sup>20</sup> I purposely steer a middle course here between Okimoto (1989), who sees *amakudari* as a bureaucrat-led system designed to improve the implementation of industrial policy, and Calder (1989), who sees it as a system used by smaller firms seeking greater access to government information.

<sup>21</sup> Schwartz (1998: 40-47), adopting what he calls a "neo-pluralist" view, is much more sanguine about the evolution of *shingikai*, which he says are now heavily influenced by different interest groups. He concedes, however, that outspoken critics of the established system (selective relationalism) are rarely invited to participate.

<sup>22</sup> *Nihon Keizai Shinbun* (web version), May 29, 2000.

<sup>23</sup> This was done primarily through the use of a sub-equilibrium interest rate policy, which allowed the state to engage in a practice known as "window guidance." I discuss this further below.

<sup>24</sup> The Dai-ichi Kangyo group was not actually formed until 1971, when two banks – Dai-ichi and Kangyo – merged.

<sup>25</sup> See Sheard (1994: 333-338).

<sup>26</sup> Pascale and Rohlen (1983) do a fine job of telling (and analyzing) these events.

<sup>27</sup> Surveys by the Small and Medium Enterprise Agency show that the ratio of subcontractors to the total number of small and medium firms in Japan's manufacturing sector climbed steadily between 1966 and 1981. See SME Agency, *Kōgyō Jittai Kihon Chōsa Hōkokusho* (Basic Survey Report on the State of Industry). Tokyo: MITI, various years.

<sup>28</sup> See, for example, Asanuma (1984) and Ahmadjian (1997).

<sup>29</sup> This section relies heavily on Yamamura (1986).

<sup>30</sup> See Yamamoto (1989).

<sup>31</sup> Interview. Tokyo, Feb. 25, 1999. This longstanding practice of relational recruiting is described unfavorably by a Sony manager in Kobayashi (1966: 165-168). Thus, despite its ardent opposition, even a maverick like Sony was – three decades later – unable to buck the system.

<sup>32</sup> One such incentive, the so-called *maruyū* program, exempted interest earned on bank deposits from the income tax. More broadly, the government allowed the tax system to become increasingly regressive, taxing wage earners far more heavily than self-employed business people or farmers. A regressive tax system benefits the wealthy, who tend to save more.

<sup>33</sup> Although, as we asserted earlier, the state in postwar Japan was never as “autonomous” as Johnson (1982), Wade (1990) and many others have suggested, it was relatively “cohesive.” That is, economic bureaucrats in rival ministries and agencies aligned themselves with rival industries, but generally shared a conviction that they were working on behalf of the national interest of Japan as a whole. As Samuels (1994) has demonstrated, state actors imbibed and then promoted an ideology of “techno-nationalism” that was not far from the Meiji era mantra of *fukoku kyōhei* (rich country, strong country). The goal was to catch up with the West. This helps explain why relationalism did not lead to massive rent-seeking in the rapid growth era.

<sup>34</sup> See Yamamura (1982). Many economists have argued, by contrast, that MITI was never so smart, and that it authorized cartels only in declining industries (i.e., ones marked by rising average costs). For a nuanced view, see Kosai (1997).

<sup>35</sup> See Yamawaki (1984: 268-272).

<sup>36</sup> Johnson (1982: 268-271) provides a wonderful description of the Sumitomo-MITI conflict. He notes that Sumitomo was the only one of the “Big Six” that did not (then) have *amakudari* bureaucrats in its boardroom, but he also notes that, three years after accepting defeat and bowing to the terms of the steel cartel, Sumitomo invited a retired MITI official to serve on its board of directors.

<sup>37</sup> See Anchoroguy 1988: 517-522.

<sup>38</sup> Ibid, pp. 526-30.

<sup>39</sup> *Asahi Shinbun*, June 22, 1981, p. 9.

<sup>40</sup> See Imai and Yamazaki (1992).

<sup>41</sup> See Koike (1981).

<sup>42</sup> In 1999, the Diet approved a Public Disclosure Law designed to curb the ability of government agencies to hoard information. But the law, which does not explicitly guarantee the public’s right to know, includes a number of loopholes. For example, it does not cover information given voluntarily by corporations with the understanding that it would not be disclosed, or to information whose disclosure would be “detrimental to the interests of the nation and its relations with other countries.” The law also does not apply to the burgeoning number of public corporations in Japan.

<sup>43</sup> See Maclachan (1999: 254-6) and Kitamura (1992: 23).

<sup>44</sup> These included a widespread case of mercury poisoning that became known as Minamata disease, as well as a case of cadmium poisoning (*itai itai* or “ouch ouch” disease) that caused bones to become brittle and break easily. In both cases, critics – including the doctors who identified the source of the health problems – were initially discredited as rabble-rousers. The company responsible for the mercury poisoning in Kyushu hired gangsters to bully (and, in at least one instance, even assault) such rabble-rousers.

<sup>45</sup> Calder (1988) devotes a chapter to farmers (231-273); to small business (312-348); and to rural areas (274-311).

<sup>46</sup> See Pempel (1998: 62).

<sup>47</sup> In his now famous growth model, Solow identified a residual that is unexplained by increases in labor and capital inputs. This residual is often regarded as a proxy for TFP.

<sup>48</sup> These figures come from Cameron (1997), but are very close to those found in Kuroda (1996).

---

<sup>49</sup> In general, firms in an economy that has achieved technological catch-up can expect some decrease in their marginal productivity of capital. But this decrease was exceptionally dramatic in Japan's case. Data on returns to capital come from Robert Summers and Alan Heston's *Penn World Tables* (1995), and are reported in Katz (1998: 69).

<sup>50</sup> Elder's argument is similar to, but not the same as, the argument presented here. He suggests that large, export-oriented Japanese firms have tolerated government policies that push up input prices because they, too, have benefited from such protection and promotion and because protection for upstream suppliers of inputs has been kept relatively moderate.

<sup>51</sup> Many studies have shown that Japanese firms fail to maximize profits, relative to their counterparts in the West, particularly the United States. For example, see Odagiri (1989) and Watanabe and Yamamoto (1992). Fewer studies, however, have managed to demonstrate, once and for all, that this is due to the preferences of managers whose goal is expanding market share rather than raising the rate of return on investment. Kagano et al (1983: 25) do, however, offer convincing survey data in support of this assertion.

<sup>52</sup> At annual meetings, management routinely will nominate and secure "approval" for its own slate of candidates for the corporation's board directors in a carefully orchestrated "*shan shan*" (as in the sound of brisk clapping) maneuver. The company president will read the candidate's name, the *sōkaiya* will shout its approval, and the president will move on quickly to the next nominee. For more on *sōkaiya*, see, for example, Szymkowiak (1996).

<sup>53</sup> This fact goes further toward a plausible explanation of the apparently "irrational" behavior of Japanese consumers (who, as Vogel notes, have supported certain protectionist policies that keep prices high and have opposed some forms of deregulation designed to increase competition and reduce prices) than Vogel's own institutionalist/cultural explanation. (See Vogel 1999b.) They behave as they do because they are locked out of network structures that contain useful information. Given more "data" about alternatives, Japanese consumers tend to behave much like consumers elsewhere.

<sup>54</sup> This narrative draws on Yamamura and Vandenberg (1986).

<sup>55</sup> *Asahi Shinbun* (March 23, 1999, p. 4) documented this trend by listing recent initiative campaigns by Japanese citizens. The list, however, showed that local governments have flatly dismissed most of these proposals; that is, they have refused to allow a public vote. And even when they do allow a vote, the outcome is not legally binding.

<sup>56</sup> Voters opposed the dam project by a 12:1 margin. Despite this unmistakably clear expression of public opposition, Japan's Construction Minister was unmoved: "As long as the experts don't revise their views, I am in no position to change my stance." See Sonni Efron, "Economy-Boosting Effort in Japan isn't Worth a Dam," *Los Angeles Times*, January 26, 2000.

## **Chapter Three**

### **Domestic Crisis, Regional Response**

In January 1991, Japan's speculative "bubble" popped, and the happy days spawned by runaway asset inflation came to an end. Business and government elites faced mounting pressure, both economic and political, as the Japanese economy, like Snow White, fell into a deep sleep that would last throughout the 1990s.

Much of this pressure came from an increasingly competitive global market. Manufacturers struggled to hang onto sales volumes as productivity declined slowly but steadily to the point that, by 1994, Japan's rate was about 34 percent lower than the U.S. rate.<sup>1</sup> Profits suffered as a result; returns to capital were lower in Japan than anywhere else in the industrialized world. But pressure also came from an increasingly politicized international system. In the first half of the 1990s, the U.S. pursued a new "results-oriented" and "managed trade" policy that took especially careful aim at Japanese automobiles and electronics goods.<sup>2</sup> Other countries, while not as aggressive, also criticized Japan for its persistent trade surplus. In the latter half of that decade, the U.S. pushed Japanese government officials to roll back regulations that inhibit the development and expansion of new business activities.

Japanese elites vaguely understood the underlying cause of their malaise: Selective relationalism, an inappropriate system for a highly developed economy like Japan, had run its course and now was producing more costs than benefits.<sup>3</sup> Furthermore, Japanese elites recognized they had to move in one of two directions: They could dismantle this obsolete system, relying more on spot markets and less on

firmly established relationships to carry out exchange. Or they could try to expand the scope of the system; that is, they could try to rescue relationalism by extending its social networks into a new and more fertile environment in which firms might still be adopting existing technology, and thus one in which selective relationalism might yield net gains.

From the entrenched positions occupied by Japanese businessmen and bureaucrats, Asia -- with its young, still developing economies -- loomed on the horizon like a life-giving oasis. The region's developmental promise was, in the early 1990s, palpable: Land was cheap and plentiful; labor was cheap and, better yet, relatively literate. But best of all, business and government officials in host countries typically had longstanding ties with their Japanese counterparts, and -- in most cases -- wanted to strengthen or deepen such ties.<sup>4</sup>

As Shiraishi (1997: 171) notes, this was not the first time that Japanese elites had turned to Asia, particularly Southeast Asia, in a moment of distress.

The region has repeatedly figured as a 'solution' for Japan in crisis. It appeared to offer a way out of the mess Japan found itself in China toward the end of the 1930s. It seemed to offer a solution for Japan's economic recovery when China was closed in the 1950s and 1960s. And the region is again seen in Japan as a way out of the current predicament

....



Just as before, no one this time needed to convene a meeting. No one needed to forge an agreement. Japanese manufacturing firms that had invested in Asia were enjoying economic success (i.e., earning profits), and Japanese bureaucrats who had moved or visited there as advisors were enjoying political success (i.e., winning friends and influencing people). Thus, to elites most impacted by the unfolding crisis in Japan, the future opportunities presented by regionalization were rather obvious.

Government officials quickly became cheerleaders for a process of economic regionalization that had begun slowly in the 1980s and that soon would accelerate. “Japan’s main target [of trade and investment] must be Asia,” declared Hosoya Yuji, then deputy director of MITI’s industrial policy bureau.<sup>5</sup>

The Keidanren, Japan’s big business federation, noted that Asia was becoming “an indispensable part of the business and procurement activities of Japanese companies.” Those economic ties between Japan and other countries in Asia benefit both sides, and thus should be strengthened. “Japanese companies will have to form a closer cooperative relationship in an effort to secure their international competitiveness.”<sup>6</sup>

Many Japanese academics soon joined the chorus. One of them, Seki Mitsuhiro (1993), wrote that his own country had no choice but to regionalize.

Japan finds itself no longer able to support its old habit of thinking of itself as a small, weak country striving for its own prosperity. Japan must discover a fundamental new *raison d'être* in a mutual interdependence with its neighbors who desire industrial modernization and economic development. . . . Japan needs to place the highest priority on figuring out how to contribute to this general tide of events in East Asia; how to ensure smooth technical transfer; and, further, how to foster the regionalization, or geographical diversification, of Japanese business.

Another Japanese academic, Itami Hiroyuki (1993: 93), commented that Japanese manufacturers were hemmed in by two walls: the “wall of the system” (Japan’s outmoded system of political economy), and the “wall of the world,” which he says the West built to keep out Japanese manufactured imports. Asia, he wrote, offered a way for Japanese manufacturers to clear both walls, and urged them to build plants in that region.

Firms in high-tech, export-oriented industries were especially receptive to such advice -- for obvious reasons. While U.S. computer firms such as Gateway, Dell, and Compaq enjoyed explosive sales growth in the first half of the 1990s (1,232, 790, and 310 percent, respectively), Japanese firms stumbled. Sales at Fujitsu and Sony

increased by only 11 and 3 percent, respectively, from 1990-95. NEC, Japan's leading computer maker, did better, reporting sales growth of 116 percent during this period.

This revenue crisis -- a result of declining productivity, reduced consumption at home, and higher prices for exports -- encouraged firms to step up their regionalization initiatives. Yamada and Okumura (1997: 115) note that

Japanese computer makers are now compelled to reconsider a vertical division of labor with Southeast Asia, which could serve as an outlet for exports. They will also need to pursue a horizontal division of labor and strategic alliances to facilitate the expansion of local markets and economic growth in foreign regions into which they have made significant inroads.

Looking back from the perspective of today, one can easily see why Japanese elites would choose to regionalize their production and administrative networks. At the time, however, this was actually a radical move.

### **RECENT HISTORY OF JAPANESE REGIONALIZATION**

In the late 1960s, Japan began accumulating a trade surplus that gave Japanese firms the opportunity to engage in foreign direct investment (FDI). But as Table 3.1 shows, those firms remained, nonetheless, reluctant to invest outside their home

country. Even as recently as 1980, the stock of Japanese foreign direct investment represented less than 4 percent of Japan's GDP, compared with 43 percent for the U.S. and 16 percent for the U.K. It is true, of course, that Japanese firms invested in resource extraction activities in Asia, primarily Southeast Asia, in the 1950s, and that automobile and electric appliance producers began to shift simple "screwdriver" or assembly operations to the region in the 1960s. But the scale of JFDI -- especially in manufacturing, which receives most of our attention here -- remained limited, especially in light of the size and maturity (or technological sophistication) of Japanese industry. Those firms had invested heavily in selective relational ties at home that, in their calculations, represented both sunk costs and -- at one time -- competitive advantages. They were not prepared to abandon them (Tejima 1996: 372).

This reluctance began to give way, however, in 1985, when the finance ministers of Japan, Germany, the U.K., France, and the U.S. met at the Plaza Hotel in New York and agreed to an "orderly appreciation of the main non-dollar currencies against the dollar." Within nine months, the yen jumped in value from 250 to the dollar to 150. The impact on Japanese overseas investment was direct: The country that had been such a reluctant source of FDI suddenly became one of the world's leading capital exporters. In 1985, Japan accounted for only 6.4 percent of the global stock of outward FDI -- a tiny fraction of the U.S. share (36.4 percent); by 1990, Japan

accounted for 11.8 percent – almost half the U.S. share of 25.5 percent (United Nations 1998).<sup>7</sup>

During those heady years in the late 1980s, 60 percent of Japanese manufacturing FDI went to North America (MOF). This was due in large part to the Plaza Accord, which slowly but steadily shifted relative prices and made Japanese exports less competitive. However, it also reflected the fact that Japanese manufacturers had been finding it increasingly difficult to export to their favorite overseas market, the United States, which -- since the early 1970s -- had gradually adopted a new and more aggressive trade policy including demands for “voluntary” export restraints on automobiles and other products.

To avoid high domestic production costs and circumvent export restrictions, Japanese manufacturers invested overseas -- and not only in North America. Indeed, much of the JFDI that flowed to Asia in the late 1980s was motivated by this goal; Japanese manufacturers built export platforms that sent relatively cheap goods, especially electronic products, to the United States. In those days, Japanese electrical machine manufacturers in Asia exported about 10 percent of their total production to North America.<sup>8</sup> A triangular pattern of trade developed in which Japan shipped capital goods and intermediate products (often relatively high value-added parts or specially processed materials) to Asia, where they would be assembled into final goods for export to the United States, and increasingly to Europe as well. Urata and Kawai (1996) document this triangular trade pattern in their econometric analysis of U.S.

imports from 1990-92.<sup>9</sup> And Chia (1997: 51), in her survey of 12 Japanese electronics manufacturers in Singapore, finds a similar trading pattern.

In 1991, as the domestic economy began to stall, Japanese manufacturers -- and especially machine manufacturers<sup>10</sup> -- fixed their sights more firmly on Asia than ever before. One company, Matsushita, established 78 of its regional production facilities (or 85 percent of its 92 plants) in the 1990s.<sup>11</sup> As Table 3.2 shows, Asia attracted 23.5 percent of Japan's total manufacturing FDI in 1991, and continued to receive an increasing share until 1995, when it attracted almost 42 percent (\$7.8 billion of \$18.6 billion in total manufacturing FDI). Given the relatively small size of the regional economy of Asia (compared with North America and Europe), this was an extraordinarily large amount.<sup>12</sup> Even in 1997, when the region became engulfed in a deepening economic crisis, Asia continued to receive nearly 35 percent (\$6.8 billion) of Japan's total manufacturing FDI. And such figures actually understate the volume of Japanese FDI in the region because they do not include reinvestments by existing affiliates enjoying profits there. MITI has estimated that, between 1992 and 1996, reinvestments by Japanese affiliates in Asia -- which are unreported -- actually exceeded officially new (reported) investments from Japan by about 14 percent.<sup>13</sup>

Table 3.3 breaks down the location of Japanese manufacturing affiliates. In 1995, 57 percent of those overseas affiliates were in Asia. If we break this down further, considering Japanese manufacturing *facilities*, rather than manufacturing *affiliates*, Asia accounts for an even larger share: 66.9 percent of the total number of

overseas factories.<sup>14</sup> This is simply because many manufacturing affiliates in Asia operate more than one factory.

The discrepancy between figures on the value of Japanese manufacturing FDI to Asia and the number of affiliates (or factories) in the region is due to the remarkably large investment by small and medium-sized enterprises (SMEs), particularly parts producers. These component manufacturers dramatically increased their presence in Asia in the early 1990s. Consider the growth in sales by Japanese affiliates in Asia between 1992 and 1994 in the following manufacturing sectors:<sup>15</sup>

- audio-visual components, 28 percent;
- parts for “white goods,” such as refrigerators, washers and dryers, etc., 30 percent;
- computer components, 101 percent;
- parts for office automation equipment, 58 percent;
- semiconductor parts, 99 percent;
- electrical/electronic components, 26 percent;
- camera parts, 25 percent;
- parts for telecommunication equipment, 57 percent;
- industrial machinery components, 14 percent.

Just as explosive was the expansion of Japanese automobile parts suppliers into Asia. In the 35 years from 1962 through 1997, Japanese auto parts producers made 405 investments in the ASEAN-4 countries of Southeast Asia (Thailand, Indonesia, Malaysia, and the Philippines); but they made 223 of those investments (or 55 percent) in just the final six years, from 1991 through 1997.<sup>16</sup> 1996 was the peak. If we look at new production bases created in that year throughout Asia (i.e., in China and the Asian NIEs, as well as in the ASEAN-4), we find that auto parts manufacturers moved almost exclusively into this region. Of the 124 overseas factories newly established in 1996, 94 (or 76 percent) were in Asia.<sup>17</sup>

The region thus has emerged as the overseas base for Japanese subcontractors in a variety of machine manufacturing industries. Indeed, in the mid-1990s, Asia accounted for 100 percent of the consumer appliance parts, 84 percent of the electronic and electrical components, 74 percent of the computer parts, and 59 percent of the audio-visual components manufactured by the overseas affiliates of Japanese firms (Yamamoto 1996: 25). In general, SMEs prefer to invest in Asia rather than in other regions of the world; in 1994, 81 percent of small and medium-sized enterprises expanding overseas chose Asia; even in 1997, 55.3 percent chose this region in spite of its economic woes.<sup>18</sup>

In the mid-1990s, China began to rival the ASEAN-4 economies as the favorite destination for Japanese SMEs, especially suppliers hoping to ship “reverse imports” back to the home country. These suppliers built scores of factories along the coast,



particularly in northeast China (Manchuria), where Japan had established a puppet state (Manchukuo) in the 1930s. Indeed, they had -- by 1996 -- established more than 1,500 joint venture operations in Dalian, which had been the major port city in Manchukuo.<sup>19</sup>

On top of “traditional” forms of FDI, Japanese manufacturers have engaged heavily in what Oman (1984) has called “intermediate forms” of overseas investment, particularly franchise contracts and technology licensing agreements with Asian partners.<sup>20</sup> For example, as Table 3.4 indicates, Japanese technology exports to Asia doubled between 1986 and 1991, and then doubled again between 1991 and 1996. Since 1995, Asia has received roughly half of Japan’s technology exports.

Finally, in addition to these private capital and technology flows, the Japanese state itself has invested heavily in the region via Official Development Assistance (ODA), or foreign aid. During the bubble period, it became the world’s leading aid donor -- and since then has reserved well over half of its ODA for developing countries in Asia. Most of its aid is delivered in the form of yen loans for dams, bridges, electricity transmission lines, telephone lines, and other infrastructure projects that are needed to support industrialization. As Table 3.5 shows, the leading recipients of Japanese aid in the 1990s have been China, Indonesia, Thailand, India, and the Philippines -- often in that order. Since mid-1997, when the currency crisis washed across Asia, the Japanese state has stepped up its commitment to these and other struggling countries in the region. The \$30 billion “New Miyazawa Plan,” a special funding package designed to prime Asia’s jammed economic pump, reflects this

commitment. In 1998, the first year of that plan, Asia received \$5.37 billion in aid from its wealthy neighbor -- 62.4 percent of Japan's total ODA (and 90.7 percent of its total package of yen loans).

We must note, however, that in its ongoing effort to promote the economic development of Asia, the Japanese state does far more than merely provide cash. Through the Japan International Cooperation Agency (JICA), one of the two main government agencies implementing Japanese ODA, a large number of Japanese advisors -- known as "experts" -- are dispatched to the region every year to offer technical assistance on everything from effective methods for fertilizing crops to strategies for improving the productivity of manufacturing. As Table 3.6 shows, 59 percent of the more than 3,000 experts dispatched in 1996 went to Asia. Moreover, this does not include the experts dispatched through JICA's Japan Senior Volunteers Program, or through the Japan Overseas Development Corporation (JODC). Asia receives the lion share of these Japanese technicians and engineers who have retired from jobs in the private sector. Indeed, JODC -- an arm of MITI -- has three overseas offices, all of them in Asia (Bangkok, Jakarta, and Beijing).

The common strategic objective of both Japanese state and industry officials vis-à-vis Asia has been the construction of a regional division of labor based on the different technological levels of member countries. That is, they have attempted to promote economic integration through capital, technology, and merchandise flows that reflect the different but complementary factor endowments and industrial structures,

and thus the different but complementary comparative advantages, of trading partners in Asia. Such a division of labor, according to several Japanese scholars, is bound to yield a dynamic process of “industrial sequencing” as more advanced economies in the region “pass down” industries in which they no longer enjoy a comparative advantage - much as an older sibling passes down out-grown clothes to a younger sibling.<sup>21</sup> They called this the “flying geese” pattern of regional economic development, a V-shaped pattern with Japan as the “lead goose,” followed by the Asian NIEs, followed further by ASEAN and China.<sup>22</sup>

By the 1990s, this concept had come to sit at the center of Japanese foreign economic policy toward the region. Thus, Prime Minister Kaifu Toshiki told a Southeast Asian audience that

Japan will .... continue to seek to expand imports from the countries of the region and promote greater investment in and technology transfer to these countries, in line with the maturity of their trade structure and their stage of development. And as the necessary complement to this effort, I hope that the host countries will make an even greater effort to create a climate receptive to Japanese investment and technology transfer.<sup>23</sup>

MITI has, from time to time, tried to coordinate this effort to construct a regional division of labor (or what it called “complex international work sharing” based on “agreed specialization”<sup>24</sup>), using policies such as the New AID plan (discussed in chapter five) to identify specific industries that individual countries should promote and develop. Ultimately, however, the process was driven not by the far-flung schemes of bureaucrats in Tokyo, but by the business strategies of individual corporations -- or networks of corporations.<sup>25</sup>

Japanese electronics firms have pursued such strategies most aggressively, creating vertically layered intra-firm or intra-network supply chains that use technology-intensive production from Japan, capital-intensive production from the Asian NIEs, and labor-intensive production from China and the ASEAN-4. More specifically, the Asian affiliates of these Japanese MNCs assemble finished products with high-tech components imported from Japan, slightly less complex parts imported from the Asian NIEs, and the most simple, standardized parts from China and the ASEAN-4. For example, to manufacture VCRs at its assembly plant in Bangi, Malaysia, Sony imports integrated circuits and other high-tech components from Japan, and printed circuit boards from Singapore. It also purchases tape decks, as well as many other standard parts, from local suppliers in Malaysia, many of them Japanese.<sup>26</sup>

Automobile manufacturers, taking advantage of ASEAN programs (such as the 1988 Brand-to-Brand Complementation (BBC) scheme and the ASEAN Industrial Cooperation (AICO) scheme) to reduce tariffs on certain kinds of intra-regional, intra-

industry trade, have built their own supply networks in Southeast Asia. In general, these involve swapping parts that are produced in larger volumes at specified factories across the region, and then assembling them in finished vehicles. Toyota, for example, used its affiliate in the Philippines as a base for specialized production of transmissions, its affiliate in Indonesia for gasoline engines, its affiliate in Malaysia for steering gears and electronic components, and its affiliate in Thailand for diesel engines and pressed parts.<sup>27</sup> In 1996, only four years after it set up its regional production network, Toyota moved nearly \$200 million in parts between its plants in Southeast Asia (Matsuoka 1997:22).

Tamura (1996: 22) writes that Japanese MNCs are building a regional division of labor that emphasizes “prototype” production in Japan and mass production of standardized products in Asia. These manufacturers, he concludes, “view Japan and Asia as one interconnected zone of activity, and carefully allocate production facilities to the most suitable location in this zone.”

For a time, capital and technology flows did seem to bind the region together in a single, vertically layered unit. The Economic Planning Agency of Japan (EPA 1995: 279-281) described it this way: “Parent companies in Japan have built extremely tight (*kinmitsu na*) ties of interdependence with their affiliates in Asia. As a result, domestic sales (in Japan) and exports to Asia have become closely correlated.” In addition, capital and technology flows did seem to promote a virtuous cycle of industrial sequencing within and between the various host economies of Asia -- much as the

“flying geese” model predicted. For one thing, the sales and procurement practices of Japanese producers in Asia drove higher and higher levels of intra-regional trade. MITI (1998a: 188-9, 202-3) reports that, in 1995, 13.3 percent of sales by Japanese manufacturing affiliates in the region consisted of exports to other countries in Asia; and 14.4 percent of procurements consisted of imports from other countries in Asia. Much of this intra-regional trade was conducted through intra-firm channels; 49.9 percent of the exports and 44.9 percent of the imports to/from other countries in Asia went to/came from other affiliates of the parent company.<sup>28</sup> But Japanese manufacturers also incorporated independent Japanese suppliers, as well as some Taiwanese and ethnic Chinese capitalists, into their production networks.

In 1997, a severe financial crisis spread through much of Asia, dramatically slowing economic growth and disrupting -- at least temporarily -- the virtuous cycle of industrial sequencing.<sup>29</sup> Japanese manufacturing affiliates, especially those -- like automakers -- who sold most of their goods in domestic markets, became saddled with excess production capacity. But, as we explain in chapter five, most of them managed to hang on with the help of their parent companies, the Japanese state, and their own regional networks. Automakers responded by trying to transform their domestic manufacturing bases into quasi-export platforms, thereby taking advantage of depreciated local currencies, while electronics manufacturers moved to deepen the regional division of labor even further by concentrating the production of specific goods at different plants across Asia, and then exporting those items to the rest of the

region and world.<sup>30</sup> Both automakers and electronics manufacturers aimed to raise levels of local procurement to avoid the higher costs of importing from Japan.

### **THE PARADOX OF JAPANESE REGIONALIZATION**

Anyone researching the activities of Japanese manufacturers in Asia quickly confronts a paradox. On the one hand, one invariably hears loud, sometimes even strident complaints, especially from academics and government officials in the host country, about how those “stingy” Japanese multinational corporations refuse to freely transfer their technology. For example, Park Woo-hee (1992), president of the Korean Academy of Industrial Technology, has called Japan the “black hole” of the innovating universe, forever sucking in technology (from the West) but never spitting it back out (to Asia). And Miranda Goeltom, a high-ranking official in Indonesia’s Office of the Coordinating Minister for Economy, Finance, and Development Supervision, argues that Japanese automobile and electronics assemblers in that country use unfair quality standards and inspections to discriminate against local (i.e., Indonesian-based) parts suppliers.<sup>31</sup> “Just rejecting and rejecting parts doesn’t teach anyone anything.” These kinds of complaints have been widely noted by researchers outside Japan, from Taylor (1995) to Hatch and Yamamura (1996), and increasingly by researchers within the country such as Ichikawa (1996) and Kono (1998). On the other hand, one cannot help but witness ample evidence that local firms in Asia quite often prefer doing business with Japanese MNCs.<sup>32</sup> How can we explain this paradox?

The answer is that, while Japanese technology does indeed come with strings tightly attached, it also comes with network ties that bring opportunities for local capitalists who seek profits rather than technological autonomy.<sup>33</sup> Indeed, the restrictive strings are equivalent to the supportive ties. By purchasing technology from a Japanese manufacturer, the Asian capitalist typically is forced to abide by sometimes mind-numbingly detailed conditions on the use of that technology.<sup>34</sup> In doing so, however, he also typically secures access to a broader set of social relationships, including longstanding customers, suppliers, distributors, and political allies of the Japanese manufacturer -- all of which may help him reduce his transaction costs over time.

In her comparative study of technology transfer by American and Japanese multinationals in Indonesia, Allen (1994: 24) argues that different kinds of learning -- "managerial learning" versus "organizational learning" -- occur in U.S. versus Japanese MNCs. Local managers in U.S. MNCs acquire individualized skills they can take with them as they move on in their careers, while local managers in Japanese MNCs learn about "the institutionalization of systems and structures" (p. 303), and about how they may fit into wider networks of relationships.<sup>35</sup> Likewise, Lin (1995: 65-6) notes that Japanese technology comes in a package of human relationships that, once unwrapped, may be difficult if not impossible to utilize. "To be able to adopt this kind of technology, one must be willing to work with the technology provider for a very long time."



These analyses dovetail neatly with my own suggesting that the regionalization of Japanese manufacturing entails, for better or worse, the regionalization of firmly embedded network ties. Two stories, one with a happy ending and one with an unhappy one, help illustrate this phenomenon.

A Thai auto parts producer has forged a highly successful joint venture with a Japanese MNC and thereby gained access to Japanese-dominated supply clubs in Thailand. He launched the manufacturing enterprise with \$400,000 he earned from his original business, an auto dealership, and was expecting to achieve \$50 million in sales in 1997. In an interview, he attributed his success to humility, to a recognition that he will never be able to do what his Japanese partner does. "Our mentality should be, 'Let them take the lead.' I take the lead on finance and personnel, but when it comes to technology, I let them take the lead. If they want to buy a machine, that's fine. I just ask them to make sure it gets used once in a while."

A member of supply clubs maintained by Honda and Toyota, this Thai parts producer says he sees fewer and fewer local faces at club meetings. "It's become an increasingly Japanese show. I'm one of the few locals left. The others lack understanding. They are getting wiped out by their own ignorance."<sup>36</sup>

Another auto parts supplier, this one in Indonesia, tells an entirely different story. This capitalist, who began as a textile manufacturer, is anxious to acquire technical skills because he one day hopes to become an automobile assembler himself. First, however, he wants to gain valuable experience producing components. To that

end, the firm had supplied flywheels to a major Japanese automaker -- until a rival supplier, a member of the automaker's own *keiretsu* in Japan, arrived on the scene. "Once the Japanese supplier moved in, [the Japanese assembler] dropped us right away," complained the Indonesian business executive. "They cooked up some story about quality and delivery problems. But when I examined the records, I found only one problem that had been reported early on, corrected immediately, and never again repeated."<sup>37</sup>

As these examples suggest, Japanese MNCs in Asia can make excellent business partners/customers -- at least in certain cases, and under certain conditions. For those local capitalists willing to go along with the fundamental rules of the networking game, the payoffs from cooperation are sufficiently large. But for local capitalists hoping to acquire technology and become autonomous actors in the market, the costs may be even larger.

### **THE JAPANESE DIFFERENCE**

This discussion, I suspect, will trouble those, including neoclassical economists, who prefer universalist models of analysis. But such models ignore the role of socially constructed institutions, which -- being social constructs -- vary, by definition, from place to place. Because they have been conditioned over time by institutions (i.e., distinctive policies and practices) in the home country, Japanese multinational enterprises can be expected to behave differently from non-Japanese MNCs.<sup>38</sup> And this

should be particularly true as they expand into Asia, where Japanese affiliates often serve, as discussed earlier, in a regional network or division of labor organized and supervised by the parent company in Japan.

In his comparative study of MNCs in Malaysia, Aoki (1992: 91) is struck by how much Japanese electronics manufacturers rely on such regional and local business networks. This “is in sharp contrast with U.S. multinationals in Malaysia, which do not form networks in spite of the fact that nearly all are producing ICs and semiconductors.”

But this contrast is a function of a more fundamental difference between Japanese MNCs and non-Japanese MNCs in Asia: The former remain tethered tightly to the parent company in Japan for much longer periods of time. From 1992 through 1997, I interviewed more than 30 local managers at Japanese manufacturing plants across Southeast Asia, and heard this same message over and over again. One Thai manager at an electronics plant outside Bangkok lowered his voice to a whisper as he spoke about management at the parent company in Tokyo: “They pretty much want to control everything.”<sup>39</sup>

I also visited the headquarters of a number of Japanese MNCs, where I interviewed executives in charge of regional corporate planning. Many view themselves as guardians of a set of business relationships that must be protected as much as possible as the firm expands overseas. One company executive, who supervises a machine tool manufacturing operation in Beijing, indicated that he and his colleagues in

Tokyo are considering a proposal to turn over limited authority to local managers in China.<sup>40</sup>

We make all the decisions now – not only on behalf of ourselves at the parent company, but also on behalf of all members of our extended family (*miuchi*). This way of doing business worked quite well in the past, when our operations were tightly concentrated in Japan. But now, as we regionalize, it is taking much longer for us to make important decisions. So I have suggested a hybrid approach that would allow us to immerse ourselves in the local environment without abandoning our extended family.

If one reads the literature on this subject, one quickly discovers that the results of my fieldwork are neither extraordinary nor groundbreaking. For example, Legewie (1999: 18) finds that Japanese manufacturers in Southeast Asia, compared to their U.S. and European counterparts, maintain “an unusually strong linkage” with the parent company and thus have “a relatively low level of decision-making autonomy.” And Itami (1998: 21) echoes this view: In East Asia, “overseas production by Japanese corporations is closely integrated with Japan’s domestic production systems (that is, they are not very independent). . . .”

Others who have conducted country-level studies reach much the same conclusion.<sup>41</sup> For example:

- In Thailand, Sedgwick (1996: 29-30) finds that Japanese manufacturing affiliates “are part of a tightly controlled and rigorously hierarchical organizational structure extending down from Japan.” And Nakashima (1998: 14), focusing more narrowly on a single automobile assembler in the Bangkok area, finds that the affiliate has adopted many of the parent company’s management policies “without modification.” Why? “This is not because local department and other managers lack the ability to devise a new system, but because they are not given the authority to do so.”
- In Singapore, Singh, Putti and Yip (1998: 155-79) use a case study to compare Japanese MNCs (Kao and Ajinomoto) and Western MNCs (Unilever and Philips), and conclude that the former are controlled much more firmly by their parent companies.
- In Indonesia, Takahashi (1996: 58) describes the hierarchical division of labor between the Japanese parent and its local affiliate, a manufacturer of desalinization systems. “The parent company in Japan draws up the project proposal, does the engineering and design work, and fabricates the major components of the system, with the subsidiary in Indonesia performing final

assembly and installation work. The work performed by the subsidiary is about one quarter of the total value of the project.”

- In Hong Kong, Chen and Wong (1997: 96) examine transactional ties between the parents and affiliates of Japanese and non-Japanese manufacturers.<sup>42</sup> “All Japanese firms indicated strong to medium linkages with their parents. In contrast, five out of nine US firms, as well as other foreign firms, indicated weak linkages with their parents.”
- In Taiwan, Tu (1997: 73) finds that Japanese manufacturing affiliates are more likely to have ongoing technical ties with their parents.<sup>43</sup> “Of the Japanese firms, 73 percent maintained close technical relationships with their parents, whereas only 45 percent of U.S. firms and 33 percent of “other” firms did.”
- In Malaysia, Ali (1994: 121) notes that Japanese manufacturing affiliates, relative to non-Japanese firms, tend to rely more heavily on their parent companies for basic research and new product designs.

If, as I have attempted to demonstrate, the ideal-typical Japanese manufacturing affiliate in Asia tends to be tied rather tightly to its parent, we should expect its behavior to reflect -- more or less -- the institutions of selective relationalism in the home country, where the parent operates. And indeed, each leg of the three-legged

stool discussed in chapter two seems to have been replicated, to some degree, in the regionalization of Japanese manufacturing.

### **Intra-firm Ties**

To be sure, Japanese manufacturing affiliates in Asia have not aggressively transferred the more “democratic” features of their homegrown management regimes, such as quality control circles and the “ringi” system of bottom-up communication.<sup>44</sup> Most, however, have adopted -- albeit in modified form -- other, more fundamental features that encourage long-term employment, loyalty, and “companyism.” For example, in a comprehensive survey of 132 Japanese manufacturers in Thailand, Malaysia, and Singapore, Kitajima (1997: 37) found that 90 percent of the respondents had fully or partially adopted the on-the-job training system they used in Japan, and about 55 percent had adopted the seniority-based pay system.

Indeed, one scholar has suggested that successful Japanese manufacturing affiliates have achieved such positive results by thoroughly adopting their homegrown management regimes. Specifically, the overseas affiliates of Toyota and Honda have outperformed Nissan, according to Kagano (1999: 60), because they have “spent a lot of time in transplanting their distinctive cultures, their distinctive way of management, a very homogenous one.”

In adopting their management regimes, however, Japanese MNCs have been relatively unwilling to entrust local staff with important positions in sales,

procurements, finance, and corporate planning. Even the Japanese government has fretted openly over this fact. In its 10<sup>th</sup> annual survey of the Japanese manufacturing affiliates in Asia, JETRO noted that more than 40 percent of respondents in 1997 acknowledged they did not have even one local (Asian) person sitting on the board of directors supervising that affiliate. "Such hiring is not progressing," it grouched.<sup>45</sup>

Mingsarn (1994: 84) notes that Thai managers are less likely to rise to the top of Japanese affiliates in Thailand; in her survey, only 15 of 84 Japanese MNCs (18 percent) had a Thai managing director, while 52 of 153 non-Japanese MNCs (33 percent) had a local person in that slot. These findings have been duplicated in numerous cross-national studies throughout the region.<sup>46</sup> I quote here from just one, Chia (1997: 55), which concludes with this comment on multinationals in Singapore's electronics industry:

Localization of senior personnel has been proceeding faster in U.S. than in Japanese firms. Most of the senior management of companies surveyed were completely non-U.S., with positions filled by Singaporeans and other Asians. For the Japanese firms, however, top management was invariably Japanese.

How can we explain such results? Some economists, noting that Japanese manufacturers are relative newcomers to the game of global business, believe they



reflect nothing more than inexperience. Citing a presumed “vintage effect,” they suggest that Japanese manufacturing affiliates will localize their operations more thoroughly as they gain more experience operating overseas. In an econometric study of technology transfer by Japanese MNCs in Asia, Urata (1996a: 19) finds a positive correlation between the length of operation in a host country and the localization of simple management and technical skills such as maintenance and inspection of machinery. Interestingly, however, he concludes that “the vintage effect does not have a significant impact on transferring more sophisticated technologies,” such as the design and development of new products.

For their part, Japanese manufacturers tend to blame linguistics for the slow place of localization.<sup>47</sup> That is, Asian managers and technicians are usually able to function well in English, but rarely can do so in Japanese. As a result, they say, these local staffers are excluded from important intra-firm communications, particularly those between the parent company and the affiliate. However, as should be readily apparent, this argument is hopelessly circular. If Japanese expatriates did not exercise such exclusionary control over the affiliate, it seems unlikely that intra-firm communications would need to be conducted so routinely in Japanese.

The most persuasive answer, it seems, comes from Itagaki (1997: 372-3).

**This tendency [to move slowly, if at all, toward localization] stems from one particular characteristic of Japanese companies, at home or abroad, which is to rely to a considerable extent on human networks within**

**companies and on information shared by employees, rather than on a standardized and integrated mechanism. Even if an affiliate enjoys strong autonomy, there are often cases where Japanese expatriates, who are most familiar with Japanese methods, exercise full discretion.”**

To sum up, large manufacturing enterprises in Japan are characterized by longstanding relational ties inside the firm. And when they replicate these ties as they expand into Asia, Japanese firms put outsiders, including local management candidates, at a severe disadvantage. To rise in the ranks, these management candidates must first become insiders; but to become insiders, they face enormous opportunity costs -- namely, the higher positions and higher incomes they could achieve more quickly at non-Japanese affiliates in the host economy.

### **Inter-firm Ties**

Japanese parent companies exercise authority over more than just the personnel matters of their manufacturing affiliates in Asia; they also have a lot to say about the direction of sales and the source of procurements. As one machine manufacturer puts it, “All of the important stuff -- quality control, decisions on which parts to use and where to source them -- is handled in Japan.”<sup>48</sup>

This helps explain why the ratio of “reverse imports” from Japanese manufacturing affiliates in East Asia is lower than from U.S. manufacturers in the

region. Kimura (1996: 12) suggests that Japanese parent firms have used their authority to limit such imports with the goal of protecting domestic employment in Japan. It also helps explain why Japanese manufacturing affiliates in the region do not move quickly - or, in some cases, do not move at all -- to sever longstanding ties with home-based suppliers of raw materials and components after setting up their Asian factories. A MITI study (1996: 73-74) found that even Japanese manufacturing affiliates with 15 or more years of experience in Asia continued to import an unusually large share of their intermediate products from the parent company's suppliers in Japan.<sup>49</sup>

In their local and intra-regional transactions, Japanese manufacturing affiliates in Asia often follow the relational contracting patterns established first at home by their parents. Tejima (1996) suggests, correctly, that this is a rational attempt to exploit a competitive advantage they enjoy in networking. I discuss this issue in greater depth in chapter five; for now, it is sufficient to note that one can easily find evidence of both horizontal and vertical *keiretsu* ties being replicated in the manufacturing operations of Japanese affiliates in Asia.

In the Philippines, where it established a joint venture to manufacture consumer electronics in 1982, Sharp secured financing for its plant from the Rizal Commercial Banking Corp., owned in part by Sanwa Bank, the financial hub of the horizontal *keiretsu* to which Sharp's parent company belongs.<sup>50</sup> Toyota, which has been affiliated with the Mitsui *keiretsu*, also pulled on horizontal strings when it set up its production plant in the Philippines in 1988. Mitsui Bussan, the group's giant trading company,

directed Toyota to industrial real estate, introduced it to local political and business leaders, and even helped underwrite the automobile manufacturing project.<sup>51</sup>

Just as common is what is known as “follow behind” investment (*zuihan shinshutsu*) carried out by subcontractors from an assembler’s vertical *keiretsu* in Japan. China has attracted a large amount of such Japanese investment by parts suppliers following their home country assemblers.<sup>52</sup> Kikai Shinkô Kyôkai (1995: 94) gives the example of subcontractors in the metalworking industry moving one after another into northeast China to service their Japanese customers. Thailand also has received an enormous amount of such “follow behind” investment; in 1995, more than half (56 percent) of all Japanese FDI in that country was carried out by subcontractors.<sup>53</sup> Anuroj (1995: 113) argues that Japanese manufacturing affiliates in Thailand are far more likely than their non-Japanese counterparts to use transplants from the home country as “local” suppliers. Suehiro (1998: 31) goes even further. He writes that “existing local components suppliers [have been] forced out of the market by Japanese ones who advance into this area to supply their products to Japanese assemblers.”

### **Political Ties**

Compared to U.S. and European MNCs, Japanese manufacturing affiliates in Asia cooperate closely with government officials from the home country. Panglaykim (1983: 17) has gone so far as to describe the Japanese MNC as “a formidable

integrated system” that straddles the private and public sectors. This is because the Japanese state traditionally has used its bilateral ODA to promote private investment flows to Asia, and also because the state traditionally has used industrial policies to support Japanese firms that have established operations in the region, or that are considering doing so.

In Asia, it is sometimes difficult to tell where the activities of the Japanese public sector end and those of the Japanese private sector begin. Consider two examples.

General Trading Companies (GTCs, or *sōgō shōsha*) serve as a proxy for the Japanese state in dealings with the region’s political outcasts. In 1991, when Tokyo was still honoring a U.S.-led trade embargo against Hanoi, the Mitsubishi Corp. delivered to Vietnamese officials a “master plan for the automobile industry in the Republic of Vietnam.”<sup>54</sup> It included a long list of recommended policies to limit the number of local manufacturers and to protect them from imports. More recently, Mitsui Corp. conducted studies for the military regime in Myanmar (Burma) on the feasibility of various development projects.<sup>55</sup> The Japanese state, which normally would carry out such activities, turned over the duty to Mitsubishi and Mitsui in these cases.

Another example of public-private cooperation in Asia is the Japan International Development Corporation (JAIDO). It was established in 1989, when the Japanese government -- operating through the Overseas Economic Cooperation Fund (OECF), the agency that provides low-interest loans to developing countries -- teamed up with

Japan's big business federation (Keidanren). In fact, OECF provided one third of JAIDO's start-up capital. It did so in part because it felt obliged to compensate private Japanese firms for lost business opportunities as the state in the late 1980s moved away from "tying" all of its yen loans to the purchase of equipment made in Japan or to the use of Japanese engineers and contractors.<sup>56</sup> Since the early 1980s, Japan had been under growing pressure from Western nations to "untie" more of its foreign aid.

JAIDO invests in joint venture projects, particularly export-oriented enterprises, in developing countries. About half of the projects financed by the organization have been in Asia. For example, it invested almost \$3 million in a steel plant in the Philippines, more than \$2 million in a joint venture in China to produce Japanese-language computer software, and \$8.7 million to build an office complex at Chulalongkorn University in Thailand.<sup>57</sup>

### **POSITIONAL POWER IN ASIA**

It is rather simple to demonstrate that the Japanese state, as well as Japanese MNCs, enjoy tremendous power in Asia. Indeed, host economies throughout the region depend heavily on resources provided by Japanese government and business interests. Consider that:

- Japan is the number one source of bilateral ODA for most countries in Asia. Indeed, in the mid-1990s, China received 50-60 percent, Thailand received

70-80 percent, and Indonesia received 60-90 percent of its government-to-government aid from Japan. Please see Table 3.5.

- **JICA experts serve as insiders in capitals throughout the region, providing valuable advice to host government agencies on industrial and macroeconomic policies. For example, since the early 1980s, Japanese officials have helped draft all of Thailand's five-year national development plans. In addition, they have encouraged Thai officials to liberalize trade and investment rules to lure more Japanese MNCs into targeted sectors. And they have pushed the Thai government to follow Japan's example by creating public institutions that cooperate with private industry, such as the Thai Export-Import Bank, and private sector groups that cooperate with the state, such as the Thai Dye and Mould Industrial Association.<sup>58</sup>**
- **Japan is the leading source of manufacturing FDI in Asia, especially the ASEAN-4, where it accounted for more than a quarter of all such flows in the decade from 1987 through 1996.<sup>59</sup>**
- **Japanese producers dominate important markets in host countries, from machine tools to bearings, from household appliances to automobiles. Indeed, in the ASEAN-4, they manufacture and sell an estimated 80-90 percent of the locally produced passenger and commercial vehicles.<sup>60</sup> And Japanese subcontractors in Southeast Asia have become the chief source of auto parts for those assemblers. In Indonesia, 46 of the 53 major (foreign)**

joint ventures in the auto parts industry are Japanese.<sup>61</sup> Even if one includes purely local suppliers (i.e., firms with no foreign capital), which generally produce only low-value added parts, Japanese affiliates make up nearly half of all auto parts manufacturers in Indonesia.<sup>62</sup>

- Japanese manufacturing affiliates are major employers -- with more than 1.1 million Asian workers on their payrolls in 1995. In Thailand, Japanese firms employ 7 percent of all production (shop floor) workers, according to the Japanese Chamber of Commerce and Industry (Bangkok) (1997). In Malaysia and Singapore, they employ 45 percent and 25 percent, respectively, of all workers in the electronics/electrical machinery industry (Okamoto 1996: 20).
- Japanese MNCs generate a significant share of the exports from different host countries in Asia. For example, the Japanese Chamber of Commerce and Industry (Bangkok) (1997) notes that its members produce nearly a quarter of all exports from Thailand.

By generously supplying such resources (ODA, policy advice, FDI, production/technology, jobs, exports), Japanese state and business interests have gained relative power in bilateral negotiations with their counterparts in Asia. Although they rarely need to use it, they hold an awesome trump card -- the threat to withdraw the supply of such resources.<sup>63</sup> Hatch and Yamamura (1996: 144-5) document how the



Japanese government persuaded the Thai government to move ahead with the Eastern Seaboard Development Program, a major construction project favored by export-oriented manufacturers from Japan, by threatening to cut off the flow of ODA to Thailand. Likewise, Legewie (1998: 32-3) documents how Matsushita persuaded the Malaysian state to go along with its AICO proposal to reallocate the regional production of electric fans and to reduce tariffs on the intra-regional trade of parts used to assemble those fans, even though Malaysia would lose production capacity and jobs under the proposal. Matsushita got its way by threatening to move all of its fan production in Malaysia to Thailand.

Japan, according to a number of Japanese scholars, was the driving force behind the economic success of the Asian “tigers” and “new tigers” in the 1980s and the first half of the 1990s. And they say it continues to dominate the region. In his econometric study of international backward linkages, Inomatsu (1998: 57) concludes that “Thai industries have fallen into chronic dependency on Japanese goods and services, no matter how costly they may be due to the persistent appreciation of the yen.” And Kanô Yoshikazu, president of the Kokumin Keizai Kenkyû Kyôryoku Kai (National Economic Research Cooperation Society), writes that:

In reality, manufacturing industries in Asia are completely dependent on Japan. In product and process technologies, Japan is way ahead, and in

all the countries in the region, local firms are eager to forge joint ventures with Japanese firms (1996: 81).

But Watanabe Toshio, a well-known economist at the Tokyo Institute of Technology, bristles at this kind of talk: “It is sheer arrogance to imagine that Japan plays such a larger-than-life role” in the region (1996: 57). He argues that the regional economy of Asia is now largely independent of Japan’s national economy, and is driven by intra-Asian trade or what he refers to as an “internal circulation mechanism” (*ikinai jiko junkan mekanizumu*).

If we treat “Japan” as a unitary actor (one economy in the global economy, or one nation in the international system), and if we consider only “Japan’s” relative power (the relative amount of resources it brings to its bilateral economic relations with individual Asian countries), Watanabe may have a point. For example, in the 1980s and 1990s, the increasingly integrated economies of Asia did begin to reduce their reliance on Japan as an export market and became, instead, more dependent on one another for trade and investment. However, even Watanabe acknowledges in the end (p. 65) that Japanese interests have played a critical role in bringing about -- or fostering (*unagashiteru*) -- this emerging Asian regionalism.

In other words, Japanese elites do much more than bring considerable resources to bear on their activities in individual countries in Asia; they also act as agents of regional integration, occupying central nodes in an integrated structure of

administrative and production networks linking political and economic actors in the region. Japanese elites thus serve as “gatekeepers” controlling access to resources (public goods associated with regional cooperation) locked inside that network structure. They are, as Takenaka (1996: 133) puts it, “the glue holding together a complex web of relationships.” In this way, Japanese elites enjoy *positional* power (control over access to network resources) and not merely relative power (coercive authority that comes with possessing relatively abundant resources) in Asia. Using different terminology with, nonetheless, much the same meaning, we might say that these elites have acquired “structural autonomy” (Burt 1992: 44–45) by embedding their regional exchange partners in networks they dominate. A few examples may illustrate this point.

### **The State: Exercising “Coordinatorship”**

Japanese bureaucrats have occupied central positions in the expanding and deepening linkages that characterize the regionalization of Asia. Rather than outright “leadership,” they have exercised what Yanagihara (1987: 418) calls “coordinatorship,” a forceful but largely behind-the-scenes effort “to achieve an alignment of diverse interests and to form consensus, or at least an appearance of it, among the region’s countries with respect to intra-regional and global economic issues.”

More specifically, economic ministries have tried to coordinate competing economic interests in Asia by creating new industrial federations that function as the

regional equivalent of trade associations. And MITI has organized its counterparts throughout the region into a group (the ASEAN Economic Ministers (AEM)-MITI Economic and Industrial Cooperation Committee) to pursue industrial policies and coordinate development plans on a regionwide basis. As we discuss further in chapter five, MITI supplies both the financing and the staff for this organization. One of the goals of AMEICC, as well as the new industrial federations, is to harmonize standards, accounting rules, certification requirements and other programs that individual states in the region have implemented on an *ad hoc*, unitary basis. JETRO, meanwhile, has established a program to encourage the deepening of economic linkages, especially between parts suppliers and assemblers.

#### **Trading Companies: Regional Distribution and Deal-making**

Blessed with their own warehouses and customs clearance centers at major ports throughout the region, Japanese GTCs have become pivotal players in Asia's distribution networks. Itôchu, alone, claims to handle 10 percent of the trade between China and Japan.<sup>64</sup> Mitsui Soko, a logistics firm, has created a regional distribution system, a replication of the vaunted just-in-time delivery system, for Sony in Malaysia and Thailand. It stores and sorts parts and materials, as well as finished products, at local warehouses, pushes them through customs, and then purchases discount space on container ships headed to the desired port. At each step in this process, a complex

satellite system monitors the progress of parts headed for Sony plants, or finished goods shipped from Sony plants.<sup>65</sup>

In recent years, many scholars and many more journalists have focused attention on the “overseas Chinese” in Taiwan and Southeast Asia who presumably use their ethnic “connections” to set up joint ventures in the mainland.<sup>66</sup> But even some of those with the best connections in China have been known to rely on Japanese trading companies to make those deals come to life. For example, the Salim Group, Indonesia’s largest conglomerate, owned by Chinese-Indonesia capitalist Liem Sioe Liong, used Marubeni to broker an agreement to establish a textile factory in southern China. “It is safer for the overseas Chinese to go in with us,” explains Nishida Ken’ichi, head of the trading company’s Hong Kong office and deputy chief representative in China. “If the Chinese don’t fulfill the agreements, we can ask the Japanese government [for help.] We also have purchasing power to resell their products in our market.”<sup>67</sup>

### **Manufacturers: Regional Production Networks**

As discussed earlier, Japanese manufacturers have set up regional networks to assemble finished goods in one particular location using components imported from other factories in Asia. These networks tend to be exclusionary, consisting largely of the regional affiliates of the parent company in Japan, or of the regional affiliates of the parent’s *keiretsu* suppliers in Japan. This is particularly true with respect to the electronics industry. MITI (1998a: 213 and 220) reports that nearly 60 percent of intra-

regional exports by Japanese electronic firms in Asia move through intra-firm channels, while 46 percent of intra-regional imports come from such intra-firm channels.

Nonetheless, the regional production networks of Japanese MNCs do occasionally include truly local suppliers; and they always hold the *possibility* of including more. Furthermore, these networks often accommodate non-Japanese MNCs, particularly contract manufacturers from Taiwan, in significant supporting roles. For example, Jinbao Electronics has assembled calculators in Thailand for Sharp on the basis of an original equipment manufacturing (OEM) agreement.<sup>68</sup> And Dai Hwa Electronics has assembled audio components in Indonesia for Sony on a similar OEM contract.<sup>69</sup> In both cases, the Taiwanese MNCs slavishly followed the Japanese parent's technical specifications, using only parts manufactured by the parent's suppliers. In the process, however, they gained valuable experience in this contract-assembler role.

Finally, and most importantly, these Japanese production networks are fostering the economic integration of Asia and thereby generating network resources (as well as income, employment, and exports/foreign currency reserves) for host economies in the region. They have, for example, contributed heavily to Asia's growing intra-regional trade (which was 45 percent of the region's total trade in 1995, up sharply from 26 percent in 1985).<sup>70</sup> From Pusan to Bandung, government and business officials in those host economies recognize this fact, and thus compete with one another to attract Japanese manufacturing investment.

## **AN ASIAN OASIS**

Since the early 1990s, Asia has nicely served the interests of Japanese elites who dominate the region's emerging administrative and production networks, providing a kind of cushion during hard times at home. Political elites secured new turf (*nawabari*) just as reformers sought to reduce their policy discretion in Japan. Economic elites, meanwhile, gained handsome profits at a time when such earnings flagged elsewhere.<sup>71</sup> In 1995, manufacturing affiliates in Asia earned profit rates of 4.1 percent, compared with 2.0 percent and 1.3 percent for affiliates in the US and Europe, respectively, and 2.9 percent for domestic manufacturers in Japan (MITI 1998a: 256 and 40). (It should, therefore, come as no surprise that, at least in the first half of the 1990s, plant and equipment investment in Japan fell each year, while Japanese manufacturing investment in Asia held its own or increased slightly each year.<sup>72</sup>)

For Japanese elites, then, Asia has become an extension of Japan. Or vice versa. Inoue (1997: 61) argues that Japanese firms are becoming "Asian" firms. And an arm of MITI (Zenkoku Shitauke Kigyô Shinkô Kyôkai 1997: 49) concludes that "domestic production must now be viewed as part of an Asia-wide division of labor, a regionally organized specialization system." This is evident in that way that Japanese manufacturers use the region as a hedge mechanism; whenever the yen appreciates sharply, they shift to Asia a larger share of the production of standardized goods.<sup>73</sup>

Harada Tamotsu of the Electrical Industry Association of Japan summarizes this new reality in a simple sentence: "Asia is no longer 'overseas'."<sup>74</sup>

**Table 3.1**  
**Growth in Stock of Japanese FDI (as a percentage of GDP)**

	1960	1971	1980	1985	1990
Belgium	1.5	1.5	1.2	0.6	1.4
Canada	3.7	4.2	4.3	5.7	4.6
France	6.0	4.8	2.4	3.0	6.9
Germany	1.2	4.7	8.5	8.8	9.5
Holland	10.3	2.6	8.3	7.0	6.8
Italy	1.6	1.9	1.4	2.4	3.6
<b>Japan</b>	<b>0.7</b>	<b>2.8</b>	<b>3.9</b>	<b>6.5</b>	<b>12.7</b>
Sweden	5.9	1.5	1.6	2.1	1.6
United Kingdom	18.2	15.2	15.9	14.9	15.4
United States	46.9	53.1	43.3	37.0	26.5

Source: OECD, *International Direct Investment Statistics Yearbook* (various years).



**Table 3.2**  
**Japanese Manufacturing FDI to Asia**  
**(SUS mill; % of Total)**

<b>Year</b>	<b>To Asia</b>	<b>To World</b>	<b>Asia's Share</b>
1986	789	3,806	20.7
1987	1,652	7,832	21.1
1988	2,338	13,805	16.9
1989	3,106	16,284	19.1
1990	2,994	15,486	19.3
1991	2,894	12,311	23.5
1992	2,897	10,057	28.8
1993	3,587	11,132	32.2
1994	4,941	13,784	35.8
1995	7,762	18,623	41.7
1996	6,194	20,258	30.1
1997	6,776	19,612	34.5

Source: Calculated by the author from Ministry of Finance, *Kokusai Kinyūkyoku Nenpō*, various years

**Table 3.3**  
**Location of Overseas Japanese Manufacturing Affiliates**  
**(1995)**

	Number of Companies	Share of Total
North America	1,134	21.6
Asia	2,979	56.8
(China)	(746)	(14.2)
(ASEAN-4)	(1,114)	(21.2)
(NIEs-4)	(1,042)	(19.9)
Europe	752	14.3
Other	378	7.2
<b>TOTAL</b>	<b>5,243</b>	<b>100</b>

Source: MITI (1998: 24).

**Table 3.4**  
**Japan's Technology Exports to Asia**

<b>Year</b>	<b>Volume (US \$ bill)</b>	<b>Share of Japan's Total Tech Exports (%)</b>
1986	0.69	39
1987	0.69	40
1988	0.81	41
1989	1.03	39
1990	1.23	45
1991	1.36	46
1992	1.33	44
1993	1.49	47
1994	1.71	46
1995	2.25	50
1996	2.75	49

Note: Dollar amounts are based on a constant exchange rate of Y125 = \$1.

Source: Kagaku Gijyutsuchō, *Kagaku Gijyutsu no Shinkō ni kansuru Nenpō Hōkoku* (Annual Report on the Promotion of Science and Technology).

**Table 3.5**  
**Japan's Bilateral ODA to Asian Countries**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>China</b>	832.2 (55.7)	723.0 (51.0)	585.3 (46.3)	1,050.8 (50.6)	1,350.7 (60.2)	1,479.4 (61.8)	1,380.2 (54.5)	861.7 (51.6)	576.9 (47)	1,158.2
<b>Indonesia</b>	1,145.3 (67.2)	867.8 (57.2)	1,065.5 (60.9)	1,356.7 (68.8)	1,148.9 (60.1)	886.2 (56.9)	892.4 (68.5)	965.6 (90.9)	496.9 (62.9)	828.5
<b>Thailand</b>	488.9 (74.4)	418.6 (57.2)	406.2 (63.5)	414.0 (59.5)	350.2 (62.2)	382.6 (70.4)	667.4 (80.7)	664.0 (82.7)	468.3 (77.9)	558.4
<b>Philippines</b>	403.8 (53.3)	647.5 (58.8)	458.9 (53.2)	1,030.7 (67.0)	758.4 (56.8)	591.6 (62.8)	416.1 (55.6)	414.5 (55.4)	319.0 (56.2)	297.6
<b>Malaysia</b>	79.6 (60.3)	372.6 (81.3)	199.9 (73.2)	157.1 (80.6)	n/a	n/a	64.8 (60.7)	n/a	n/a	179.1

note: upper figure is Japan's contribution in \$US million; lower is Japan's share of recipient's total bilateral aid  
source: MOFA, *Wagakuni no Seifu Kaihatsu Enjo no Jisshi Joukyou*, various years.

**Table 3.6**  
**Flow of JICA Experts to Asia**

Year	<b>Number of Experts Dispatched to Asia</b>	<b>Share of Total Number of Experts</b>
1991	<b>1,292</b>	<b>50.3</b>
1992	<b>1,354</b>	<b>49.7</b>
1993	<b>1,513</b>	<b>51.9</b>
1994	<b>1,583</b>	<b>52.9</b>
1995	<b>1,565</b>	<b>51.4</b>
1996	<b>1,804</b>	<b>59.0</b>

Source: MOFA, *Wagakuni no Seifu Kaihatsu Enjo no Jisshi Joukyou*, various years.

## Notes to Chapter Three

<sup>1</sup> Japan's manufacturing productivity actually decreased 0.1 percent a year, on average, between 1990 and 1994. By 1994, Japan's level of manufacturing productivity was second from the last in a ranking of 12 industrialized countries. Only South Korea was ranked lower. See Seisensei Kenkyūjo (1997: 4).

<sup>2</sup> Although the Clinton administration's approach was new, U.S. pressure on Japan had been building for some time. In September 1989, the two governments began negotiations on the "structures" of their respective economies. The U.S. pushed, for example, for stronger enforcement of Japan's Anti-Monopoly Act, and elimination of exclusionary *keiretsu* ties. For the most part, these negotiations were unsuccessful. See Schoppa (1997).

<sup>3</sup> The Maekawa Commission, set up by former Prime Minister Nakasone and chaired by a former governor of the Bank of Japan, highlighted this reality in its 1986 report – but it was not until the 1990s, well after the bubble burst, that other prominent government officials and business leaders paid much notice.

<sup>4</sup> Due to the legacy of Japanese imperialism, China and South Korea are the most reluctant to deepen ties with Japan. But bitter memories have not stopped the Chinese government from relying on Tokyo for most of its bilateral ODA or Korean firms from obtaining almost half of their technology imports from Japanese firms.

<sup>5</sup> Quoted in *Financial Times*, 21 December, 1992, p. 23.

<sup>6</sup> *Keidanren Review*, special issue, 1993, p. 8.

<sup>7</sup> This turnaround is even more dramatically revealed in figures on the *flow* of direct investment. In the 1978-80 period, Japan accounted for only 5.6 percent of the total FDI flows from developed countries. (The U.S., U.K., and Germany, by contrast, accounted for 43.2, 14.6 and 9.0 percent, respectively.); in the 1988-90 period, Japan accounted for 21.1 percent. (This share was larger than that for the U.S. (12.9), U.K. (15.1), and Germany (9.9)). Using a different yardstick, however, we must conclude that Japanese manufacturers remain relatively cautious about producing overseas. Compared to their counterparts from the United States and Germany, who in 1994 produced 36 and 23 percent, respectively, of their total output in foreign countries, Japanese manufacturers had an overseas production ratio of only 8.6 percent that year – the latest year for which comparable data could be obtained (MITI 1998a). Although low in comparison to manufacturers from other industrialized countries, the 1994 rate for Japanese manufacturers represents a big increase from earlier years. The rate in 1985, for example, was a measly 3.0 percent.

<sup>8</sup> See MITI, *Wagakuni Kigyō no Kaigai Jigyō Katsudō*, various years.

<sup>9</sup> This study used a gravity model, testing the effect or "weight" of different variables (such as the GNP of a trading partner and the distance from a trading partner) on U.S. bilateral imports. The key explanatory variable was the cumulative stock of Japanese FDI in a particular country exporting to the U.S. The coefficients of this variable, when disaggregated for machine industries, were positive and statistically significant at the 5 percent level. For general machinery, the authors used 85 observation points and achieved an adjusted R-squared of 0.867. For electrical machinery, the corresponding figures were 90 and 0.781; for transportation machinery, they were 79 and 0.884.

<sup>10</sup> More than 70 percent of Japanese manufacturing FDI in Asia is carried out by firms in the four machinery industries (electronics, automobiles, general machinery, and precision machinery. See MITI (1999a: 159).

<sup>11</sup> Interview with Matsukawa Yoshihiro, Matsushita corporate planning, Osaka, March 26, 1999.

<sup>12</sup> One must acknowledge, of course, that FDI often has a regional bias. Just as Japanese manufacturers invest heavily in Asia, U.S. manufacturers invest heavily in Canada and Mexico, while European manufacturers invest heavily in other countries in Europe.

<sup>13</sup> See MITI 1998a: 53; and JETRO 1997a: 32.

<sup>14</sup> See JETRO (1998:4).

<sup>15</sup> See Japan Machinery Exporters Association (1994). This was a survey of 144 Japanese machinery manufacturers with factories in China, the Asian NIEs, the ASEAN-4, and Vietnam.

<sup>16</sup> This is taken from Fourin (1998a).

<sup>17</sup> See Japan Finance Corporation for Small Business (1997: 35). In 1994 and 1995, Asia received a smaller, but still substantial share (about 50 percent) of all of the overseas investment projects by Japanese auto parts producers. See Watanabe (1996: 23).

<sup>18</sup> SME Agency 1998: 73.

<sup>19</sup> The Japanese state has encouraged this second, but entirely peaceful invasion by providing loans to SME investors and by spending \$60 million to develop land and infrastructure in and around Dalian. See *The Nation* (Bangkok), Sept. 5, 1997.

<sup>20</sup> Even though MNCs engaging in such “intermediate forms” of FDI do not acquire a majority equity stake in an offshore business, they often gain *de facto* control over the business. This is why Oman and other economists treat them as variants of foreign direct investment.

<sup>21</sup> Ojima Yoshihisa, a former high-ranking MITI official, actually used this analogy in a 1970 speech to a group of Asian government officials.

<sup>22</sup> The “flying geese” concept was first used by Akamatsu Kaname (“A Historical Pattern of Economic Growth in Developing Countries,” in *Developing Economies*, vol 1, 1962) to describe the process of technological assimilation that allowed a single industry in a developing economy to “graduate” from dependence on imports and eventually become a producer of internationally competitive exports. He was describing the turn-of-the-century textile industry in Japan. The concept was later used by Japanese economists such as Kojima Kiyoshi (1978) to describe the pattern of trade and investment within Asia that carried technology from mature to maturing economies. The concept was appropriated again in the 1980s by Japanese government officials, such as Okita Saburō (1986), who used it to promote Japanese trade and investment in the region.

<sup>23</sup> The speech is reproduced in the *ASEAN Economic Bulletin*, vol. 8 (1991).

<sup>24</sup> MITI, *White Paper on International Trade*, 1992 (English version). Tokyo: JETRO, pp. 101-118. For more on the role of the Japanese state in this process, see Hatch and Yamamura (1996: 117-122, and 138-141, and Machado (1995), pp. 35-6.

<sup>25</sup> Urata (1996b: 10) does a fine job of describing this strategy of “breaking up the entire production process into several sub-processes and locating labor-intensive sub-processes in labor abundant Asian countries.”

<sup>26</sup> Hatch and Yamamura (1996: 25), based on interviews with Sony officials in Tokyo (July 1992) and Penang (April 1993).

<sup>27</sup> Hatch and Yamamura (1996: 26-27).

<sup>28</sup> Data come from MITI (1998a: 213 and 220).

<sup>29</sup> Most economists have blamed the crisis on premature moves to liberalize Asian financial markets. This argument has plenty of merit: Banks and security houses were ill equipped to handle the wash of capital into – and, unfortunately, out of – these countries in the mid 1990s. But exchange rate movements also played an important role. China devaluated its currency in 1994, making its labor-intensive exports highly competitive relative to those from the ASEAN-4. And the yen lost 18 percent of its value against the dollar between 1995 and 1996. This undermined the “virtuous cycle of development” anticipated in the flying geese model. Many Japanese manufacturers shifted export-

oriented production from Southeast Asia to coastal China, or back to Japan. This analysis is developed more completely in Hatch (1998).

<sup>30</sup> *Asahi Shinbun* describes these emerging strategies in a three-part series, "Ajia Kiki Ni-nen" (The Asian Crisis, Year Two) in June (3, 4, and 5) 1999. *Business Week* also carried an informative article ("Japan's Asian Comeback") in its November 1, 1999 edition. Among other things, it noted that more than one-third of Japanese companies in the region have raised their export levels.

<sup>31</sup> Interview, Jakarta, September 16, 1997.

<sup>32</sup> The government of South Korea has tried valiantly to persuade domestic manufacturers to rely on other foreign technology sources besides Japan. But despite this effort, between 1962 and 1995, 48 percent of South Korea's technology imports came from Japan. See Korea Industrial Technology Association (KITA), "Major Indicators of Industrial Technology," 1996, pp. 180-81.

<sup>33</sup> Seki notes that many Asian capitalists who forge ties with Japanese MNCs come from the real estate or financial sectors, not from manufacturing, and thus have very little knowledge about or interest in the technology being transferred. "What this means is that the Japanese partner is stuck with the burden of doing virtually all the work; but at the same time, it also means that he can enjoy the luxury of making his own decisions without worrying about the local partner." See *Nihon Keizai Shinbun*, "Kigyō no shinshutsu wa tomaranai" (FDI won't stop), an interview, January 5, 1997, p. 11.

<sup>34</sup> These include requirements to purchase specified products or raw materials, or to sell through identified agents or distributors, and include restrictions on the export of goods to particular markets. For more on this, see Hatch and Yamamura (1996: 108).

<sup>35</sup> This difference could also be characterized as one between social (therefore tacit) knowledge and individual (therefore explicit) knowledge. A clear example of this is the use of routinized "apprenticeship" (on-the-job training) in Japanese firms versus a reliance on manuals in American firms. See Kitajima 1998.

<sup>36</sup> Interview, Ayutthaya, Thailand, September 10, 1997.

<sup>37</sup> Interview, Jakarta, Indonesia, September 20, 1997.

<sup>38</sup> This insight is hardly novel. In attacking the "myth" of the global corporation, Doremus, Keller, Pauly, and Reich (1998: 3) find evidence of "the enduring influence of national structures within the home states of the world's leading corporations," national structures that "continue to account for striking diversity in the character of core operations undertaken by those corporations." For an abridged version of this argument, see Pauly and Reich (1997).

<sup>39</sup> Interview, Chonburi, Thailand, September 9, 1997.

<sup>40</sup> Interview, Tokyo, July 26, 1999.

<sup>41</sup> Beechler (1995) is an exception to this rule. In the 1995 study, she finds "very few differences in the coordination and control mechanisms used by Japanese and American affiliates" in Southeast Asia. This is surprising in light of survey findings she reported only three years earlier. Beechler wrote then (1992: 163) that respondents – Japanese managers in charge of Japanese consumer electronics plants in Southeast Asia – "felt under increasing pressure from both local governments and employees and from third parties, such as Japanese and Western academics, to transfer technology, localize management, decentralize control, and 'de-Japanize' authority. However, they also believed that this process would put their operations at risk and would therefore not be carried out until all other alternatives were exhausted."

<sup>42</sup> Conclusions are based on the findings of a survey of seven Japanese and nine U.S. MNCs in Hong Kong. The authors asked the firms to indicate how much of their total exports they ship to their parent company, and also how much of their capital and technology, as well as machinery, material, and parts they source from their parent company.

<sup>43</sup> Respondents to this survey included 21 MNCs from Japan, 11 from the U.S., and 10 from other countries or economic areas.



<sup>44</sup> This point has been made previously by Sedgwick (1996), Smith (1993), and Yamashita, Takeuchi, Kawabe, and Takehana (1989).

<sup>45</sup> The quote actually comes from a JETRO press release dated April 23, 1997.

<sup>46</sup> See, for example, Ali (1994: 119), Sedgwick (1996: 20), and Stewart (1985: 13-14). The slow pace by which Japanese firms localize their overseas management is not a purely "Asian" phenomenon. A study by Gregersen and Black found that only 23 percent of the top management jobs in Japanese affiliates all over the world were held by non-Japanese, while 55 percent of the top management jobs in U.S. overseas affiliates were held by non-Americans. (See *Daily Yomiuri*, November 6, 1999).

<sup>47</sup> Interviews, Bangkok, Beijing, Jakarta, Kuala Lumpur, Seoul, Singapore, Taipei, 1992-1997

<sup>48</sup> Onishi Akira, vice-president of Mabuchi Motor, as quoted in Katayama (1996: 246).

<sup>49</sup> This controversial finding is based on a survey of nearly 900 Japanese manufacturing affiliates in Asia in 1994. MITI organized the data according to the time period in which respondents actually began operating in the region (1992-4; 1989-91; 1986-8; 1983-5; and up to 1982), and then evaluated how heavily the affiliates in each group relied on Japan for imported parts. MITI fully expected to confirm the so-called "vintage effect;" i.e., that overseas affiliates will, over time, procure an increasingly large share of their parts from local suppliers and – conversely – procure a smaller and smaller share from the parent company, or the parent company's suppliers, back in the home country. But the results defied MITI's expectations.

<sup>50</sup> *Far Eastern Economic Review*, May 2, 1991, p. 46.

<sup>51</sup> See Sender (1996: 48).

<sup>52</sup> See Japan Small Business Corporation (1997: 8).

<sup>53</sup> JETRO (1997a: 190). Also see Mukoyama (1996: 7), who cites statistics from the Thai Board of Industrialization indicating that nearly one-third of JFDI in 1994 went into supporting industries.

<sup>54</sup> The document is discussed in Hatch and Yamamura (1996: 34-5; and 136-7).

<sup>55</sup> Sender (1996: 48).

<sup>56</sup> Interview, OECF headquarters (Tokyo), June 24, 1999.

<sup>57</sup> "JAIDO," a company brochure.

<sup>58</sup> Interviews with Thai and Japanese officials, July 1992, April 1993, July 1995, September 1997. For more on these personal networks between Japanese government officials and their counterparts in Southeast Asia, see Hatch and Yamamura (1996: 130-145).

<sup>59</sup> See also Legewie (1998: 10), who notes that country-level data on FDI flows grossly exaggerate the significance of intra-regional investment from the Asian "tigers," particularly Hong Kong and Singapore, and from the "new tigers," particularly Malaysia. Much of the FDI attributed to these countries actually comes from Japanese firms with operations there, or from local firms who move domestic capital offshore and then invest it back into the home country to take advantage of incentives offered to foreign investors.

<sup>60</sup> This estimate comes from Automotive Resources Asia, a Bangkok-based consulting company. The *Nikkei Weekly* ("Japan's Share of Car Production in ASEAN to Fall, Says Study," March 9, 1998) put the figure at 76 percent of total production in ASEAN.

<sup>61</sup> Interview and association directory, Gabungan Industri Alat Mobil & Motor (GIAMM/ Indonesia Auto parts and Components Industries Association), Jakarta, September 15, 1997.

<sup>62</sup> See Fourin (1998a).

<sup>63</sup> In discussing the ability of transnational investors to move capital into and out of developing markets, Winters (1996) has called this "power in motion."

<sup>64</sup> See Sender (1996: 47).

<sup>65</sup> See Tokunaga (1992).

<sup>66</sup> See, for example, Weidenbaum and Hughes (1996), Haley et al (1998), Kao (1993), and *Fortune*, October 5, 1992.

---

<sup>67</sup> See Sender (1996: 47). Sender notes that Marubeni was brought in partly because company president Toriumi Iwao had befriended Liem many decades earlier when he worked as a young trader in Indonesia.

<sup>68</sup> Bernard and Ravenhill (1995: 186-7).

<sup>69</sup> Interview. Sony Electronics Indonesia, September 19, 1997, Jakarta.

<sup>70</sup> Calculated from IMF, *Direction of Trade Statistics*, various years.

<sup>71</sup> In addition to generating higher levels of profit, MITI (1998b: 260-1) notes that Japanese manufacturing affiliates in Asia contribute to Japan's trade surplus (that is, they import more from Japan than they export back to Japan), and they do not lead to the technological "hollowing out" of Japan (that is, R&D operations generally remain at home). As a result, MITI concludes that, for Japan, investing in Asia is a better deal than investing in the U.S. or Europe.

<sup>72</sup> See EPA 1995: 291).

<sup>73</sup> See JETRO (1997a 28) and EPA (1995: 295-6).

<sup>74</sup> Japan Small Business Corp. (1997: 8).

## **Chapter Four**

### **Preserving Core Networks:**

### **The Domestic Outcome**

Over the last 15 years, Japan -- like almost every industrialized country in the world -- has been buffeted by the forces of globalization. As a result, its political economy has undergone change. But how *much* change and, more importantly, what *kind* of change has it actually experienced?

This chapter seeks to answer those questions by comparing the institutions of selective relationalism in the 1970s and early 1980s (before Japan was subjected to intense stress from the market and political forces of globalization) with the institutions of political economy existing in the 1990s. It builds upon chapter two, which offered not only a baseline for analyzing the extent and nature of change, but also offered a model for doing so. That is, I will look for change or continuity in state-industry ties, business-business ties, and management-labor ties.

Let us begin by acknowledging perhaps the most important change in the macro-political economy of Japan: the widening gap between “winners” and “losers.”<sup>1</sup> Japan’s rich got much richer during the “bubble years” of the late 1980s, when asset prices soared to unprecedented levels.<sup>2</sup> And in the 1990s, after the bubble burst, those with the least got hit the hardest in the slowdown and recession that followed.

Unemployment reached a record high for the postwar period (4.9 percent in the summer of 1999) and the ranks of the jobless included a disproportionate number of newly hired or nearly retired men, younger women, and foreign workers of all ages. In Hamamatsu, Shizuoka, an area filled with automobile parts production facilities that in the past had served as a magnet for Brazilian immigrants of Japanese ancestry, an

estimated 2,000 of the community's 10,000 Japanese-Brazilian residents were unemployed in 1998 (*Yomiuri Shinbun*, October 4, 1998).

Small manufacturers also suffered disproportionately as their sales volumes and profit rates began, in the mid-1990s, to lag far behind those of large manufacturers. (*Nihon Keizai Shinbun*, July 9, 1997 and March 12, 1998; SME Agency (1998: 23). By 1998, 47.1 percent of the manufacturing firms filing for bankruptcy were extremely small (capitalized at less than 10 million yen) and another 48.2 percent were small or medium-sized (capitalized at between 10 million and 50 million yen); only 4.6 percent of the failed manufacturers that year were reasonably large (capitalized at more than 50 million yen) (Teikoku Data Bank, *Teikoku Nyusu*, January 19, 1999, p. 12).

The growing "polarization" of Japanese society, as Tachibanaki (2000: 76) puts it, manifests itself in at least two key indicators:

- The Gini coefficient, which always ranges between zero (complete equality) and unity or one (complete inequality). In the early postwar period, Japan's Gini coefficient was rather low (less than 0.3). By 1993, however, it had climbed to 0.44, almost the same as that of the United States (Tachibanaki 1998).
- The central government's survey on social mobility (SSM), which has been conducted every 10 years since 1955. Using the survey results, Satô (2000) identifies five distinct social strata in Japan, including upper-level white-collar employees (UWE) who occupy the top professional or managerial positions

(i.e., those offering the greatest security, pay, and prestige). Correcting for “noise” in the numbers, he finds that 40-year old members of the most recent baby-boom generation (born between 1936 and 1955) were far less likely to break into the UWE strata than 40-year old members of the previous generation (born between 1926 and 1945).<sup>3</sup> They even faced significantly higher obstacles than their distant peers born between 1916 and 1935, and about the same obstacles as their even more distant peers born between 1906 and 1925. “The possibility of becoming middle class,” Satô concludes (p. 73) “is eroding.”

For the Japanese, these cold winds were relatively new – and thus both unfamiliar and unwelcome. Since the 1950s, they had prided themselves on living in the industrialized world’s only “classless” society, one in which virtually everyone is “middle class” or “middle stream” (*chūryū*). “People are losing the perception that society offers the chance for equal development,” says Uchida Shinji of Nomura Research Institute (*Yomuri Shinbun*, 6 August 1998).

All of this supports the familiar refrain that Japan has experienced dramatic change over the past decade and a half -- a period in which the nation’s economy affected, and was affected by, global market and political forces like never before. But while this change clearly has been distributional in nature (i.e., change in the allocation of gains and losses generated by a particular set of institutions), it does not appear to have been structural (i.e., change in the actual structure of institutions). In fact,

selective relationalism, the principle that has defined the Japanese political economy in the postwar period, appears to be alive and well – a fact that even the Japanese government seems to acknowledge. In its 1998 white paper, the Economy Planning Agency wrote that:

To improve productivity, induce energetic behavior by various economic actors, and return to increasing production capacity, we face an urgent need for structural reforms that create institutions based on the market mechanism and free competition (p. 159).

Structural change would involve a breakdown in the reciprocal and informal relational ties that have sewn together the Japanese political economy. This, in turn, would manifest itself in several ways, including – among many other possible examples – a reduction in the number of *amakudari* “descents” from the bureaucracy, an unraveling of cross-held equities, and an across-the-board increase in labor mobility. In the following sections, we re-examine the core institutions of network capitalism in Japan, looking for change or continuity in key indicators.

### **State and Industry**

In chapter two, we noted that the Japanese state has cooperated quite closely with industry in the postwar period, so close in fact that it often became difficult to

draw a neat dividing line between the public and private sectors. For example, bureaucrats -- invoking the threat of "excess competition" as a rationale -- have intervened routinely in the market, regulating everything from plant siting decisions to personnel policies. Do they continue to do so, or has globalization compelled them to back off?

It is undeniable that the government, in response to considerable pressure from sources inside and outside Japan, has sought to liberalize markets and promote competition. In the early 1980s, the Suzuki and Nakasone cabinets focused on privatizing state-run monopolies such as NTT (Nippon Telegraph and Telephone), JNR (Japan National Railway), and JTB (Japan Tobacco Bureau).<sup>4</sup> As Vogel (1996) has shown, however, liberalization can actually lead to re-regulation -- and this was particularly true in the privatization of NTT. The Ministry of Posts and Telecommunications (MPT) emerged from the process more powerful than ever, armed with an extraordinary arsenal of formal and informal regulations over the telecommunications industry.

The Hosokawa cabinet, which ousted the LDP in 1993 after nearly four decades in power, raised anew the promise of deregulation by organizing an Economic Reform Study Group headed by Hiraiwa Gaishi, president of the Keidanren. But the Hosokawa cabinet lasted only a year, and was replaced by a coalition including the LDP, its longtime nemesis, the Social Democratic Party of Japan, and the reform-minded New Party Sakigake. This coalition established a three-year deregulation



promotion plan, targeting thousands of different rules. Future cabinets, particularly that of Hashimoto Ryūtarō, also set targets and thereby raised expectations about regulatory relief.

With only a few exceptions, however, the results have been rather unimpressive.<sup>5</sup> Despite all the promises and plans, the Japanese government has not only failed to curb its regulatory reach, it actually has expanded it. In 1986, when the Management and Coordination Agency began collecting such statistics, there were 10,054 regulations -- from licensing and permitting requirements to quality standards -- on the books. Twelve years later, in 1998, there were 11,117 rules -- an increase of 11 percent.<sup>6</sup> As Table 4.1 shows, the Ministry of Finance -- along with the Financial Supervisory Agency,<sup>7</sup> which was carved out of MOF in 1998 -- contributed a net additional 507 regulations during a period in which Japanese financial markets were being liberalized.<sup>8</sup>

One result of this lack of progress on easing Japan's regulatory burden is a commensurate lack of progress on reducing Japan's high domestic price structure. Granted, the recessions of the mid and late 1990s created deflationary pressure, lowering prices for certain goods. But they remain quite high relative to prices in other countries. The Economist Intelligence Unit (1998), which conducts a bi-annual cost-of-living survey, found that Tokyo and Osaka were -- as of December 1998 -- still the world's most expensive cities, with prices 38 percent and 33 percent higher, respectively, than New York's. Even the annual survey by the Economic Planning

Agency of Japan (EPA 1998b) found that, on the basis of Purchasing Power Parity, goods and services in Tokyo still cost 18 percent more – on average – than in New York, 8 percent more than in London, 23 percent more than in Paris, and 30 percent more than in Berlin. The study's results are reported in Table 4.2.

So how can we explain the failure of regulatory reform in Japan? Observers today frequently point fingers at the bureaucrats, especially those who staff the advisory panels on deregulation and then implement their proposals. These officials, we are told, still do not believe in free competition,<sup>9</sup> or they have a vested interest in the status quo and thus routinely sabotage reforms.<sup>10</sup> It is true that government agencies occasionally have supported proposals to deregulate activities supervised by other agencies, but have adamantly opposed any that might threaten their own positional power.<sup>11</sup> Consider the Ministry of Finance, which resisted change throughout the 1990s. In the early part of the decade, it fought hard to block reform proposals that it believed would curtail its ability to service the national debt (Mabuchi 1994); in the mid-1990s, it opposed a measure to create an independent body to supervise financial institutions (Mabuchi 1997); and as the decade came to end, it rallied against legislation to nationalize ailing banks because it preferred to maintain its discretionary authority to negotiate bailout schemes with the industry as a whole. A coalition of politicians, feeling pressure to act, pushed through watered down versions of these proposals.

In general, however, the political parties -- particularly the LDP -- have not been champions of deregulation. Although Japan's electoral system received a face-lift

in 1994, it continues to encourage candidates to compete as “personalities,” not as representatives of a particular policy perspective, and thus reinforces what Kitschelt (1999: 32) properly calls “clientelist voter-politician linkages.”<sup>12</sup> A leading LDP reformer, Shiozaki Yasuhisa (1999: 13), laments that his party and its allies in the Diet are unwilling to air out this issue.

[T]here is no active policy debate among rank and file LDP politicians. Commonly, only a handful of higher-ranking party leaders of the LDP, Liberal Party, and sometimes Komeito, decide most of the policies. These days, policies have been negotiated -- and often motivated -- to maintain the parties' political position. I seriously doubt that we can confront structural reform if the current policy-making practices continue.

In early 2000, as it looked ahead to a lower house election, the ruling party actually began to display deep reservations about the wisdom of reform. About 180 LDP legislators formed a working group to study the negative effects of deregulation on small retailers and other longtime political allies. The “Forum to Reconsider Deregulation,” which already has called for some changes to the government’s reform agenda, is made up of LDP heavyweights, including Secretary-general Mori Yoshiro (who became Japan’s prime minister in April 2000), Policy Research Council Chairman

Kamei Shizuka, Education Minister Nakasone Hirofumi, and Muto Kabun, head of the administrative reform promotion committee. Muto, who had served as director-general of the Management and Coordination Agency under Prime Minister Hashimoto, and thus had been on the front lines of the deregulation initiative, actually chairs the group. He now apologizes for “overemphasizing the market mechanism and individual responsibility” in his earlier role. “I should have approved more exceptions (to the principle of *laissez faire*). Too much deregulation could have a bad effect” (*Asahi Shinbun*, January 9, 2000, p. 2).

Even if bureaucrats and politicians are reluctant to embrace change, one might assume that representatives of big business are eager to do so. This, however, does not appear to be the case. Nukazawa Kazuo, former managing director of Keidanren, says most of the trade associations that make up his business federation are opposed to aggressive deregulation because they have benefited from cooperative ties with government agencies over the years.<sup>13</sup> “In the business community itself, the voices calling for deregulation are few and far between,” he notes. Furthermore, he says many of those who strongly advocate deregulation only do so because they view it as an alternative to Keynesian-style spending programs that would expand the government’s budget deficit and thereby jeopardize its pledge to reduce corporate tax rates.

Nukazawa’s opinion is supported by polling data that show large firms in Japan want government to allow them to compete more freely, but do not want government to remove itself from the ring. Only 6 percent of respondents to a 1996 *Nikkei* survey

expressed support for changing the pattern of government-business cooperation in Japan.<sup>14</sup> Indeed, they were neatly divided, about half and half, over whether Japan “definitely needs” an “economic system based on market principles” or merely needs such a system “to a limited extent.”

This skepticism about *laissez faire* economic principles was reflected in meetings between MITI and semiconductor manufacturers in the autumn of 1996, shortly after Japan and the U.S. signed a new trade agreement. MITI, concerned that Fujitsu and other chip producers might be accused of dumping exports on the U.S. market, organized the meetings in an effort to “guide” firms to maintain existing price levels. “Japanese manufacturers continue to hand over to MITI chip production and marketing data at their meetings,” one newspaper reported.<sup>15</sup> “Some executives of the major chip makers want even more guidance from MITI. The 10-year U.S.-Japan semiconductor agreement nurtured a sense within the industry and its regulators that administrative guidance is to be taken for granted.”

Even some in the media, which had pushed most vigorously for deregulation, seem to have lost their enthusiasm -- especially in the wake of liberal reforms in the financial sector that have been called precipitous and excessive. The editors of *Asahi Shinbun* concluded that, yes, the government has intervened too much, too often in the marketplace, but called the deregulation effort a “backlash that has given too much influence to market forces” (January 1, 1998). And Ota Hiroshi, business editor for the pro-business *Yomiuri Shinbun*, described a new, more cautious attitude about

deregulation in Japan: “The feeling now is that it is unwise to let market forces reign” (March 17, 1999).

This new “feeling” was particularly evident in the government’s mounting concern over the financial health of small business. To counteract the effects of a lending squeeze, MITI moved to supply emergency funds to the SME credit guarantee associations: 20 trillion yen in 1998 and another 10 trillion yen in 1999 (Reuters, March 25, 1999). With MOF’s support, MITI also moved to beef up the activities of the three state-controlled institutions that lend money to small business -- the People’s Finance Corporation (Kokumin Kinyû Kôko), the Japan Finance Corporation for Small Business (Chûshô Kigyô Kinyû Kôko), and Shôkô Chûkin. The volume of lending by these institutions jumped sharply in the late 1990s; indeed, in the case of the Japan Finance Corporation for Small Business, it jumped 221 percent from January 1997 to January 1998 (*Yomiuri Shinbun*, February 20, 1998). This represented a Lazarus-like turnaround for government banks that are supported in large part by the Fiscal Investment Loan Program (FILP), which in turn is funded by postal savings, public pension funds and postal insurance funds. Just a few years earlier, these government banks had been slated for consolidation or elimination under various reform proposals.

It should be noted, however, that SMEs and their financial benefactors were not the only ones to benefit from this renewed suspicion about unfettered market forces. Politicians have rallied behind the Japan Development Bank, a government-affiliated institution that earlier had been a leading candidate for privatization. Rather than

privatizing the JDB, the Diet actually expanded the bank's public mandate, allowing it to absorb the functions of the highly political Hokkaido Tohoku Development Finance Corporation without forcing it to make any personnel cuts.<sup>16</sup> The bank, in turn, has continued to loan money to some of Japan's biggest corporations – including 85 billion yen in early 1999 to Nissan, the heavily indebted vehicle manufacturer that was then negotiating a mega-merger deal with French automaker Renault.<sup>17</sup>

Indeed, the late 1990s witnessed a dramatic upsurge in the Japanese state's use of industrial policies to promote investment by targeted industries and firms. Here I cite only a few of the many possible examples:

- In 1998, MITI unveiled a 7-year plan to aid the Japanese satellite industry by organizing joint research projects to reduce the cost of manufacturing key components (*Asahi Shinbun*, September 16, 1998).
- In 1998, MITI renewed its pledge to help Japanese manufacturers launch their own commercial aircraft industry – this time with an 80-seat passenger plane. The announcement came in the wake of Boeing's decision to drop out of a project to develop a slightly larger plane (the YSK) (*Daily Yomiuri*, August 20, 1998). In addition, MITI indicated it would launch a joint R&D project to develop higher quality carbon-fiber materials for use in aircraft bodies (*Daily Yomiuri*, February 4, 2000).

- In 1999, the ministries of international trade and industry, agriculture, education, and health and welfare jointly announced a “national strategy” of catching up with the United States and Europe in biotechnology. They signaled their intent to promote commercial applications of genetics research (*Japan Digest*, February 19, 1999, p. 5).
- In 1999, MITI proposed legislation that would give it new tools to promote increased productivity through “industrial revitalization.” Under this law, target firms would receive money and guidance to focus on “core activities,” carry out restructuring, and develop new products (*Nihon Keizai Shinbun*, July 13, 1999, p. 5)
- In 1999, MITI, MPT, the Ministry of Construction, and the National Police Agency indicated they would work with 100 private firms to jointly develop technology for intelligent transportation systems (*Nihon Keizai Shinbun*, July 8, 1999, p. 1)
- In 2000, MPT initiated a plan to build up Japan’s e-commerce software industry by giving away free internet lines to targeted software developers (*Japan Digest*, February 1, 2000.)

The list goes on and on.<sup>18</sup> But ultimately, the number of government regulations, the volume of government subsidies, and the amount of industrial policy initiatives represent imperfect measures of structural change or continuity in the state-



industry nexus of relationalism. Indeed, neither a strong commitment to formal rule making nor a heavy reliance on “corporate welfare” is unique to Japan or other highly relational political economies. Relationalism, as discussed above, has to do with reciprocal ties that cast a shadow of the future over otherwise one-time political and economic transactions. Thus, a more telling measure of relationalism might be the extent of informal, reciprocal rule making (administrative guidance). Unfortunately, however, the use of such guidance, which can take the form of a simple phone call to advise a firm about a particular regulation or a lunch meeting to discuss future investments in an industry, is extremely difficult to quantify.<sup>19</sup>

On the other hand, we only have to scan the newspapers to recognize that exceptionally close, reciprocal ties continue to bind regulators and the regulated in Japan, often in ways that undermine both the impartial oversight of corporate activities and public trust. For most of the postwar period, political scandals in Japan involved politicians, not central government officials. But in the late 1990s, a succession of high-ranking bureaucrats captured headlines (and, in many cases, court dates) by trading preferential treatment for money, gifts, and favors from business interests under their jurisdiction. This obviously was nothing new; Japanese bureaucrats had been engaged in such corrupt practices for years. What changed was the tolerance level of government underlings and big-city reporters, who suddenly began to blow the whistle.

For example, a top official of the Ministry of Health and Welfare was sent to jail for accepting 65 million yen in bribes from the operator of a nursing home for the

elderly. MITI officials were implicated in a corruption scandal involving oil wholesalers and prospectors. MPT was questioned over its handling of contracts for gasoline sales to postal service bureaus. Officials of the Japan Highway Public Corporation were charged with accepting bribes from underwriters seeking a contract to manage the corporation's bond issues, as well as from the manufacturers of lighting equipment and components for signal controls. Officials in the Defense Agency's procurement department ran into trouble for the cozy deals they made with suppliers (*Yomiuri Shinbun*, 1998).

While all of these scandals rocked the nation, none made as big a splash as one involving the Ministry of Finance and Bank of Japan, whose bank inspectors and policy planners received bribes in the form of lavish entertainment, including golf outings and excursions to Tokyo's most expensive "hostess" bars and restaurants.<sup>20</sup> As it turned out, at least 20 commercial banks, long-term credit banks, and trust banks had special units whose staff -- known as "MOF *tan*" or "MOF liaison" -- devoted themselves to wining and dining public officials to gain inside information on upcoming inspections, applications from competitors, and new policy initiatives being pursued by the ministry (*Yomiuri Shinbun*, 1998). Occasionally, the cozy ties between banks and banking regulators had direct and disastrous consequences, such as the collapse of the Long-Term Credit Bank. MOF and BOJ officials conspired with bank officials to conceal the actual scale of the bank's massive portfolio of non-performing loans (*Yomiuri Shinbun*, October 13, 1998, May 26 and 27, 1999).

In nearly all of these cases, the reciprocal ties between regulators and the regulated were solidified through the practice of *amakudari* (“descent from heaven”). As discussed in chapter two, government officials retire from public posts at a relatively early age (usually 55) and often take up posts in the private firms they once regulated, or in one of the 26,275 different “public interest corporations” (*kôeki hôjin*) that often coordinate activities carried out by private firms.<sup>21</sup> Consider, for example, the scandals at:

- **MOF and the BOJ.** After they broke the first stories, Japanese newspapers reported that 164 former MOF officials and 96 former BOJ officials had “descended” into high-ranking posts in financial institutions they used to regulate (*Yomiuri Shinbun*, February 21, 1998). Many of them worked in the “MOF-tan” units, wining and dining their former colleagues in the public sector (*Yomiuri Shinbun*, January 28, 1998).
- **Japan Highway Public Corporation.** It was a former MOF official who, in his *amakudari* post at the public corporation, accepted more than 7 million yen in bribes from companies looking for underwriting contracts with the public corporation (*Yomiuri Shinbun*, July 1, 1998.)
- **Japan National Oil Corporation,** a *tokushû hôjin* (or special – i.e., government-funded – corporation) affiliated with MITI that finances oil exploration and that, in the late 1990s, found itself holding more than 1 trillion in bad loans. Newspapers

reported that retired MITI officials traditionally run the JNOC and also “descend” routinely into private oil companies. In late 1998, 14 former MITI officials held *amakudari* posts at seven different oil companies doing business with JNOC (*Daily Yomiuri*, March 2, 1999).<sup>22</sup>

- The Defense Agency, which ran afoul of the law for questionable procurement practices. Of the top-ranking officers who retired from the agency between 1993 and 1997, 225 landed *amakudari* positions with 20 private contractors that have received most of the agency’s defense work (*Yomiuri Shinbun*, November 29, 1998).
- MPT’s regional postal service bureaus, which showed preference for one firm in its award of contracts for a variety of goods and services. The president of the company, Sogo Shizai Service, is traditionally a former MPT official, and other top managers tend to be former post office officials (*Yomiuri Shinbun*, May 12, 1999).

This list falls far short of exhausting all the many recent examples of *amakudari*-related corruption. But it should suggest that the practice of “descending from heaven,” a tangible manifestation of relationalism in the state-industry nexus, is thriving -- albeit in a sometimes virulent form. Fortunately, we need not rely solely on newspaper coverage to follow movements in the use of this practice. Since 1979, a private research firm has conducted an annual survey of ministries and agencies, collecting data on the number of officials who have “descended” from the central

government. The results, assembled in Table 4.3, show remarkably little change in the use of *amakudari*. In the eight years between 1979 and 1986, there were an average of 1,036 “descents” per year. In the four years from 1992-1995, there were an average of 1,015 “descents” per year.<sup>23</sup> The practice has continued, virtually unabated, despite the privatization of numerous public corporations and the liberalization of several industries.<sup>24</sup> Indeed, Nakano (1998: 105) has demonstrated that, in the aftermath of the privatization of NTT and the liberalization of the telecommunications industry, the Ministry of Posts and Telecommunications has managed to *increase* its use of *amakudari*. “Practically every major common carrier has at least one MPT *amakudari* board member.”

### **Business and Business**

As noted in chapter two, firms in postwar Japan have cooperated with one another far more closely, and for longer periods of time, than their counterparts in other market economies. This cooperation has taken many forms, from market-sharing agreements between otherwise rival enterprises (cartels) to quasi-integration tying together legally independent corporations (*keiretsu*). Has globalization eroded these forms of interfirm cooperation in Japan? The evidence suggests it has not. At the most fundamental level, we must note that Japanese firms have shown little interest in abandoning such cooperation; while 54.5 percent of large firms surveyed in 1996 by Japan’s leading business newspaper called for change in the system of “side-by-side”

competition” (*yokonarabi taisei*, a negative term implying collusion by rivals in the marketplace), only 9 percent expressed opposition to the longstanding practice of “industrial cooperation” (*gyōkai kyōchō*, a more positive term that nonetheless means much the same).<sup>25</sup>

In late 1999, Toyota Motors persuaded four other major companies, including Matsushita, to join forces on a marketing campaign aimed at young and fickle consumers. The companies are selling everything from automobiles to refrigerators, from beer to computers, under the common “WiLL” logo. “Young people these days are interested in too many things for a company to keep up with,” complained Homma Hideaki, a marketing executive for Toyota. “Then it occurred to us to share this frustration with other companies.”<sup>26</sup>

It is true that in the 1990s the Fair Trade Commission -- the government agency charged with enforcing Japan’s anti-monopoly law -- began to crack down on some of the numerous cartels that had, in the past, been ignored if not blessed or even coordinated by the government. For example, it took aggressive action against producers of pharmaceuticals and cosmetics (Iyori 1995: 10-14). At the same time, however, the FTC has been less aggressive against politically powerful interests, such as construction companies and steel manufacturers, that continue to collude on prices.

To combat such collusion in the construction industry, the government in 1994 launched a new system of open bidding for public works contracts. But this system was used in only 20 percent of the 4 trillion yen in contracts awarded in fiscal 1997,

according to a survey by the Board of Audit. It found that contracting agencies, by and large, continued to use the old system in which they listed construction companies according to their size and technical ability, and then authorized a limited number to submit bids (*Yomiuri Shinbun*, November 26, 1998). Given this lack of change in the established process, no one should have been surprised by a report in 1999 that five firms – Mitsubishi Heavy Industries, NKK Corp., Kawasaki Corp., Hitachi Zosen Corp., and Takuma Co. -- continued to engage in bid-rigging (*dangō*) on public contracts to build stoker incinerators. Representatives of the firms allegedly met on numerous occasions each year to reach agreement on how to allocate work on those contracts. They, as well as two other manufacturers, had been told to stop colluding in 1979 -- 20 years earlier -- but apparently restarted the practice in 1989 (*Yomiuri Shinbun*, August 9, 1999).

More surprising, perhaps, is the continuation of collusive, price-fixing behavior that boosts the costs of steel, petrochemicals, and other basic inputs used by assemblers, such as automakers, facing fierce competition in global markets. A marketing executive for a large Japanese steel producer told Tilton (1998: 176) that his firm and its rivals are still “violating the Antimonopoly Law every day...[We] get together and talk about what the price ought to be.” *Nihon Keizai Shinbun* (May 10, 1994), Japan’s leading business newspaper, came to the same conclusion when it reported that domestic steel makers continue to “use tacit pressure to keep out imports and support the price structure.” This begs the question: Why would the producers of

finished goods continue to tolerate such practices? After all, they -- unlike government officials -- do not receive campaign cash or bribes from their suppliers. But Elder (1998: 15) argues that downstream users of basic inputs such as steel, petrochemicals, and semiconductors have indeed received compensation in the form of predictable pricing over the long run. "Upstream industries sometimes compensate the downstream industries by providing a certain degree of price stability or price smoothing. In periods of slack demand, the price for domestic users may be higher than the world prices, but in periods of tight demand, it might be lower and/or domestic users will get preferential access to suppliers." In other words, relational ties matter.<sup>27</sup>

This brings us to the question of *keiretsu*, which -- as we argued in chapter two -- should be viewed as a manifestation of largely informal and invisible ties between independent firms, and should not be reified as a concrete "being." Has this institution really "collapsed," as journalists repeatedly tell us? If we look only at horizontal *keiretsu*, the pan-industrial groups organized around a major city bank, we must concede that the institution is under enormous stress. The ongoing liberalization of financial markets has forced Japanese banks to scramble for new ways to remain competitive. Indeed, city banks that once stood at the center of rival horizontal *keiretsu* have announced plans to merge operations, thereby allowing them to raise much more capital and sell new financial instruments. Fuji Bank (of the Fuyo group) and Dai-Ichi Kangyo Bank will merge with the Industrial Bank of Japan in October of 2000 to become the Mizuho Financial Group (with assets of \$1.5 trillion). Likewise, Sumitomo



Bank and Sakura Bank (the former Mitsui Bank) will merge in April 2001 to create a new Sumitomo-Mitsui Bank with assets of about \$937 billion.<sup>28</sup>

This does not, however, spell the end of business relationships within particular horizontal *keiretsu*. On the contrary, group members not only are continuing to cooperate closely with one another, they are moving on a couple different fronts to strengthen interfirm ties. Consider, for example, the 1998 change in Japan's anti-monopoly law to allow firms to create *zaibatsu*-like holding companies. As of summer 2000, the new bank combines (Mizuho, Sumitomo-Mitsui, Tokyo-Mitsubishi, and Sanwa-Tokai-Asahi) have been the most aggressive in taking advantage of this new legislation (although some manufacturers such as Toyota have indicated they might also do so).<sup>29</sup> By consolidating various functions under one roof, these financial institutions are creating what one newspaper (*Asahi Shinbun*, April 28, 2000, p. 11) has called "full-settism .... a strengthening of cooperation within city bank groups." In the case of Mizuho, four members of the Fuyo group began to solidify their intra-*keiretsu* ties even as Fuji Bank considered a merger with Dai-Ichi Kangyo. Fuji has bought \$2.6 billion of new shares in Yasuda Trust, increasing its stake in the affiliate from 17 percent to just over 50 percent. In addition, the two firms are collaborating with Yasuda Mutual Life Insurance and Yasuda Fire and Marine Insurance on plans to enter new business fields (*Yomiuri Shinbun*, July 17, 1998). Likewise, the Bank of Tokyo-Mitsubishi has decided it will, in spring 2001, form a giant holding (Mitsubishi Tokyo Financial Group) to oversee its own operations and also those of Mitsubishi

Trust and two smaller trust banks in the Mitsubishi *keiretsu* (*Asahi Shinbun*, April 19, p. 1 and p. 11).

On a different front, large manufacturers in the automobile and electronics industry are strengthening established *keiretsu* ties through new technology-based alliances. For example, Fuyo members -- including Nissan, Hitachi, and Unisia Jecs (a smaller supplier affiliated for years with Nissan and now, through a joint venture with Valeo SA of France, affiliated with Renault as well) -- have agreed to collaborate on the development of Intelligent Transport Systems (ITS), the guts of new high-tech automobiles (*Yomiuri Shinbun*, December 8, 1999).

At this point, a skeptic (especially one who faithfully reads newspaper articles, particularly those published by media in the West) might be inclined to ask: What about the practice of cross-shareholding? Is it not declining, or even disappearing? To answer this fairly, we must first acknowledge that Japanese corporations currently face unusually grim conditions in the banking sector, where a glut of non-performing loans has created a credit crunch. To raise cash and beef up sagging balance sheets, many firms have sold shares they had held in other corporations, including some of the cross-shareholdings that traditionally help cement *keiretsu* bonds.<sup>30</sup> This has come to pass in spite of the fact that, in a 1994 survey, nine out of 10 Japanese corporations indicated they would continue the practice of cross-shareholding -- even though they saw no particular economic benefit to doing so (EPA 1996: 374).

Nissei Life Insurance (NLI) Research Institute has, since 1987, reported trends in cross-shareholding, which it views as an increasingly “irrational” practice that -- under current financial conditions -- can and should be expected to decline.<sup>31</sup> As Figure 4.1 shows, cross-shareholding -- narrowly defined -- has indeed declined over the past decade, but not by a significant amount; it has fallen from 21.2 percent of all outstanding shares in 1987 to 18.2 percent in 1997, with most of this moderate decline occurring in 1996 and 1997. (As the figure shows, a broader definition of cross-shareholding yields a similar result: The ratio of what might be called “stable shares” has fallen from 41.5 percent in 1987 to 35.7 percent in 1997, with most of the drop occurring in 1996 and 1997.)

Interestingly, however, NLI’s data also shows that cross-shareholding among horizontal *keiretsu* has not declined at all. As Figure 4.2 shows, while the cross-shareholding ratio for independent firms (i.e., firms not belonging to any of the big groups) fell somewhat between 1987 and 1997, the ratio for members of the six big groups remained at roughly 31 percent. This picture of continuity is painted yet again in an independent analysis of cross-shareholding data collected by Tôyô Keizai Shinpôsha (*Kigyô Keiretsu Sôran*, various years). In March 1975, the average cross-shareholding ratio for the six horizontal *keiretsu* was 18.97 percent; in March 1996, it was 17.61 percent. Although the NLI and Tôyô Keizai figures differ because the methods of calculation differ,<sup>32</sup> they point to the same bottom line: Members of horizontal *keiretsu* are continuing to engage in the practice of cross-shareholding.

This, in turn, leads ineluctably to the following conclusion: Firms are indeed selling shares, including cross-held shares, to improve their financial positions under extremely adverse conditions, but firms with close relational ties are less likely to abandon such mutual holdings. Indeed, a study by Suzuki (1997) supports this conclusion. He found a reduction in one-sided shareholdings for firms listed on the Tokyo Stock Exchange between 1990 and 1997, but no change in the volume of cross-shareholdings. "These findings," Suzuki states (p. 12) "suggest that, in choosing whether to maintain existing shareholdings, a company chooses to sell the stocks of companies with whom they have a less close relationship." His regression analysis provides still further support. In liquidating its holdings, the fact that a company has mutual holdings in a possible target firm makes it significantly less likely to sell those shares.<sup>33</sup>

Makihara Minoru, chairman of Mitsubishi Corp, the giant trading company, and head of the "president's club" representing all 29 members of the Mitsubishi group, reinforces this finding by boldly vowing to strengthen -- not loosen -- ties among members of that horizontal *keiretsu* (*Economist*, October 23, 1999: 71-72). The group, he says, will work together to support member activities in new growth fields such as e-commerce. "We want to be part of the new Japan as well as the old."

A careful reading of the evidence shows that the current move by corporations to sell shares in other corporations, including cross-held shares, may be a temporary phenomenon. Indeed, the Keidanren called for the establishment of a public repository

that would buy up economically unproductive but socially valuable shares from companies, and then sell them back after financial conditions improve.<sup>34</sup> Overall, one newspaper reported, “companies generally appear reluctant to sell [mutually held] shares. In the midst of the persistent economic slump, cross-shareholding has become a lifeline to link corporations with banks, a notion that runs counter to the ideal of healthy business activity” (*Nikkei Weekly*, January 11, 1999, p. 11).

No matter how one reads the evidence for cross-shareholding, one uncontested fact remains: Japan is not moving to adopt an Anglo-American system of corporate governance in which individual stockholders are able to exercise considerable influence, a system that one Japanese commentator, writing in a respected economics journal, recently blasted as a betrayal of working men and women.<sup>35</sup> In fact, individual investors have seen their overall weight in the Tokyo Stock Exchange fall steadily since 1960, when they held close to half of all outstanding shares. As Table 4.4 shows, that percentage declined to about one quarter by the late 1990s. In terms of volume of trading, individual investors have lost even more ground. They accounted for nearly a quarter of all trading on the Tokyo, Osaka and Nagoya stock exchanges in 1990; by 1998, however, they accounted for less than 9 percent of the trading in those markets.<sup>36</sup>

The bottom line, then, is this: Corporations continue to own the lion shares of other corporations, and management continues to act without public accountability or transparency -- despite legislation to promote a more open system of corporate governance. Consider these examples:

- In 1982, the Diet enacted legislation to prohibit payments to “specific shareholders” (*tokushū kabumushi* or *sōkaiya*) who, as discussed in chapter two, help maintain “order” (silence) at annual meetings. Nevertheless, many otherwise reputable corporations -- from Mitsubishi Motors to Nomura Securities, from Toyota to Japan Airlines -- allegedly continued to do so in the late 1990s (*Nikkei Weekly*, October 25, 1997; *Daily Yomiuri*, December 25, 1997, and August 18, 1998). The National Police Agency has intervened, encouraging corporations to schedule their annual meetings on the same day. Corporations have complied. In 1998, 2,500 firms -- including about 90 percent of those listed on the Tokyo Stock Exchange -- held their annual meetings on June 26. This did indeed make it more difficult for *sōkaiya* to extort money from firms by threatening to disrupt their meetings; but it also made it virtually impossible for individual stockholders to ask pesky questions or exercise legitimate voting privileges at more than one meeting that year.
- In 1994, the Diet revised the Commercial Code to require a firm listed on the Tokyo Stock Exchange to appoint at least one “independent” auditor (i.e., an outside auditor who is not a current or former employee) to its board of directors.<sup>37</sup> This apparently was designed to correct a longstanding problem by which company records have been audited only by company employees. But Sato and Yamauchi (1994: 68) reveal that firms in the six horizontal *keiretsu* often circumvented the intent of the new law by appointing auditors from one of the companies in their

group. More precisely, they did this 66.5 percent of the time. In this case, and perhaps many others, the interests of horizontal *keiretsu* are protected from the lofty goals of legislation by a rather fundamental constraint: Japan has only about 8,000 accountants -- 1/30th as many as in the U.S. (250,000) -- capable of serving as "independent" auditors.<sup>38</sup>

In this study, which focuses on production networks, we are even more interested in the vertical *keiretsu* that link large assembly firms and smaller parts suppliers than we are in the horizontal *keiretsu* that connect companies across various industries. Subcontractors, who traditionally have supplied a high proportion of the value-added in production, continue to make up more than half of all small and medium sized manufacturing firms in Japan (SME Agency 1997: 147). And the majority of these subcontractors continue to rely on a single "parent" (a major assembler with whom they have done business for at least 20 years) for more than 50 percent of their total sales (SME Agency 1997: 149).

But change -- distributional change -- has clearly taken place in this institution of vertical *keiretsu*. For one thing, many subcontractors say they have less and less bargaining power with their parents.<sup>39</sup> Indeed, in the 1990s, they often remarked that they were "squeezed" by their major customers, who in some industries (particularly automobiles) tried to reduce their costs by as much as 30 percent and thus demanded that their suppliers reduce parts prices by an equivalent -- or greater -- amount.<sup>40</sup> The

goal was to achieve what many parent firms referred to as “Asian prices” -- the cheaper prices charged by parts suppliers in Taipei or Kuala Lumpur.

Even during the brief period of economic recovery in 1996, subcontractors were continuing to slash prices -- much faster and deeper than their parents, according to a survey by Japan’s machinists union (Zenkoku Kinzoku Kikai Rôdôkumiai. 1997). It found that, as a result of these precipitously steep price cuts, subcontractors in the auto parts industry earned extremely low profits that year (1.7 percent of sales, compared to 2.3 percent for assemblers). Indeed, it found that only 55 percent of small manufacturers in the machinery industry -- compared to 91 percent of large manufacturers -- operated in the black during that short-lived recovery. This led the union to issue the following appeal: “In an effort to preserve Japan’s manufacturing base, we ask that major companies take the attitude that they should tie themselves to, and grow together with, their subcontractors, accepting proper prices that reflect the skills that subcontractors possess” (p. 2).

Some subcontractors, especially smaller, less technologically sophisticated ones, found themselves unable to keep up with these new and increasingly harsh demands from their parents. In one survey, nearly 84 percent of third tier suppliers in the automobile industry reported they were receiving fewer orders than in the past (Japan Finance Corp. for Small Business 1997: 38) On the other hand, a much smaller percentage (59 percent) of first tier suppliers reported a drop in orders. Likewise, in the consumer electronics industry, 55.5 percent of first tier suppliers said they expect to



maintain (44.4 percent) or even strengthen (11.1 percent) the long-term ties they enjoy with their customers, while only 42.9 percent of third tier suppliers expressed similar optimism. Indeed, none (0.0 percent) of those smaller suppliers in the consumer electronics industry anticipated stronger ties (Japan Finance Corp. for Small Business 1997: 62).

What this suggests is that a fundamental shakeout is occurring in Japan's vertical *keiretsu*. Japanese government and business officials refer to it as "*nikyoku bunka*" or polarization. In other words, while some subcontractors are being jettisoned by their parents, others are being pulled even more tightly into supply networks through a process of selection (*senbetsu*).<sup>41</sup> Or, as the SME Agency (1996: 199) puts it, "Some subcontractors are leaving their *keiretsu*, becoming independent, and seeking orders from multiple customers, but many others -- especially those with superior skills -- are forging even tighter relations with their parents."<sup>42</sup>

As Figure 4.3 shows, this process of selection is not new. Since 1972, parent firms have moved slowly but steadily in the direction of relying on a single supplier, rather than multiple suppliers, for each part. In other words, subcontracting orders have become increasingly concentrated in the hands of a smaller and smaller group of elite suppliers, who maintain extremely close relations with their customers.<sup>43</sup> What is new is the accelerated pace at which this selection process has unfolded in the 1990s.

In the automobile industry, this process often assumes the form of "modularization," the procurement of an entire set or package of parts from a single

subcontractor. Nissan, for example, announced a plan in 1998 to reorganize its parts supply network over a five year period, cutting in half the number of first tier suppliers with which it routinely does business, and entrusting the “survivors” with enhanced responsibilities.<sup>44</sup> (After Nissan’s 1999 merger with Renault, new company president Carlos Ghosn floated another, even bolder reorganization plan that involved selling the parent firm’s equity shares in all but a handful of core subcontractors.<sup>45</sup>) Suzuki and Mitsubishi Motors are pursuing their own modularization strategies, each with the goal of cutting costs by as much as 25 percent.<sup>46</sup> Not only in the automobile industry but also in electronics, the selection process also has assumed the form of projects in which assemblers and first tier suppliers work together to develop critical components. The motivation behind these joint development projects is to reduce the time it takes to move new products or models from the design stage to full production. Parent firms recognize that, to achieve this goal, they must forge even stronger bonds with their key suppliers.<sup>47</sup>

One can cite numerous examples of continuing, close cooperation between assemblers and suppliers in Japanese manufacturing industries. Between 1995 and 1999, for example, Toyota actually *increased* its equity stake in its three largest parts suppliers: Denso (in which Toyota now own 24.6 percent); Toyota Gosei (in which Toyota now owns 42.4 percent); and Aishin (in which Toyota now owns 24.4 percent). Japan’s leading automaker solidified those interfirm ties further by sending its own representatives to serve on the suppliers’ corporate boards.<sup>48</sup> And it has drawn a

formerly independent supplier into its *keiretsu* camp, becoming the largest shareholder of Art Kinzoku, a major producer of pistons (Whittaker 1997: 103). Finally, the behavior of assemblers during the financial crisis of the 1990s provides additional testimony to the importance they place on maintaining established supply networks. Daikin, which assembles air conditioning equipment, and Komatsu, a manufacturer of heavy machinery used in construction and agriculture, were among those providing special loans to favored suppliers that otherwise struggled to obtain investment capital during a particularly severe credit crunch (*Nihon Keizai Shinbun*, February 4, 1998).

Parent firms, then, continue to value mutually reinforcing ties with a defined set of suppliers, even as the size of that set shrinks. The most comprehensive survey of subcontracting in Japan's machinery industries shows that only 11.6 percent of assemblers are routinely conducting business with suppliers outside their established subcontracting networks.<sup>49</sup> What is happening is not so much the "unraveling" as the "re-raveling" of *keiretsu* ties. While the bonds between some firms have loosened, those between others have tightened. This is a clear case of distributional but not structural change.

### **Management and Labor**

Relational ties bind not only state and industry, and not only legally independent firms that give up the short-run gains of competition for the longer-run gains of cooperation. These ties also bind management and labor in Japan, yielding an

employment system organized around shared commitments to the firm. In chapter two, we discussed the institutions that reflect these commitments, the institutions that constitute Japan's employment system: long-term tenure, seniority-based wages, and enterprise unions. Has globalization undermined such institutions?

One cannot help but notice glaring signs of change in Japan's employment system. Just as they did in the mid-1970s and mid-1980s, Japanese and Western media today offer a steady diet of sensational stories describing the "collapse," the "end," or the "demise" of this system.<sup>50</sup> Some firms, we are told, are introducing market incentives such as merit pay to reward employees for their unique skills and not merely their loyalty.<sup>51</sup> And we hear that others are going much further, implementing *ristora* (restructuring by firms) or even *dai-ristora* (massive restructuring).<sup>52</sup> That is, they are reportedly trimming -- if not slashing -- their payrolls in a frantic quest for leaner, more efficient operations.

But press reports usually deliver much less than their headlines promise. Consider, for example, the reports about restructuring at NTT, which has restructured by setting up a new holding company with more than 150 affiliated firms employing 220,000 workers. Read the fine print and you learn that the former government-owned telecommunications conglomerate has run up a huge wage bill and hefty equipment costs. Indeed, they now account for 60 percent of its expenses -- compared to 40 percent in 1985, when NTT was privatized.<sup>53</sup> And NTT's case, while extreme, is not untypical. During a decade and a half of alleged restructuring, Japanese manufacturers

reported that their personnel costs -- relative to their sales -- actually increased from less than 14 percent in 1980 to 18 percent in 1996.<sup>54</sup>

In restructuring, Japanese firms rely heavily on two mechanisms. One, which has been utilized for years, is the transfer (*shukkō*, if the transfer is temporary; *tenseki*, if permanent) of surplus employees to other firms affiliated through equity and/or transactional (*keiretsu*) ties.<sup>55</sup> To cite only one example, Nippon Steel established 180 subsidiaries in the 1990s to absorb, via *shukkō* or *tenseki*, about one-third of the parent firm's otherwise bloated labor force.<sup>56</sup> The other mechanism, which has become increasingly popular in recent years, is the hiring of temporary and part-time (*arubaito*) employees, who often work for a single employer for a long time -- without receiving the package of benefits received by regular or "core" workers. By 1997, "temps" accounted for 20 percent of all workers in Japan, about twice the share of the total labor force they occupied in the late 1970s and early 1980s.<sup>57</sup> Part-timers, meanwhile, accounted for about 17 percent of all workers, up sharply from the 10 percent share they occupied in the late 1970s and early 1980s.

These mechanisms usually produce significant distributional effects.<sup>58</sup> Specifically, in the case of employee transfers, large firms tend to transfer workers and small firms tend to receive them. From their survey of 248 *shukkō* employees and 580 *tenseki* employees (all males between the ages of 50 and 60) who were transferred between 1992 and 1994, Sato, Nagano, and Oki (1996) found that 89.5 percent of the firms sending employees on a temporary basis (*shukkō*) and 85.5 percent of the firms

sending employees on a permanent basis (*tenseki*) were rather large -- with at least 1,000 workers on their payroll. Of firms receiving transferees, 64.3 percent were relatively small -- with fewer than 300 employees already on their payroll. This means that transfers are likely to result in wage and benefit reductions, to say nothing of diminished prestige, for those who are transferred. In a different survey, the Ministry of Labor found that the majority of transferees are middle-aged or older workers (45 to 59) approaching retirement.<sup>59</sup>

Likewise, the ranks of temporary and part-time employees are filled increasingly by women, not men. In 1984, only eight percent of male workers toiled in "non-regular" (i.e., temporary or part-time) jobs; thirteen years later -- in 1997 -- about the same small percentage (10 percent) did (Ministry of Labor 1998: 166). While men witnessed little change, women experienced dramatic change. About 28 percent of all female workers held "non-regular" jobs in 1984; about 40 percent held such jobs in 1987.<sup>60</sup> These trends are shown in Figure 4.4. Consider, again, the example of NTT. In a cost-cutting move, it has decided to hire only part-timers to handle directory assistance calls (Thornton 1997). It would be safe to bet that all, or virtually all, of these 14,500 part-time operators will be women. In an interview (Gottfried and Hayashi-Kato 1998: 30), an executive for Manpower Japan, the U.S.-based dispatching agency, said he benefits from a glut of mature, experienced, and professional women with outstanding skills who cannot find regular employment in the Japanese labor

market, and are thus willing to accept non-regular jobs. “We can just go out and scoop up these people as temporary workers, and they’re terrific workers.”

The evidence, then, clearly points to distributional change in Japan’s employment system, but just as clearly points to a *lack* of structural change.<sup>61</sup> Indeed, as in the previous sub-case of business-business relations, these two phenomena (distributional change and structural continuity) are closely correlated. The use of *shukkô* and *tenseki* transfers, as well as the use of non-regular employment, introduces flexibility into an otherwise rigid labor market, making it possible for Japanese firms to maintain long-term, relational ties between management and labor -- but only for a smaller group of privileged or “core” employees. In other words, these mechanisms are serving to preserve or consolidate the status quo through a process of polarization.

Dirks (1997: 47) makes this point in discussing the impact of interfirm personnel transfers on the Japanese labor market. The increasing use of such transfers, he argues, allows Japanese firms to achieve “flexibility through the back door” rather than through the “classic fashion” of fluidly hiring and firing workers. Likewise, Ueda Muneaki, executive vice-president of Pasona Inc., uses similar language to describe the impact of his and other employment services agencies on the Japanese labor market. “The use of temps in Japan now is, in a sense, protecting and making possible the continuation of the existence of a core of lifetime employees” (*Daily Yomiuri*, June 10, 1998). Muneaki’s view has been adopted formally by Japan’s big business associations. In a 1995 report, Nikkeiren, the Japanese Employers’ Association, called for a two-

tiered system offering stable, long-term employment for “core” workers and flexible employment for part-time or temporary workers. Keidanren (1994) had earlier proposed a similar system.

Let us consider change or continuity in the best-known institutions of the Japanese employment system, beginning with lifetime employment (or *shūshin koyō*). Official statistics show little change in overall job mobility over the past decade and a half. As Figure 4.5 shows, the turnover rate for regular employees stood at 3 percent in 1984, rose slightly during the “bubble” period of the late 1980s, and then fell back again to its earlier level during the hard economic times of the 1990s (Ministry of Labor 1998: 123). Indeed, some Japanese workers may be staying even *longer* at their jobs today than they used to. In large manufacturing firms (with at least 1,000 employees), the average number of years of continuous service by male managers and technicians aged 45–49 was, in 1973, 21.4 and 23.1 years (for college and high school graduates, respectively); by 1993, these numbers had risen to 23.0 and 27.3 years (Sato 1997: 117). This trend is confirmed by Okazaki (1996: 105), who concludes that, “contrary to a widespread view, the retention rate of employees from ages 50–54 to ages 55–59 has been generally increasing in both large and medium-sized firms.” Higuchi (1997: 49) highlights the theme of distributional change and structural continuity by noting that fewer workers, especially female workers, now enjoy the benefits of this system of long-term employment. Japan’s intra-firm labor market, he remarks, “shows greater



long-term job tenure than before, but -- on the other hand -- the number of workers in such a labor market is decreasing.”

Japanese firms thus continue to foster an internal labor market, rotating workers from one position to another within the company and using on-the-job training that produces firm-specific skills rather than off-the-job training that yields more general knowledge.<sup>62</sup> Indeed, both ends of the management-labor network want to maintain the status quo. In a survey of 657 company employees conducted by the Japan Research Institute, 71 percent indicated they supported the practice of lifetime employment. And white-collar workers in Tokyo and Osaka told Morishima (1997: 7) they strongly preferred the traditional practice of in-house training over all other methods of motivating them to work hard. On the other side, in a 1993 survey by the Japan Productivity Center, 89.3 percent of personnel managers at 304 large firms voiced support for the principle of lifetime or long-term employment.<sup>63</sup>

These preferences are revealed in the recruiting, hiring, and firing practices of Japanese firms. In 1994, only 7.7 percent of 354 firms polled by Nikkeiren thought they would not be able to preserve the lifetime employment system.<sup>64</sup> The Economic Planning Agency (EPA 1996: 353) concludes that firms in the 1990s “have strived to maintain their existing workforces and have made conscious efforts to limit mid-career hiring.” Indeed, in 1999, the Ministry of Labor reported that only 22 percent of Japanese firms engaged in recruitment would consider hiring those who had been employed earlier at other companies (*Yomiuri Shinbun*, July 31, 1999).

It would appear, then, that long-term employment remains a well-established norm in Japan -- despite the economic costs imposed by globalization. Kettler and Tackney (1997: 37) argue that this norm is now firmly enshrined in Japanese case law, which has -- since a landmark ruling in 1987 by the Yokohama regional court -- assumed that employers have a social obligation to do whatever they can to avoid dismissing longtime employees. This principle was reaffirmed in a recent court ruling that Sega, the video game producer, had failed to uphold its social obligation when it fired a 35-year old employee.

In interviews, employers routinely pledged their commitment to this norm of job security.

- “Laying people off is taboo,” said a Sony official.<sup>66</sup> “We do everything we can to avoid that.”
- “Our system is very different from yours in America. We have an obligation to conserve employment,” said Tamura Koshiro, chief spokesman for electronics giant Sanyo.<sup>67</sup> “Things are changing but only very gradually. We still have to maintain social stability.”

What, then, about seniority pay? To begin, we should note that neither tenure (years or service) nor age has ever been the *sole* factor determining wages in Japan. In the 1960s, Japanese corporations began to incorporate merit -- or at least

management's evaluation of an employee's merit -- into their compensation systems.<sup>68</sup>

Although this new practice became increasingly widespread, it did not displace the traditional method of wage setting -- despite headlines suggesting otherwise. A survey by Nikkeiren (1996: 17) found that fewer than 25 percent of all firms use a personnel system that gives as much weight to individual merit as seniority.

Rather than abandoning seniority wages for performance-based wages, some Japanese manufacturers -- especially high tech firms -- have begun to introduce an additional layer of "capability-based wages" for employees with advanced or special skills. Workers prefer this system to merit pay because it applies to groups of workers, not individuals, and thus is viewed as more egalitarian. Management likes it because it helps them retain a pool of highly skilled workers, especially younger technicians or engineers who otherwise might be tempted to jump ship. In this respect, then, change in the seniority wage structure is not unlike change in the use of long-term employment system: it serves to preserve the existing system by narrowing its scope of application. As Thelen and Kume (1999: 32-33) note:

Recent company initiatives to revise traditional arrangements (seniority wages and lifetime employment) often represent efforts to selectively apply these arrangements (i.e., to single out certain workers to be covered), and modifications in traditional practices frequently represent efforts to give particular (usually skilled) workers more benefits (not

fewer) than under traditional arrangements .... The overall trend, then, seems to be toward a (shrinking) core of (mostly skilled) workers within individual firms who continue to enjoy lifetime employment guarantees combined with an even more generous wage system.

Even with this kind of adjustment, however, the seniority pay structure has proved remarkably durable. This is seen clearly in an examination of the slope of the average wage scale. As Table 4.5 shows, the wage gradient for university graduates changed very little during the 1990s. If seniority were becoming significantly less important in wage setting, one would expect the wage gradient to become much flatter over time. In fact, however, the curve remains quite stable. Our findings are confirmed by the Economic Planning Agency (1996: 348), which reports that the wage gradient “flattened only slightly” between 1984 and 1994, and in some industries, such as automobile assembly, “hardly changed at all.”

One factor helping to explain the durability of seniority pay is a simple demographic one: While younger workers would welcome a major flattening of the wage gradient, older employees who make up an increasingly large proportion of the workforce would strongly oppose it. Indeed, it would be viewed by them as a broken promise, a violation of a longstanding norm of Japanese relationalism.<sup>69</sup>

The third pillar of Japan’s employment system is the enterprise union, an institution that governs the largely informal ties between labor and management. Here,

too, the evidence points to distributional change but not structural change. Since 1985, the elasticity of union membership (the percentage change in the number of employees over the percentage change in the number of unionized employees) has turned negative in small firms, but has remained positive (although less than 1.0) at large firms. Nearly 60 percent of workers at large firms (employing at least 1,000 people) belong to an enterprise union (Fujimura 1997: 303).

Even in many non-union firms, labor and management -- sharing a common interest in the firm's growth and thus its ability to continue paying reasonable wages -- continue to engage in joint consultations over investment and disinvestment decisions, employee welfare, and other issues. In the mid-1990s, administrative councils (*keiei kyôgikai*) remained in operation at more than 70 percent of firms having at least 5,000 employees, at 68 percent of those with 1,000-4,999 employees, and at 62 percent of those with 300-999 employees (Ministry of Labor 1995). Cooperation between labor and management remains strong. In the 1990s, workers moderated wage demands in exchange for job protection; as a result, the number of working days lost as a result of labor disputes fell steadily throughout the decade.<sup>70</sup>

The bottom line, then, is that all the talk about corporate restructuring and the demise of the Japanese employment system may amount to no more than that. Dirks (1997: 48) puts this delicately when he says "the gap between that which is (publicly) regarded as important or desirable by Japanese management and the empirical evidence for new practices is most conspicuous." Sugeno and Suwa (1997: 56) are a bit more

forceful: “Both labor and management maintain a deep attachment to the long-term employment system with its merits in stable employment and efficient human resource development. The system will therefore remain intact for quite a while . . . .”

As if to prove our point, the Ministry of Labor (1999: 12) reported that a brief uptick in economic activity in mid-1999 led Japanese manufacturers to immediately abandon or slow down their restructuring efforts. Its survey of 2,807 companies found that, after a wave of restructuring initiatives in the mid-1990s, the percentage of firms engaged in this activity (35 percent) had fallen below the previous high of 38 percent in 1993. And respondents said they expected these initiatives to taper off as the decade came to an end.

And of firms engaged in restructuring, what exactly were they doing? The most common method, according to the survey, was simply to scrimp on the use of overtime (19 percent); the least utilized method was to lay off workers (3 percent).

### **Summary**

In the 1990s, a decade in which the forces of globalization buffeted all political economies in the international system, Japan stayed the course: While it experienced massive distributional change, it underwent remarkably little structural change. The fundamental networks of Japanese relationalism -- government-business cooperation, interfirm cooperation, and labor-management cooperation -- survived largely intact even though they became less inclusive.

Indeed, the *durability* of Japanese-style network capitalism has surprised a number of informed observers. For example, the Japan Research Institute (1997: 14) concluded that, “at a time of major historic changes when, all around the world, the old political, economic, and social orders are being replaced by new ones, Japan is failing to adapt.”

As it turned out, Japanese elites rallied to the defense of relational networks under stress. Government officials, for example, channeled low-cost credit to manufacturing subcontractors, and pushed them -- in the words of MITI (ZSKSK 1997b: 76) to “build even closer ties with their parent companies.” In addition, they paid record subsidies to struggling firms that transferred employees to affiliates rather than lay them off.<sup>71</sup> And finally, they and business elites promoted the regionalization of core networks as a way to cut themselves slack in the face of globalization. I turn next to that issue.

**Table 4.1:  
Number of Regulations (by agency), 1986-1998**

	1998	1997	1996	1995	1994
Prime Minister's Office	32	32	32	32	32
Fair Trade Commission	27	26	26	26	26
National Public Safety Commission	151	149	149	141	144
Management and Coordination Agency	35	35	35	35	35
Hokkaido Development Agency	31	31	31	31	31
Japan Defense Agency	31	31	31	31	31
Economic Planning Agency	45	31	31	31	31
Science and Technology Agency	308	307	307	297	301
Environment Agency	221	210	204	199	194
Okinawa Development Agency	34	32	32	32	32
National Land Agency	87	87	87	87	88
Ministry of Justice	190	180	176	168	172
Ministry of Foreign Affairs	47	48	48	50	50
Ministry of Finance	1,623	1,469	1,460	1,374	1,391
Ministry of Education	351	345	328	327	327
Ministry of Health and Welfare	1,317	1,276	1,262	1,221	1,246
Ministry of Agriculture, Forestry and Fisheries	1,313	1,405	1,394	1,400	1,419
Ministry of International Trade and Industry	1,710	1,842	1,841	1,780	1,769
Ministry of Transportation	1,537	1,551	1,573	1,607	1,700
Ministry of Posts and Telecommunications	354	303	303	292	291
Ministry of Labor	653	654	645	633	629
Ministry of Construction	895	863	863	841	879
Ministry of Home Affairs	125	125	125	125	127
Total	11,117	11,032	10,983	10,760	10,945



**Table 4.1 (cont.)**

	1993	1992	1991	1990	1989
Prime Minister's Office	33	33	32	32	32
Fair Trade Commission	26	26	26	28	28
National Public Safety Commission	134	114	99	100	100
Management and Coordination Agency	37	34	34	34	34
Hokkaido Development Agency	32	31	31	31	31
Japan Defense Agency	31	31	31	31	31
Economic Planning Agency	31	31	31	31	31
Science and Technology Agency	303	298	298	291	291
Environment Agency	188	165	164	162	159
Okinawa Development Agency	32	32	32	32	32
National Land Agency	89	89	86	86	86
Ministry of Justice	172	166	154	153	149
Ministry of Foreign Affairs	53	50	46	46	42
Ministry of Finance	1,387	1,236	1,210	1,195	1,173
Ministry of Education	333	322	312	315	314
Ministry of Health and Welfare	1,221	1,170	1,106	1,033	1,015
Ministry of Agriculture, Forestry and Fisheries	1,427	1,357	1,315	1,299	1,270
Ministry of International Trade and Industry	1,986	1,915	1,916	1,908	1,900
Ministry of Transportation	1,893	1,966	1,966	1,988	1,962
Ministry of Posts and Telecommunications	319	313	308	306	284
Ministry of Labor	631	579	565	559	560
Ministry of Construction	910	870	842	808	804
Ministry of Home Affairs	134	114	113	113	113
Total	11,402	10,942	10,717	10,581	10,441

**Table 4.1 (cont.)**

	1988	1987	1986
Prime Minister's Office	29	27	27
Fair Trade Commission	26	26	26
National Public Safety Commission	97	95	81
Management and Coordination Agency	29	29	29
Hokkaido Development Agency	28	26	26
Japan Defense Agency	28	26	26
Economic Planning Agency	26	26	26
Science and Technology Agency	263	260	218
Environment Agency	156	149	149
Okinawa Development Agency	27	27	27
National Land Agency	81	81	81
Ministry of Justice	148	146	146
Ministry of Foreign Affairs	39	37	37
Ministry of Finance	1,143	1,134	1,116
Ministry of Education	317	308	310
Ministry of Health and Welfare	985	945	936
Ministry of Agriculture, Forestry and Fisheries	1,270	1,256	1,263
Ministry of International Trade and Industry	1,883	1,886	1,870
Ministry of Transportation	1,977	1,976	2,017
Ministry of Posts and Telecommunications	279	273	265
Ministry of Labor	563	559	532
Ministry of Construction	776	770	742
Ministry of Home Affairs	108	107	104
Total	10,278	10,169	10,054

Source: Management and Coordination Agency

Note: Figure for Ministry of Finance (1998) includes regulations by newly created Financial Supervisory Agency

**Table 4.2:**  
**Cost of Living in Tokyo, 1997**  
**(Relative to Other Big Cities)**

	<b>New York</b>	<b>London</b>	<b>Paris</b>	<b>Berlin</b>	<b>Geneva</b>
<b>Index Average</b>	<b>1.18</b>	<b>1.08</b>	<b>1.23</b>	<b>1.30</b>	<b>0.99</b>
Food	1.41	1.44	1.56	1.72	1.18
Durables	1.24	0.78	0.85	0.86	0.85
Clothing	1.33	1.37	1.36	1.16	0.97
Other Commodities	1.17	0.96	1.03	1.16	0.86
Energy, water	1.56	1.25	1.00	0.83	0.99
Transportation & Communication	1.09	0.99	1.09	0.97	0.94
Health Care	0.82	1.55	1.72	4.02	0.36
Education	0.55	0.56	1.20	1.09	0.51
Rent	1.55	1.12	1.55	1.22	1.64
General Services	0.90	0.87	0.93	1.16	0.83

Source: EPA, *Bukka Repôto '98*

Note: Figures are indexed to reflect the relative cost of living in Tokyo. If prices in these cities were on a par with Tokyo's, the figure would be 1.0.

**TABLE 4.3**  
**AMAKUDARI "DESCENTS" (1979-98)**

	1998	1997	1996	1995	1994	1993	1992	1991
<b>National Police</b>	43	54	44	37	38	38	32	16
<b>Defense</b>	9	15	19	18	18	16	16	13
<b>MOF (Finance)</b>	111	130	153	161	165	165	153	139
<b>National Tax</b>	124	116	113	83	86	84	83	43
<b>MAFF (Agri)</b>	46	50	48	53	53	55	57	52
<b>MITI (Trade)</b>	90	99	92	88	92	97	86	89
<b>MOT (Transpo)</b>	69	68	66	67	58	59	59	49
<b>MPT (Posts)</b>	25	30	32	33	33	28	28	24
<b>MOC (Const)</b>	152	150	144	151	151	154	151	130
<b>Bank of Japan (*)</b>	77	94	100	96	97	97	98	104
<b>(Former) JNR (**)</b>	56	68	64	74	80	90	88	100
<b>Urban Planning (**)</b>	32	38	40	42	45	48	48	52
<b>Japan Roads (**)</b>	73	70	71	71	66	68	63	63
<b>Highways (**)</b>	7	12	12	13				
<b>Japan Railways (**)</b>	26	25	25	29	27	26	28	29
<b>JDB (***)</b>							18	19
<b>NTT (****)</b>								
<b>JT (Tobacco) (****)</b>								
<b>TOTAL</b>	<b>940</b>	<b>1,019</b>	<b>1,023</b>	<b>1,016</b>	<b>1,009</b>	<b>1,025</b>	<b>1,008</b>	<b>922</b>

TABLE 4.3 (continued)

	1990	1989	1988	1987	1986	1985	1984
<b>National Police</b>	18	18	21	19	21	23	21
<b>National Defense</b>	15	13	13				15
<b>MOF (Finance)</b>	144	153	137	131	119	123	126
<b>National Tax</b>	46	47	49	57	59	73	78
<b>MAFF (Agri)</b>	50	53	48	38	38	40	36
<b>MITI (Trade)</b>	96	89	82	76	76	70	68
<b>MOT (Transpo)</b>	49	49	39	40	46	55	50
<b>MPT (Posts)</b>	25	24	22	23	20	16	17
<b>MOC (Const)</b>	123	124	117	109	112	117	109
<b>Bank of Japan (*)</b>	114	109	111	112	104	111	110
<b>(Former) JNR (**)</b>	101	102	109	114	114	134	141
<b>Urban Planning (**)</b>	45	40	41	42	45	40	39
<b>Japan Roads (**)</b>	59	60	56	51	55	59	58
<b>Highways (**)</b>							
<b>Japan Railway (**)</b>	27	23	24	19	20	22	21
<b>JDB (***)</b>	22	22	23	26	29	31	31
<b>NTT (****)</b>						209	207
<b>JT (Tobacco) (****)</b>						19	19
<b>TOTAL</b>	934	926	892	857	858	1,142	1,146

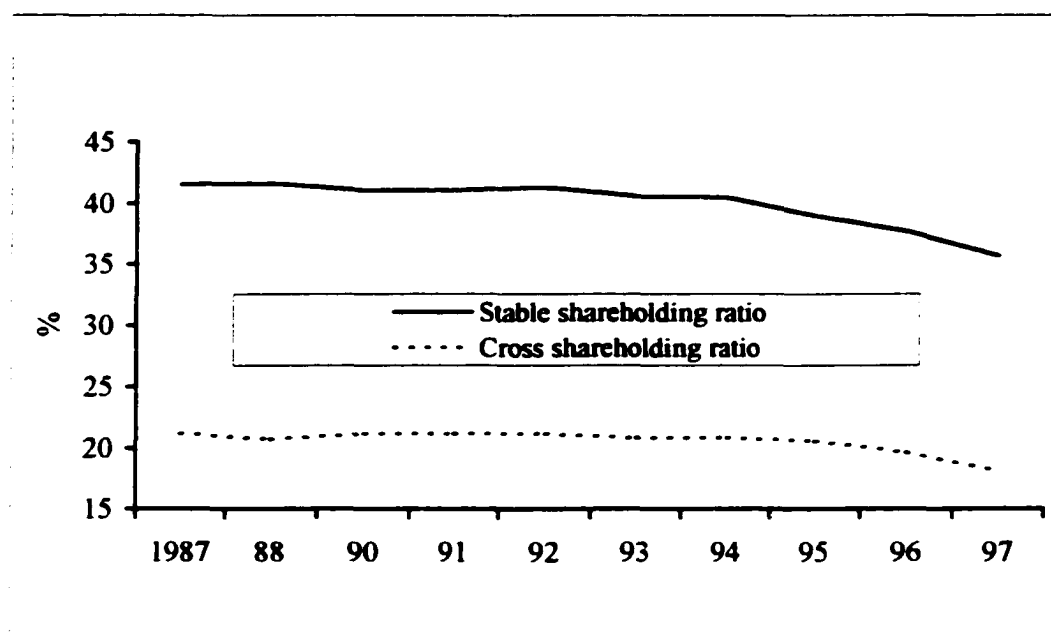
TABLE 4.3 (continued)

	1983	1982	1981	1980	1979
<b>National Police</b>	20	23	21		
<b>National Defense</b>	16				
<b>MOF (Finance)</b>	124	124	120	114	99
<b>National Tax</b>	75	76	72	68	66
<b>MAFF (Agri)</b>	34	35	29	31	29
<b>MITI (Trade)</b>	75	73	76	78	80
<b>MOT (Transpo)</b>	52	47	48	46	39
<b>MPT (Posts)</b>	20	21	21	21	21
<b>MOC (Const)</b>	115	98	90	83	83
<b>Bank of Japan (* )</b>	114	117	117	116	117
<b>(Former) JNR (** )</b>	150	150	147	130	124
<b>Urban Planning (** )</b>	36	39	38	36	29
<b>Japan Roads (** )</b>	55	52	47	42	37
<b>Highways (** )</b>					
<b>Japan Railway (** )</b>	20	17			
<b>JDB (*** )</b>	30	28	26	26	26
<b>NTT (**** )</b>	187	180	175	179	176
<b>JT (Tobacco) (**** )</b>	18				
<b>TOTAL</b>	1,141	1,080	1,027	970	926

Source: Tōyō Keizai Shinpōsha, *Kigyō Keiretsu Sōran*, various years

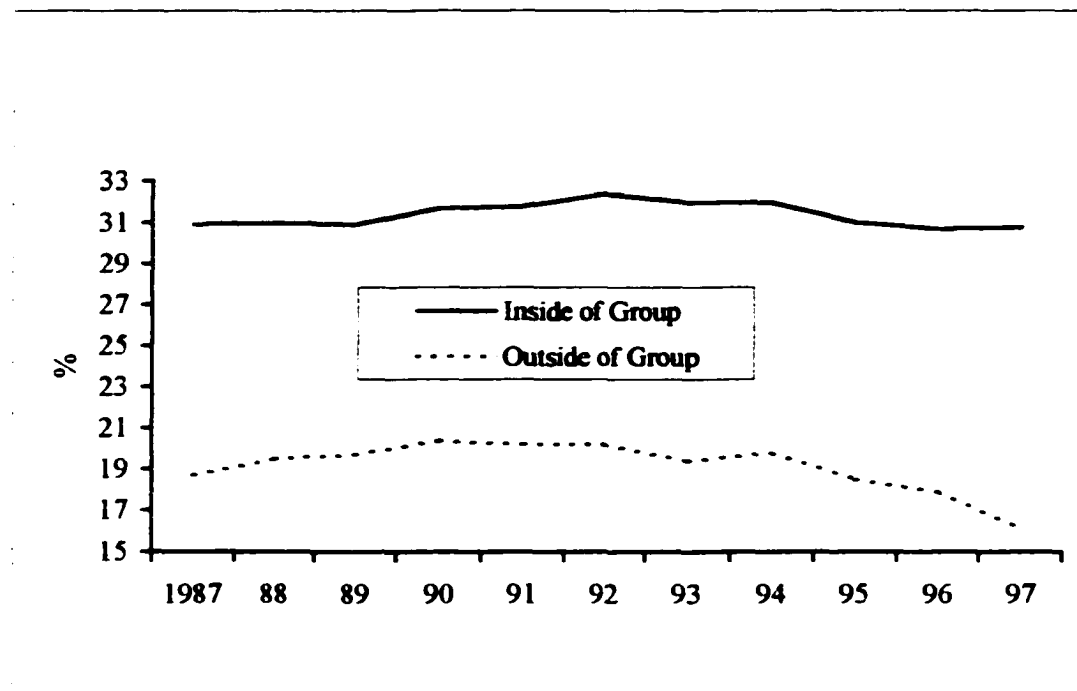
Note: \* Authorized Company (Ninka Hōjin); \*\* Special Corporations (Tokushū Hōjin)

\*\*\* JDB (Japan Development Bank); \*\*\*\* NTT and JT were privatized in 1986



Source: NLI Research Institute

**Figure 4.1**  
**Cross shareholding and Stable shareholding**



Source: NLI Research Institute

**Figure 4.2**  
**Cross Shareholdings Inside and Outside of Corporate Group**

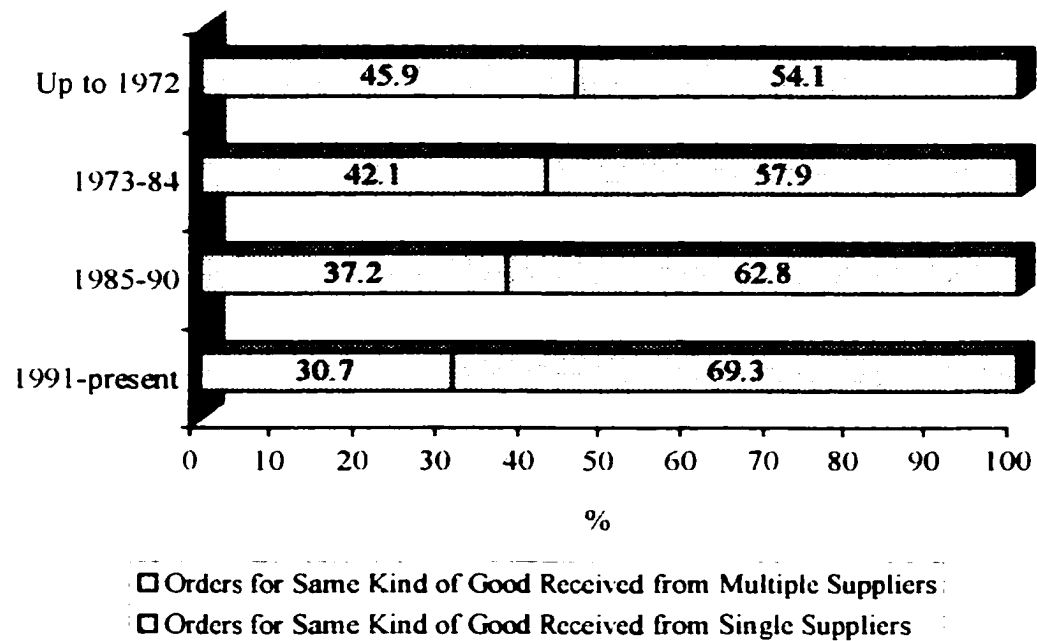


**Table 4.4**  
**Distribution of Shares**  
**by Type of Shareholder (%)**

	Government	Financial Institutions	Business Enterprises	Securities Companies	Foreigners	Households (Individuals)
1960	0.2	30.6	17.8	3.7	46.3	1.3
1965	0.2	29.0	18.4	5.8	44.8	1.8
1970	0.2	32.3	23.1	1.2	39.9	3.2
1975	0.2	36.0	26.3	1.4	33.5	2.6
1980	0.2	38.8	26.0	1.7	29.2	4.0
1985	0.8	42.2	24.1	2.0	25.2	5.7
1990	0.6	45.2	25.2	1.7	23.1	4.2
1995	0.6	44.7	24.5	1.5	23.2	5.4
2000	0.6	44.5	24.4	1.2	23.9	5.5
2005	0.6	43.8	23.9	1.3	23.7	6.7
2010	0.7	43.5	23.8	1.1	23.5	7.4
2015	0.6	41.4	23.6	1.4	23.6	9.4
2020	0.5	41.3	23.8	1.1	23.6	9.8
2021	0.5	40.2	24.1	0.8	24.6	9.8
2022	0.5	39.3	24.1	0.7	25.4	10.0

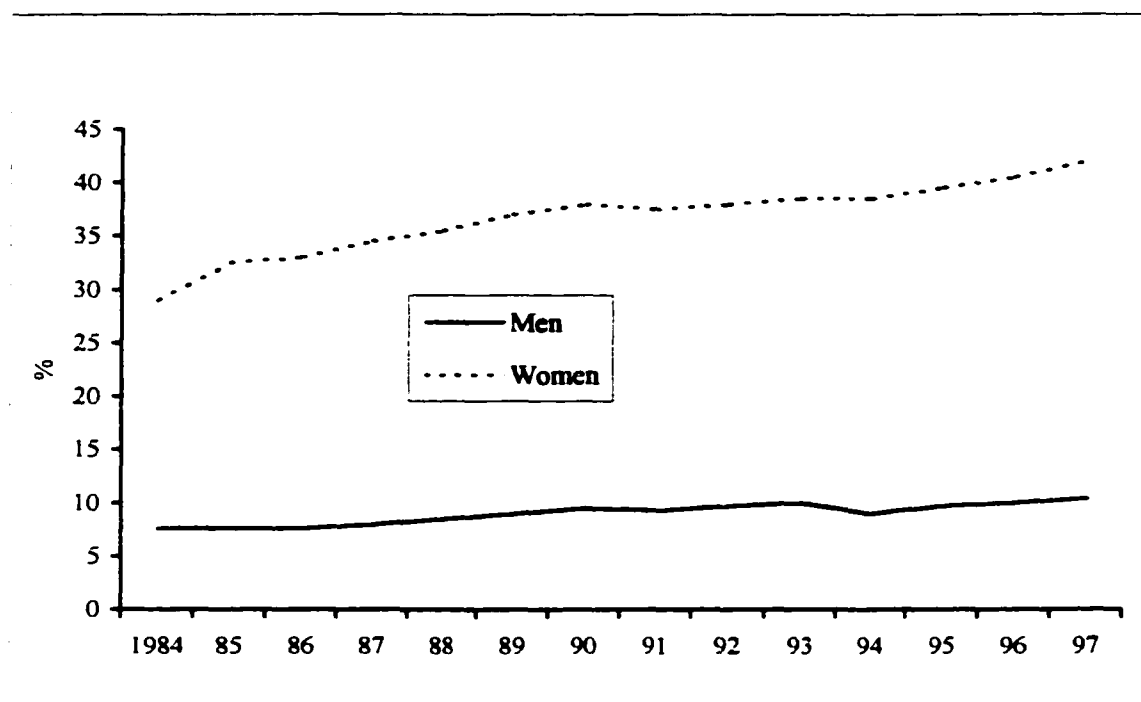
Source: Tokyo Stock Exchange ([www.tse.or.jp](http://www.tse.or.jp))

Note: Number of shares has been calculated on the basis of "unit share" since 1985.  
 Figures do not always add up to 100 due to rounding.



Source: SME Agency, *Chūshō Kigyō Hakusho*, 1996, p.189.

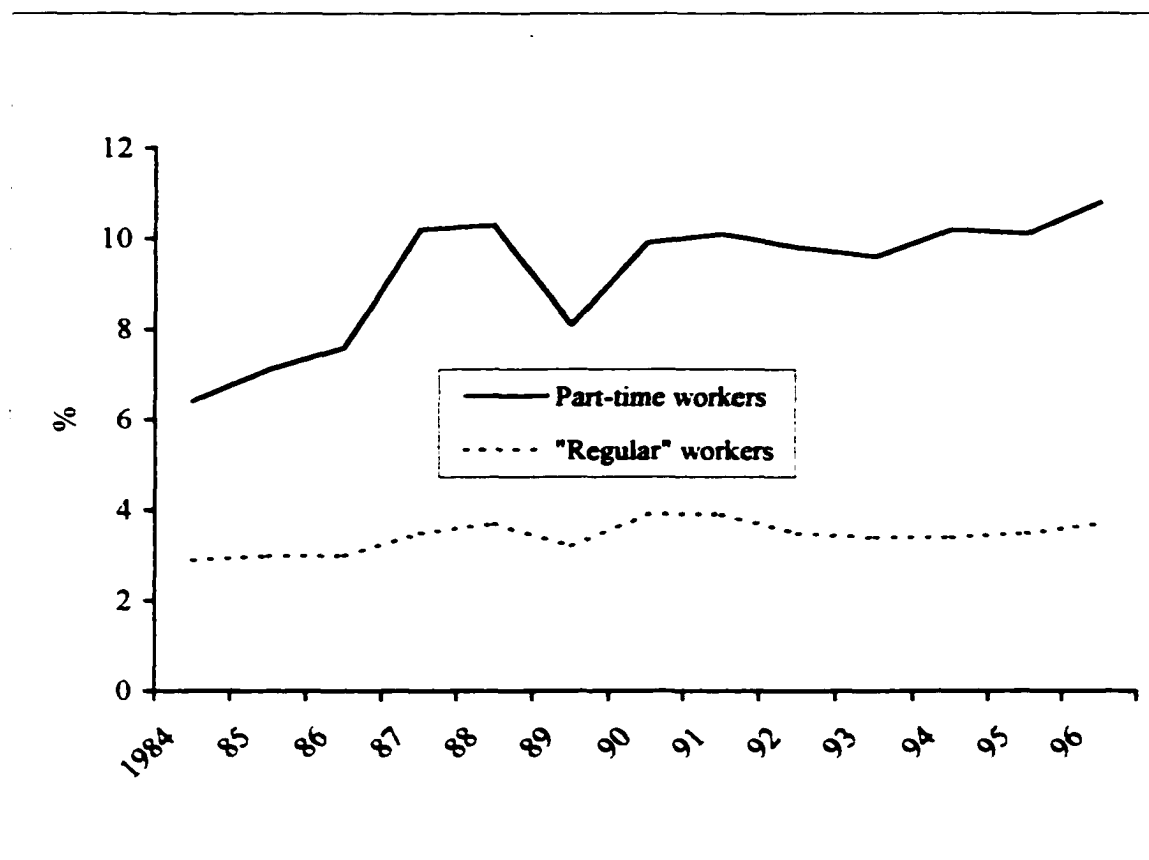
**Figure 4.3**  
**Subcontracting: From Multiple to Single Suppliers**



Source: MOL, *Rôdô Hakusho*, 1998, p.166.

Note: "Non-Regular" employment equals temporary or part-time work.

**Figure 4.4**  
**Change in "Non-Regular" Employment by Gender, 1984-97**



Source: MOL, *Rôdô Hakusho Hakusho*, 1998, p.123.

Note: "Turnover Rate" = number of employees who changed jobs / total employees x 100.

**Figure 4.5**  
**Job Turnover Rate, 1984-96**  
**(Part-time and "Regular" Employees)**

**Table 4.5**  
**Seniority Pay:**  
**Wage Index for “Core” Employees By Age Cohort**

1963	100	124	171	213	268	315	352	341
1964	100	122	158	203	245	297	335	325
1965	100	120	153	188	234	270	306	312
1966	100	120	153	188	232	268	304	315
1967	100	120	155	187	230	267	305	313
1968	100	122	156	188	231	268	302	305
1969	100	122	157	191	228	267	305	311
1970	100	123	158	191	225	266	293	301
1971	100	122	156	191	225	264	292	303

Source: Ministry of Labor, *Chingin Kôzô no Kiban Tôkei Chôsa*

Notes:

- 1) “Core” employees here are a) male; b) have immediately joined the firm after graduating from college; and c) have maintained continuous employment at that firm.
- 2) Wage indices here are based on regular monthly payments, and thus exclude bonus payments.

## Notes to Chapter Four

<sup>1</sup> This gap has suddenly begun to receive a great deal of public attention – at least in two of Japan's most respected monthly magazines. *Chûô Kôron* devoted 40 pages to the topic in its May 2000 issue. And *Bungei Shunjû* carried a special report in its May 2000 issue.

<sup>2</sup> To cite just one indicator, the Nikkei average of prices on the Tokyo Stock Exchange climbed to 38,915 yen in 1989. This represented a quadrupling of stock prices in just six years.

<sup>3</sup> For the sake of clarity, I have grossly simplified Satô's analysis. In fact, what he does is consider the likelihood that a person born to a father in a UWE occupation will become a member of the UWE strata – measured against the likelihood that a person *not* born to a father in a UWE occupation will become a member of that top strata. This is expressed as a multiple. In his first brush with the data, Satô confirms the conventional wisdom that barriers to mobility dropped sharply between 1955 and 1975, and remained relatively constant since then. But he wisely notes that this approach is flawed because it links the father's position and the child's position at the time of the survey, neglecting the obvious fact that it takes time for the child to achieve a UWE position. Satô corrects this flaw by holding age constant. That is, he looks at the position of 40-year old "children" of UWE and non-UWE fathers who are born into different generations.

<sup>4</sup> Sumita (1997), a former bureaucrat, provides a fascinating insider's account of the privatization of Japan National Railways. We should note that Sumita "descended" (via *amakudari*) from his position as administrative vice-minister of the Ministry of Transport to eventually become the head of Eastern JR Railways, one of the newly privatized companies.

<sup>5</sup> Perhaps one exception is the decision to abolish the Large-Scale Retail Law, which had been routinely used to protect mom and pop retail establishments by restricting the development of supermarkets, department stores, and big chain stores (including foreign ones – most notably, Toys 'R Us). But the law has been replaced by a package of new rules allowing local governments to do what MITI alone used to do – that is, wield powerful authority over retail development. And in the winter of 2000, forces within the LDP were pushing to reassert the central government's authority to protect smaller merchants.

<sup>6</sup> Of the total, 39.3 percent are classified as "strong regulations" (requiring government permission, approval, or licensing); 12.7 percent are considered "medium-term rules" (calling for authorization, inspection or registration by the state); 43.9 percent are referred to as "weak regulations" (requiring only notification or disclosure to the state), and 4.1 percent are dubbed "other." See Management and Coordination Agency, "Kyoninka nado no Tôitsuteki Haaku Kekka (Dai 13-ka) ni tsuite" (Results of a Consolidated Accounting of Permits, Licenses, and Regulations, No. 13), March 1999.

<sup>7</sup> The administrative reshuffling that began in 1998 with the creation of the Financial Supervisory Agency continued in July 2000, when the new agency was merged with MOF's Financial System Planning Bureau to form the Financial Services Agency.

<sup>8</sup> It is worth repeating that liberalization may actually create a need for increased regulation, or re-regulation.

<sup>9</sup> Kikai Shinkô Kyôkai (1998: 8), an arm of MITI, has expressed such skepticism about the merits of competition. In a report, it noted that some Japanese machine manufacturers are suffering from sluggish consumption, "and making matters worse by engaging in price competition and price cuts, making it difficult for them to revamp unprofitable divisions."

<sup>10</sup> Japanese newspapers, which waged a kind of public relations offensive against the bureaucracy in the 1990s, often carried articles that alleged sabotage. See, for example, *The Daily Yomiuri*, “Ministries drag feet over reform plan” (May 18, 1999). Occasionally, what critics referred to as “sabotage” was simply aggressive (if, by Western standards, questionable) lobbying – not only of influential Diet members, but also of the general public. In October 1997, for example, I joined hundreds of Tokyo residents in attending a revival concert of “The Wild Ones,” a folk music group popular among the Japanese baby boomers that came of age in the 1970s. It was not until I entered the auditorium, where I was greeted by a long line of smiling civil servants and handed a bag of “gifts,” including promotional brochures about the Ministry of Posts and Telecommunications, that I realized the “free” concert was sponsored and financed by MPT, which was at the time one of the targets of the administrative reform movement.

<sup>11</sup> MITI, which has been a forceful advocate for deregulation of business activities it does not oversee, is the agency most often accused of hypocrisy on this issue. See Vogel (1999b: 13) and *Nikkei Business*, “Kisei Kanwa Suishinshō ni Henshin” (Transforming Itself into the ‘Ministry for the Promotion of Deregulation’), October 24, 1994, pp. 14-18.

<sup>12</sup> The new election system approved in 1994 combines single member districts and proportional representation (PR). But Kitschelt (1999: 33) notes, among other things, that parties can field the same candidate in both a single member district and on the PR list: “Electoral rules continue to make politicians seek their electoral fortunes as individual entrepreneurs, in competition with candidates of their own party.” Ôtake (1997) is equally pessimistic about the prospect of change under this new system.

<sup>13</sup> Interview, November 11, 1997, Tokyo.

<sup>14</sup> *Nihon Keizai Shinbun*, October 19, 1996, p. 8. The survey is also discussed in Tilton (1998), pp. 187-188.

<sup>15</sup> *Nikkei Weekly*, October 21, 1996.

<sup>16</sup> In 1998, before the merger, the JDB and the Hokkaido Tohoku Development Finance Corp. collectively employed 1,389 people. In 2000, after the merger, the new Development Bank of Japan employed 1,387 people. Edward Lincoln made this calculation for his forthcoming book, which is tentatively entitled *Arthritic Japan*.

<sup>17</sup> *The Economist*, February 6, 1999, p. 17. Renault did ultimately agree to bail out Nissan, spending \$5.6 billion to acquire a one-third interest in the ailing Japanese firm. Carlos Ghosn, the Brazilian-born Renault executive, became Nissan’s new president.

<sup>18</sup> My thanks to Edward Lincoln for help in identifying some of these initiatives.

<sup>19</sup> One newspaper (*Yomiuri*, May 12, 1999) has expressed concern that MITI is aggressively seeking to expand its use of administrative guidance. In its role as secretariat of a commission on competitiveness, MITI has, for example, pushed a proposal to oversee the process by which manufacturers could dispose of excess production capacity.

<sup>20</sup> MOF and BOJ were particularly embarrassed by salacious reports of late-night trips to “no pan” (no panties) pubs, where the serving staff went bottomless.

<sup>21</sup> These public interest corporations include non-profit corporations (*zaidan hōjin*), special corporations (*tokushū hōjin*), and authorized corporations (*ninka hōjin*). The number given above comes from *Daily Yomiuri*, December 9, 1998.

<sup>22</sup> On this score, JNOC is hardly exceptional. A survey by the Management and Coordination Agency found that nearly half of the directors of *tokushū hōjin* “descend” from central ministries, while more than half of the companies and organizations that do business with the *tokushū hōjin* are amply stocked with former ministry officials. See *Nihon Keizai Shinbun*, March 8, 1987, p. 5.

<sup>23</sup> Tōyō Keizai Shinpōsha, *Kigyō Keiretsu Sōran* (Directory of Corporate Groups), various years.

<sup>24</sup> Using a slightly different measurement stick. Schaeede finds that government “old boys” have increased their presence in large firms in Japan over the past decade. See Schaeede (1995), pp. 293-317.

<sup>25</sup> *Nihon Keizai Shinbun*, October 19, 1996, p. 8. The newspaper surveyed the heads of 91 of Japan’s largest firms and 87 of its medium-scale firms. For another view on these survey results, see Tilton (1998: 187-188).

<sup>26</sup> Kobayashi Kakumi. “Firms Hope Fewer Products, One Label Cure Recognition Woes.” *Japan Times*, December 30, 1990.

<sup>27</sup> It should be noted that Elder explicitly (and, it is argued here, inadvisably) dismisses *keiretsu* ties as an alternative explanation for how Japan managed to reconcile the conflicting interests of upstream suppliers and downstream users of basic inputs. He focuses more heavily on compensation provided by the government, particularly non-enforcement of the Antimonopoly Law. But Elder seems to acknowledge (p. 22) that this emphasis may be misplaced for the 1980s and 90s, when “downstream user industries were much less dependent on government protection and promotion policies,” but when prices in Japan for such inputs continued to be significantly higher than foreign prices.

<sup>28</sup> Although they do not represent cross-*keiretsu* mergers, we should not ignore two other big tie-ups. The Bank of Tokyo and Mitsubishi Bank combined operations in 1996 to create what was then one of the world’s largest financial institutions. And more recently, in the wake of the other merger moves, Sanwa, Tokai, and Asahi banks signaled plans to join forces.

<sup>29</sup> *Ekonomisuto* (March 28, 2000) devotes a special issue to this topic of bank mergers and holding companies.

<sup>30</sup> In 1998, as Japan dipped into its second recession in the 1990s, some companies plagued with sharply falling profits sought to rally investor confidence by publicly announcing they would have to consider trimming cross-held shares, especially unproductive holdings in financial institutions. The Japanese media, especially the English-language media, often overstated the significance of these announcements. Thus, a headline in the *Daily Yomiuri* (October 3, 1998) stated that Matsushita “plans to end cross-ownership.” The story itself was far less spectacular, quoting a company official who said only that “over the mid-term, we will need to review cross-shareholding.”

<sup>31</sup> I note NLI’s position only to show that its research findings, if they err in any direction, can be expected to err on the side of showing rapid dissolution of cross-shareholding. See NLI Research Institute, “Kabunushi Mochiai Jōkyō Chōsa” (Survey on Cross-shareholding), which is available on the web at: <http://www.nli-research.co.jp/mochi/mochi/htm>.

<sup>32</sup> Tōyō Keizai obtains a cross-shareholding ratio for each of the six *keiretsu* by calculating the average percentage of shares of each President Council member firm held in a given year by other members of the council. To get the overall average, it sums up the ratios for each *keiretsu* and divides by six. NLI’s methodology is less restrictive. It counts all cross-held shares of *keiretsu* members, regardless of the identity of the “partner” firm.

<sup>33</sup> Suzuki attempts to explain why a firm might sell (or hold) the stock of another firm in which it owns at least 1 percent of all outstanding shares. Among the independent (explanatory) variables he tested was a condition in which the firms own mutual shares in one another. The coefficients for this variable were negative, and statistically significant at the 5 percent level, over each of the two-year test periods (1988-90; 1990-92; 1992-4; 1994-6), and over the entire period (1988-96). In total, Suzuki’s logistic regression relied on more than 37,000 observations.

<sup>34</sup> After floating the plan, Keidanren let it drop as it proved hugely controversial.

<sup>35</sup> The author, Kanzaki Kōzaki (2000: 72-3), argues that “there is no future for a firm that places its first priority on increasing share value to please stockholders.” To do so, he writes, would “neglect Japan’s most valuable resource – its employees.”

<sup>36</sup> *Yomiuri Shinbun*, July 11, 1998.



<sup>37</sup> Since 1994, there have been other important revisions to the Commercial Code. For example, firms are now required to file consolidated reports that include profits and losses of subsidiary firms.

<sup>38</sup> See Taggart Murphy, "Don't be fooled by Japan's Big Bang," in *Fortune*, December 29, 1997.

<sup>39</sup> This has been reported by numerous sources. See, for example, Japan Finance Corporation for Small Business 1996: 29; Japan Finance Corporation for Small Business 1997: 38; Shôkô Chûkin 1995: 20.

<sup>40</sup> This, too, is well documented. See, for example, Jichirôrento Shokurô Keizaishibu, "Baburu Hôkaigo no Machikôba no Keiei Jittai," July 1997, p. 8; Ikeda 1996: 132-133; Nakazawa 1997: 74; Zenkoku Shitauke Kigyô Shinkô Kyôkai 1997a: 72.

<sup>41</sup> In addition to the large number of survey and press reports on this process, NHK contributed an outstanding television documentary that focuses on Mazda: "Keiretsu ga Kuzureru Toki: Hiroshima-Machi Kôjô no Sentaku" (May 1997).

<sup>42</sup> If survey results are any indication, subcontractors may not really be scrambling so frantically to expand their list of customers. One study (SME Agency 1998: 98) found that 83 percent of subcontractors have the same number of parent firms, or even fewer, than they had three years earlier. Another study (Japan Finance Corporation for Small Business 1997: 89) reports that 69.5 percent of subs are either maintaining the same number or even reducing the number of customers with whom they do business.

<sup>43</sup> In a survey of automobile parts suppliers, 12.2 percent of 1st tier subcontractors expressed the belief that ties with their parent firm would grow stronger in the future, while none of the 3rd tier subs could predict this. See Japan Finance Corporation for Small Business (1997: 42).

<sup>44</sup> *Nihon Keizai Shinbun*, July 22, 1998, p. 1.

<sup>45</sup> See Ikeda (1999). At the same time, however, Nissan encouraged some of its key suppliers to strengthen their financial positions through horizontal tie-ups. Thus, Tachi-S and Fuji Kiko merged, while Unisia Jecs, Calsonic and Kansei moved to forge a three-way alliance. The automaker now appears divided between "traditionalists" who believe Nissan should retain its close transactional ties with these core subcontractors and "radicals," led by Ghosn, who believe Nissan should loosen or even cut such ties. See *Nikkei Weekly*, September 6, 1999.

<sup>46</sup> See Japan Finance Corporation for Small Business 1997 (34).

<sup>47</sup> This is a common refrain in the literature on restructuring in the automobile and electronics industries. See Shimokawa 1995: 8; Shimokawa 1997; Altbach 1997: 9.

<sup>48</sup> In 1999, a former Toyota vice president became chairman of the board at Aishin. Honda used a similar personnel transfer to tighten ties with a core subcontractor: it sent a former executive director to Keihin, where he became president. See Tôyô Keizai Shinpôsha (*Kaisha Shiki-hô*, Vol.3, summer 1999).

<sup>49</sup> Shôkô Chûkin 1995: 23. This survey also showed that breaking *keiretsu* ties is a low priority for parent firms reorganizing their operations. On a list of 11 restructuring options, this one was ranked 10th.

<sup>50</sup> For example: "Lifetime-employment system unravels as downsizing fever grips corporate Japan," *Nikkei Weekly*, June 7, 1999, p. 1; "Dai-jitsugyô Jidai wa Kore Kara" (The Age of Mass Unemployment Has Begun," *Aera*, June 22, 1998, pp. 10-15; and "Japan's worry about work," *The Economist*, January 23, 1999, pp. 23-24.

<sup>51</sup> As we discuss below, Japanese firms have been using merit pay – in moderation – for quite some time. Many of the news articles of the late 1990s were based on press releases from corporations announcing proposals to revise or bolster already established systems of merit pay. *Yomiuri Shinbun* carried several such articles in 1998, referring to plans by Toyota and Matsushita (February 11), NEC and Hitachi (March 14), and Fujitsu (April 2) to tinker with their compensation systems. A different

article (October 17) told how Daiwa Securities Co. was considering a plan to abolish lump-sum payments to employees who retire and instead offer them higher monthly salaries.

<sup>52</sup> Among countless examples of such stories, see: Emily Thornton, "More Cracks in the Social Contract," in *Business Week*, October 13, 1997, p. 18; Kurihara Takako, "'Musabetsu Dai-risutora' to iu Genjitsu" (The Reality Known As Indiscriminate and Massive Restructuring), *Spa*, August 11-18, 1999, pp. 26-31.

<sup>53</sup> See "Japan Restructures Gradually," *The Economist*, Feb. 6, 1999, pp. 65-66.

<sup>54</sup> The numerator in the ratio is "administrative expenses" – not personnel expenses. In fact, however, administrative expenses are driven almost entirely but personnel costs. Nissei Life Insurance (NLI) Research Institute, "*Koyō Iyokukantai no naka de Takamaru Senmon Jinzai Niizu*" (The Growing Need for Specialists Amid Waning Employment Demand), *NLI Research Report No. 3*, (November 1998), section 3. These data were collected originally by the Ministry of Finance.

<sup>55</sup> In a survey focusing on the practice of *shukkō*, Sato, Nagano, and Oki (1996) found that sending and receiving firms were linked through equity ties in 80.3 percent of all cases and through transactional ties in 90.3 percent of all cases.

<sup>56</sup> Interview, November 14, 1997. In its consolidated statement of income, which was provided to the author, Nippon Steel identifies rather large losses in 1995 (106 billion yen), 1996 (70 billion yen), and 1997 (80 billion yen) that are attributable to early retirement allowances paid to employees, many of whom went to work for its subsidiaries. Hitachi also used *shukkō* aggressively in the 1990s, trimming its own payroll by 10,000. See Steffensen (1998).

<sup>57</sup> See Ministry of Labor (1998: 167). In 1999, the government considered legislation to authorize even more employers to hire "temps." Only the defense, port transportation, and construction industries would have been off limits (*Yomiuri Shinbun*, May 20, 1999).

<sup>58</sup> In some cases, however, *tenseki* and *shukkō* are the only options short of laying off workers. This is especially true in the case of intra-firm transfers. Mazda saved hundreds of jobs in the late 1970s when it moved shop floor employees into its sales division after the oil crisis rendered its gas-guzzling rotary engine vehicles too expensive to operate. Two decades later, Isuzu did the same, on a smaller scale, when it resolved to quit producing automobiles with gasoline engines and specialize in diesel. Rather than laying them off, it transferred 1,000 engineers from the defunct project to the live project. See *Nihon Keizai Shinbun*, April 17, 1998, p. 1.

<sup>59</sup> The MOL survey is cited in Sato (1996: 6).

<sup>60</sup> The Japanese government has finally acknowledged that women are put at a disadvantage in Japan's seniority-based employment system. At the same time, however, it frets openly over the declining birthrate in Japan, and thus does not advocate turning to women to fill expected job vacancies in the future, when Japan's aging work force begins to contract. See EPA 1997. For comments on the report, see *Daily Yomiuri*, November 5, 1997.

<sup>61</sup> In its survey of the Japanese economy, the Economic Planning Agency (EPA 1996: 353) concluded that "in general, there have been no major changes" in the Japanese employment system, particularly in the manufacturing sector.

<sup>62</sup> A government study (*Rôdô Daijin Kanbô* 1996:132) found that formal training in established facilities for vocational education is still quite uncommon in Japan. Instead, off-the-job training tends to consist of more informal information exchange through industry associations and personal networks.

<sup>63</sup> The Productivity Center and JRI surveys are all discussed in Sugeno and Suwa (1997: 75).

<sup>64</sup> The survey (by Nikkeiren) is also discussed in Sugeno and Suwa (1997: 75).

<sup>65</sup>

<sup>66</sup> Interview, Tokyo, February 25, 1999.

<sup>67</sup> Interview, Tokyo, April 8, 1999.

---

<sup>68</sup> See Kumazawa 1997 and Nikkeiren 1969.

<sup>69</sup> This political concern is discussed openly in Seike 1995.

<sup>70</sup> It is typical, however, for labor strife to decline as unemployment rises. Thus, labor's quiescence may be as much a function of the hard economic times of the 1990s as the durability of relational ties between management and labor.

<sup>71</sup> See the *Daily Yomiuri*: "Government aid to failed firms at record high," May 11, 1999; "Appliance makers seek wage subsidies," March 19, 1998; and "Truck Manufacturers to Get Subsidies for Cuts," July 27, 1998. In 1998, the Diet expanded the law authorizing the government to support the wages of workers transferred to affiliates for cost-cutting reasons. But even this was not enough for Ota Hiroshi, a columnist for *Yomiuri*. In his column (*Daily Yomiuri*, Nov. 18, 1998), he said government should get further involved because employment is too serious an issue to leave to "the mercy of markets."

## **Chapter Five**

### **Preserving Core Networks:**

### **Regionalization's Role**

In chapter four, we examined this question: Has globalization destroyed the institutions of cooperation that make up selective relationalism in Japan? We found that, while it clearly has contributed to massive distributional change, the cross-border movement of capital and technology has not produced significant structural change in the political economy of Japan. In this chapter, we present the evidence supporting one explanation, a powerful explanation, for this surprising result: the process of regionalization has checked the forces of globalization -- at least for now. In other words, by regionalizing the administrative and production networks that make up Japanese relationalism, Japanese elites have bought themselves some breathing room, cut themselves some slack by reviving those endangered networks. This is because, as we discussed in chapter one, relationalism works reasonably well in the context of development, a context in which technology is being imported into and diffused throughout a growing economy.

As noted earlier, our explanation is designed to accommodate the medium-run future, not the distant future. Specifically, it will lose its explanatory power once developing economies in Asia have caught up with their more industrialized counterparts. In other words, it will not work in an environment in which local Asian firms have adopted virtually all of the technology available in the global inventory of accumulated know-how. It also will cease to apply once Japan (and, more specifically, Japanese business and political elites) lose the positional power they now enjoy in Asia.

Keeping these points in mind, it is not so surprising that our explanation continued to produce robust results during the Asian economic crisis of the late 1990s, when the region's developing economies faltered in their drive to catch up with industrialized economies and when they became even more dependent on Japanese capital and technological resources.

Let us recall some basic facts. Japan has been an influential actor in Asia for at least 25 years. Even in the 1975-85 period, it was the leading provider of foreign aid to several countries in the region, a major source of capital and technology, and an important trading partner. But Japan did not then enjoy what I call "positional power" because Asia was not yet an integrated economic unit; it was not, in a word, "regionalized."

The process of regionalization accelerated in the 1990s, and was driven -- first and foremost -- by the economic interests of Japanese industry. In 1991, the bubble that had defined Japan's economy for five years finally popped, prompting cost-conscious manufacturers to run for cover. Many of them ran to Asia, which by 1995 received as much as 79 percent of the cases and 42 percent of the money associated with Japanese foreign direct investment in overseas manufacturing.<sup>1</sup>

Japanese producers began to locate factories at different sites in the region based on the technological level of each host country, relative to one another and to Japan. This spawned an intra-regional division of labor, a kind of complementarity that promoted trade between countries within the region, and between those countries and

Japan. These producers, coordinating their regional activities from their Japanese headquarters, came to occupy central positions in this increasingly integrated, criss-crossing pattern of trade and investment. As demonstrated in chapter three, they came to enjoy positional power in the region as a whole.

Asia turned out to be a safe haven for Japanese manufacturers at least until 1997, when the region descended into a deepening economic crisis. As noted in chapter three, they found they could earn twice as much profit, on average, than they earned in North America or Europe, and significantly more than they earned inside Japan.<sup>2</sup> In addition, they could use their new Asian production bases to continue supplying U.S. and European export markets; in some industries, such as electronics, they managed to do so far more cheaply, and with fewer political repercussions, than they could from home. But most importantly, they found they could revive on a regional level the embattled networks they had come to dominate in Japan.

By the late 1990s, Asia was an extension of Japan's highly relational political economy. Japanese political and business elites viewed the entire region, including the home base, as one organic unit, or what MITI began to call "a soft cooperation network."<sup>3</sup> Automotive and electronic manufacturers led this initiative, allocating production facilities to different economies in the region based on their technological level, and then swapping the fruits of production. Tightly tethered to the parent company in Japan, these regional production networks lured their most trusted suppliers from Japan, replicated fundamental elements of their homegrown employment

systems, and relied -- to an extent they had not done at home for years --- on Japanese government assistance. Regionalization thus reinforced relationalism at its most desperate moment. Although it encouraged ongoing distributional change in Japan, this expansion of productive and administrative space actually slowed down the pace of structural change. Let us examine the evidence across the three nexuses of cooperation we considered earlier.

### **State and Industry**

With the dawn of a new decade in 1990, Japanese bureaucrats began to find themselves more and more on the defensive. The collapse of the bubble tarnished a public image burnished by years of relative success in managing the economy. Newspaper columnists savaged them; politicians began to question their judgment. And deregulation proposals fell like giant hailstones on Kasumigaseki, the district in Tokyo where most of Japan's ministries have their headquarters.

Facing an apparently inevitable decline in their jurisdictional authority at home, Japanese bureaucrats began to eagerly promote the expansion and regionalization of Japan-centered production networks.<sup>4</sup> In an interview, one official confided that his agency had seized on this concept as a way of protecting its otherwise threatened "turf" (*nawabari*). "MITI," he said, is "searching for a new identity, a new purpose in life."<sup>5</sup> MOF was no less enthusiastic.



By the mid-1990s, both ministries had convened high-level deliberation councils (*shingikai*) to advise them on economic policies the Japanese government should pursue in its dealings with Asia. Over at MITI, the question was industrial policy; that is, how to build a stronger regional division of labor by meshing Japan's industrial structure even more tightly with the industrial structures of newly developed and still developing economies in the region.<sup>6</sup> Over at MOF, the question was monetary policy; that is, how to regionalize the use of the yen -- especially for the benefit of Japanese firms operating in Asia. But according to a member of both *shingikai*, a more fundamental question may have initially propelled the two ministries into action: Could they revitalize themselves (that is, expand their authority or extend their jurisdictional reach) by pursuing regional, rather than purely national, economic policies?

"Asia is the new end zone," says Sakurai Makoto, director of the Mitsui Marine Research Institute, "and MOF and MITI are competing fiercely over who will get there first."<sup>7</sup>

On the broad field of ideas, of course, both ministries have been playing this game for a long time. In the 1980s, MOF created its own think tank, the Foundation for Advanced Information and Research (FAIR), to stimulate interest throughout Asia in greater regional economic cooperation. MITI, meanwhile, tapped its established brain trust, Ajiken (the Ajia Keizai Kenkyûjo, which despite its official name in English -- Institute on Developing Economies -- is best translated as "The Research Institute on Asian Economies"). The studies that emerged from these and other Japanese research

teams invariably invoked the concept of “flying geese,” which (as discussed in chapter three) was meant to describe the unitary but vertically layered economic development of Asia -- with Japan at the head of the flock.

MITI moved first to try to put this concept into action. In a 1987 visit to Bangkok, trade and industry minister Tamura Hajime unveiled the New Asian Industries Development (New AID) plan, an ambitious scheme to coordinate Japan’s aid, investment, and trade policies toward the region. The plan was designed to stimulate export-oriented manufacturing throughout Asia, and to help Japanese firms upgrade their domestic operations by transferring labor-intensive production to new offshore facilities. MITI vowed to implement the program in three phases: 1) collaboration with their counterparts in host countries to identify specific industries that, with some nurturing, might become internationally competitive; 2) the drafting of proposals to promote those targeted industries, usually relying on a mixture of “hard infrastructure” (such as roads and electrical transmission lines) and “soft infrastructure” (such as new Japanese-style organizations reflecting cooperation between government and business); and 3) issuing yen loans and dispatching experts to implement these programs.

What made the New AID plan new was the Japanese government’s effort to draft and implement industrial policies to lure both public and private capital to specific locations in Asia, rather than simply funding ODA requests from an individual host country. This is also what made it controversial. Critics outside Japan viewed it as a

presumptuous, intrusive, top-down approach to development, while Japanese critics outside MITI called it a power grab by the agency.

MITI bowed to critics and shelved the plan, but never abandoned the vision behind it. That vision, spelled out in its annual statement of policy priorities, continued to be “the creation of open industrial networks” and “the support of Japanese business activities in Asia.”<sup>8</sup> In the mid-1990s, MITI rolled out a new initiative to export industrial policies to Asia -- the Cambodia-Laos-Myanmar Working Group (CLM-WG), which -- as we discussed briefly in chapter three -- sought to promote the industrialization of those transitional economies. MITI proudly noted that this new policy group was based in Bangkok, not Tokyo, and insisted that it reflected an equal partnership between ASEAN (represented by the ASEAN Economic Ministers, or AEM) and Japan (represented by the MITI). In fact, however, CLM-WG was financed and staffed exclusively by MITI.<sup>9</sup> The organization soon evolved into the AEM-MITI Economic and Industrial Cooperation Committee (AMEICC), and broadened its coverage to include all of Southeast Asia. It also expanded its mission by, for example, pushing for stronger industrial linkages and more liberal investment policies throughout the region.

AMEICC is the umbrella organization for Japan’s administrative guidance to host governments and local firms in Asia. But other Japanese organizations also dispense advice on everything from broad macroeconomic policies to sector-specific microeconomic policies. As noted in chapter three, the Japan International Cooperation

Agency (JICA) has hundreds of “experts” scattered throughout Southeast Asia at any particular time. In the fiscal year ending in March 1999, it dispatched 645 of these advisers to Indonesia, 357 to Thailand, 336 to the Philippines, and 188 to Malaysia.<sup>10</sup>

In the mid-1990s, as Japanese assemblers sought to replicate their domestic *keiretsu* networks in Asia, policy advice often centered on how to develop supporting industries -- particularly in the consumer electronics and automobile industries. For example, a JICA team in Thailand produced a detailed study that led, in 1995, to the Thai Ministry of Industry’s “Master Plan for Supporting Industries.”<sup>11</sup> In addition, a former director-general of MITI’s Consumer Goods Bureau began advising the Thai government in 1998 on how to set up a public finance corporation for small and medium sized enterprises (SMEs).<sup>12</sup> More generally, MITI has created a regional council, including government and industry officials from ASEAN countries, as well as government and industry officials from Japan, to propose policies designed to foster the growth of SMEs in Southeast Asia.<sup>13</sup>

MITI also has mobilized Japanese business groups to help their Asian counterparts build up not only nationally-based trade associations but also, for the first time, regionwide industrial associations that directly reflect Japanese business interests. Thus, the Japan Automobile Manufacturers Association (JAMA) encouraged automakers in Southeast Asia to reorganize and revitalize their flagging ASEAN Automobile Federation (AAF); the Japan Electrical Manufacturers Association (JEMA) and Electric Industries Association of Japan (EIAJ) joined forces with Asian

manufacturers to establish a new regional grouping, Business Dialogue; and the Communications Industry Association of Japan (CIAJ) launched the Asian Telecommunications Industry Exchange.<sup>14</sup> A major purpose of the new regional organizations is to harmonize product and safety standards as well as certification procedures among members. MITI noted that, although U.S. standards often become defacto global standards, the European Union has moved to establish its own regional standards. "There is an urgent need to create standards based on the particular requirements of the Asia-Pacific region," the ministry asserted.<sup>15</sup>

Japanese government officials advise not only host governments and industries in Asia, but also Japanese firms seeking to invest in Asia, as well as Japanese firms that already have invested in Asia. When conducted in Japan, much of this guidance takes the form of business counseling, and is directed at SMEs looking for tips on suitable industrial sites and possible joint venture partners. Indeed, the government now publishes a manual describing all the programs available to smaller firms contemplating a move overseas. The manual (*Chūshōkigyō Kokusaika Shien Manyuaru*) was only 63 pages in 1996, when it was first published by MITI's SME Agency. Two years later, it was 116 pages.

Sometimes, however, administrative guidance is directed at large firms, and -- much like the *gyōsei shidō* of an earlier era -- appears to encourage collusive or cartel-like behavior. That was the case in 1992, when MITI called together representatives of the consumer electronics industry and tried to reach a loose agreement on which

companies would invest how much money to manufacture what products in which countries.<sup>16</sup>

Outside Japan, MITI uses another one of its arms, JETRO (Japan External Trade Organization), which operates 10 “support centers” throughout Asia, to guide Japanese firms that have already built factories. In 1990, it announced a plan to create public-private councils in major cities throughout the region to provide what it called “local guidance” to those affiliates.<sup>17</sup> And more recently, in 1996, it set up the Asian Industrial Network Program to pool information on suppliers and joint venture partners.<sup>18</sup> JETRO has provided an important coordinating function for Japanese affiliates in Asia; for example, in 1991 it helped broker an informal agreement among Japanese electronic manufacturers in Malaysia that led to a wage cartel curbing competition for the scarce supply of electrical engineers in that country.<sup>19</sup> The Japanese government routinely defends its role in brokering such overseas agreements by citing the threat presented by “excess competition” between Japanese MNCs in host economies.<sup>20</sup>

Yet another form of guidance is financial rather than administrative. Unlike its Western counterparts, the Japanese government actively subsidizes private overseas investment, particularly FDI to Asia. (Indeed, the Japan Export-Import Bank notes proudly that “the use of public funds to finance private overseas investment is relatively unique to Japan, with almost no parallel in other countries.”<sup>21</sup>) While the government’s share of FDI financing has diminished in recent years as firms have drawn more heavily

on their own resources and on commercial banks (particularly Japanese banks that have set up branches in Asia), its absolute contributions have actually grown quite substantially. In addition, the relative weight of FDI financing in total government lending activity also has increased. Beginning in the mid-1980s, the Export-Import Bank began to shift its focus from export credits to overseas investment loans -- especially to Japanese firms setting up shop in Asia. By 1996, it was lending \$331 billion to support private investment in the region -- double what it lent in 1993 and 28 times what it lent in 1986. As Table 5.1 shows, loans for regionalization became nearly a quarter of the bank's total business by that time.

Besides the Export-Import Bank, which is accountable only to MOF, three government-affiliated financial institutions that fall under both MOF and MITI's supervision have used public funds (postal savings) from the Fiscal Investment and Loan Program, a key vehicle of industrial policy during the 1950s and 60s, to guide small and medium-sized enterprises into Asia.<sup>22</sup> As discussed in chapter four, those banks (Shôkô Chûkin; the Japan Finance Corporation for Small Business; and the People's Finance Corporation) have been given new or expanded responsibilities -- in large part due to the credit squeeze facing SMEs during the long economic recession in Japan, but also in part due to the new emphasis on encouraging regionalization.

For example, under a law passed in 1987 and revised in 1995, these government banks are now specifically authorized to subsidize efforts by small firms to enter new fields -- including, literally, foreign fields. This program was intended to help SMEs

cope with the ongoing process of “hollowing out,” a process that, for them, means the loss of domestic markets as their Japanese customers (often assemblers of automobiles or electronic goods) move overseas. Ironically, though, it includes a remedy that contributes to the larger problem of “hollowing out.” The Japan Finance Corporation for Small Business (JFS) has been the most aggressive lender, using nearly 70 billion yen to finance 844 overseas investment projects between 1987 and 1996 (see Table 5.2). And 90 percent of those projects have been in Asia.

*JFS recognizes the irony. “If we help too much, we may contribute to the loss of production facilities and jobs in Japan. But our primary mission is to assist small and medium-sized firms so they can compete in an increasingly global marketplace. If firms believe they must expand overseas to remain competitive, we must do our best to help them.”*<sup>23</sup>

### **Business and Business**

It is obvious that some Japanese manufacturers have benefited, while others have suffered, from the expansion of domestic production networks into Asia. A report by the Kikai Shinkô Kyôkai Keizai Kenkyûjo (Economic Research Institute of the Machinery Industries Promotional Association 1995: 92) concludes that “assemblers, along with first tier suppliers, avoid domestic potholes such as *endaka* [yen appreciation] by expanding overseas . . . while second, third and fourth tier suppliers simply struggle to survive.” In general, smaller firms, lacking the financial and



information resources of bigger firms, have not been as adept at capitalizing on the economies of networking yielded by regionalization.<sup>24</sup> In addition, smaller subcontractors left behind in Japan have witnessed a slow but steady erosion in the scale of markets for their goods.<sup>25</sup>

Seki (1999: 14-17) claims that Japanese assemblers of electrical and electronic machinery used to follow a “20 percent rule” in their relations with parts suppliers.<sup>26</sup> The rule was two-sided: 1) if it were at least 20 percent cheaper to buy electronic components in Asia, assemblers would begin sourcing more parts from suppliers (including Japanese suppliers) in the region rather than from suppliers in Japan; 2) on the other hand, even if parts manufactured in Asia were much cheaper, assemblers would continue to buy at least 20 percent of their supplies from parts-makers in Japan. This side of the rule was apparently designed to preserve production capacity and employment in the domestic market.

But as the yen appreciated in the mid-1990s, electronics assemblers scrambled for ways to reduce production costs. The “20 percent rule” collapsed, according to Seki. And so did weaker suppliers who could not afford to reduce their prices, or who could not afford to move into Asia.

Bankruptcy statistics tell this story in simple, if depressing, terms. In the mid-1990s, a rapidly growing number of small manufacturers were unable to sustain operations as their major customers moved to set up production facilities in Asia. As Figure 5.1 shows, only 2 firms went bankrupt in 1993 due to this sort of “hollowing

out” of industrial networks; but by 1996, the peak of Japanese manufacturing investment in Asia, 64 firms suffered this fate. Manufacturers that have gone out of business for this reason have been, in almost all cases, subcontractors who occupy low and often highly dependent positions near the bottom of the supply chain.

Consider the following three examples. To safeguard their anonymity, I refer to these firms only as “A,” “B,” and “C.”<sup>27</sup>

A, based in Toyama Prefecture (along the Sea of Japan), was a producer of parts for printed circuit boards. In 1993, its main customer -- a first-tier subcontractor for Sony, JVC, Matsushita and other major consumer electronic firms -- moved some of its domestic operations to Indonesia. This setback was compounded in 1996, when the same first tier subcontractor moved a key production line to China. In the scramble to survive by developing alternative markets, A’s owner became ill and “lost his will to run the business.” By the time it collapsed in December 1996, A had run up a debt of 240 million yen.

B, based in Miyazaki Prefecture (Kyushu), was a producer of electrical parts for automobile ignition systems. Its primary customer, a first tier supplier of switches for Honda, moved to Thailand in 1989, and B was never able to recover. By the time it declared bankruptcy in November 1996, B’s gross sales had dropped steadily from 180 million yen to 20 million yen a year.

C was a Kyoto-based producer of pressed metal parts. Sales fell steadily in the 1990s as its main customer, a first-tier supplier of automobile seats, began to shift its

attention to technology tie-ups in Indonesia and Malaysia. In December 1996, when it found itself 63 million yen in debt, C finally gave up.

As these case studies indicate, small subcontractors in Japan have been shaken by the regionalization of the Japanese economy in the 1990s. Even when they were able to find new markets for the products they used to sell to customers who subsequently set up shop in Asia, they often had to match or beat the low prices (“Asian prices”) charged by rivals in Taiwan or Malaysia. “Some parent firms talk this way just to threaten their subcontractors, to tell them ‘We’ll buy from suppliers in Asia if you don’t cut your prices’,” says one government official.<sup>28</sup> “Others don’t just talk this way. They go ahead and source parts from Asia.”

Not only the smallest subcontractors, but also those located in some of Japan’s most rural areas, have been hit especially hard by regionalization. One survey conducted in 1994 found that 40 percent of electrical parts producers in rural prefectures had experienced sharp reductions in orders. Why? A large majority (60 percent) of these subcontractors put the blame on overseas expansion by longtime customers (Kikai Shinkô Kyôkai 1994: 75-6).<sup>29</sup> To a significant degree, the history of spatial relocation of Japanese manufacturing is repeating itself -- only on a regional scale. In the 1960s, assembly firms moved their large plants from increasingly high-cost urban areas to less congested locations in rural Japan. Key supply firms soon followed. Beginning in the late 1980s, Japanese assemblers moved again, replacing many of their rural factories in Japan with factories in Southeast Asia, Taiwan, and China. Seki

(1993) writes that Japan's "full-set industrial structure" is crumbling as a new "tripolar industrial structure" begins to take shape across Asia. This new regionwide structure consists of Tokyo and other major cities in Japan, which serve as the region's locus for "prototype manufacturing," and Japan's rural areas and Asian cities, which compete with one another to serve as the region's mass production sites. "Within this tripolar structure, it is Japan's hinterlands whose problems are most severe."

But not all Japanese suppliers have been hurt by regionalization; indeed, those with the capital resources -- and the right network connections -- have been able to participate actively in the game. Yamamoto (1996: 24) notes that 91 percent of the overseas investment by Japanese parts producers has been undertaken by leading (first-tier) subcontractors.

Nisshin, a Honda brake parts supplier, is one example. In the 1990s, it completely reorganized its operations, shutting down a number of its smaller parts production facilities in outlying provinces and dividing its remaining, higher-tech production capacity between Japan and Asian countries in which Honda has established assembly plants. It has, in the process, become an important member of Honda's emerging production network in Asia.<sup>30</sup>

As a regional supplier, Nisshin seems to be in good company. In the early 1990s, Kume (1992: 4) found that as much as two-thirds of Japanese manufacturing FDI in Asia was carried out by small and medium-sized enterprises -- and presumably, many of these SME investors were suppliers of parts and materials. In one study,

JETRO (1997b: 52) finds that more than half of the Japanese SMEs operating factories in Asia are subcontractors. In another study, JETRO (1997a: 190) reports that 56 percent of all Japanese FDI to Thailand in 1995 was concentrated in supporting industries such as automobile and electronic parts.

Interestingly, though, the motives of such investors seem to vary dramatically according to their actual size. While all suppliers indicate they are hoping to utilize cheap labor when they establish overseas operations, the larger ones are far more likely than the smaller ones to indicate that they also are responding to a specific request -- perhaps even a demand -- from a parent firm or major customer that, having built an offshore plant, has concluded, unhappily, that it cannot procure parts of sufficient quality on a predictable, reliable schedule from existing -- "purely local" -- suppliers.<sup>31</sup> These concerns are often voiced about such basic industries as sheet metal, welding, pressed parts, metal works, and plastics, according to the Bank of Tokyo (1995: 4). "It has become extremely difficult for assemblers to find local suppliers in these industries that can continually meet their high standards for quality and delivery time. As a result, Japanese subcontractors are moving aggressively into Asia in response to requests from their parent firms."

Consider the case of Nippon Electronics, a relatively large producer of printed circuit boards for Japanese electronics manufacturers such as Sony, Matsushita, and Sanyo. In the short-run, it figured it might end up losing money if it built a factory in Malaysia -- but decided to do so anyway. The company was under steady pressure

from longtime customers, and felt it had a “responsibility” (*sekinin*) to them, according to Takano Tatsuo, managing director of the subsidiary outside Kuala Lumpur.

For several years, our [Japanese] customers in Southeast Asia asked us to come and support them. They asked and asked, and finally we came. We had no choice really.<sup>32</sup>

Another example is Porite, a supplier of bearings for Japanese machine manufacturers. It built plants in Taiwan, China, Malaysia, and Singapore -- all in response to pleas from its customers. Company president Kikuchi Isamu explains matter-of-factly why the firm moved into the region, and why such investments by a medium-sized manufacturer were not as risky as they otherwise might appear: “When our longtime clients started setting up plants in Southeast Asia, they asked us to make our products there instead of shipping them from Japan.”<sup>33</sup>

Or, finally, one could consider the case of Ezaki Industrial, a supplier of oil, water, air and fuel pipes -- mostly for Isuzu Motors. Indeed, Ezaki sells 80 percent of its output to Isuzu; its chief engineer used to work for Isuzu; and it recently changed its weekly work schedule, closing on Wednesdays, after Isuzu did the same. So Ezaki paid attention when its major customer, which has operated in Thailand since the 1960s, announced its intent to boost the local content of the trucks it assembles there, and --

to achieve that goal -- called on its key suppliers to set up factories in Southeast Asia. Ezaki Toshiharu, grandson of the founder, says his firm, which now exports 10,000 pipe units a month to the Isuzu plant in Thailand, cannot afford to stay home. "If we want to survive, we have to grow with them," he says.<sup>34</sup>

Thus, while regionalization has clearly had a distributional effect, contributing to the bifurcation of Japanese subcontractors outlined in chapter 4, it has not necessarily had a structural effect. That is, it has not contributed to the dissolution of *keiretsu* networks in Japan -- as some scholars and journalists (such as Hirsh and Henry 1997: 13) have alleged. Indeed, one could argue that regionalization has helped cement relations between assemblers and "core" suppliers in Japan.

This is in fact a stated goal of the MITI agency that oversees relations between manufacturing assemblers and subcontractors in Japan. In one report, the agency (Zenkoku Shitauke Kigyô Shinkô Kyôkai 1997b: 58) encourages suppliers to "become part of the supply architecture of globally based parent companies" and thereby maintain or perhaps even strengthen ties with their customers or "parents."

Mindful of such linkages, Adachi (1996: 182) refers to Japanese manufacturing investment in Asia as "convoy-style" (*sendan-gata*) FDI because it typically is carried out by an assembler followed closely by his most trusted (first and perhaps second tier) suppliers.<sup>35</sup> This is especially true in the automobile industry, where subcontracting linkages have been strongest. One survey found that more than half of the Japanese affiliates operating in Asia's automobile industry were drawn to the region by the prior

investments of their customers.<sup>36</sup> It is important, however, to recognize that this is a relatively new phenomenon. In the mid-1990s, as many as 32.5 percent of all Japanese firms investing in the ASEAN-4 and as many as 21.3 percent of those investing in China indicated they had decided to make the move to “supply parts to an assembly manufacturer,” meaning -- in nearly all cases -- a Japanese transplant.<sup>37</sup> As Table 5.3 demonstrates, this marked a dramatic increase over previous years.

In interviews, Japanese assemblers operating in Asia often proudly claim they have boosted their local procurement levels in the 1990s -- a claim that, in the aggregate, is not actually borne out by the numbers.<sup>38</sup> Furthermore, even when they *have* successfully raised their local content, they have done so largely by relying on the services of subcontractors who have followed them from the home country. MITI (1998b: 244) states this matter-of-factly: “Japanese parts manufacturers in Asia are the main suppliers for Japanese affiliates in Asia.” This is confirmed by numerous studies.

JETRO (1999a) reports that 47 percent of the nearly 900 Japanese manufacturing affiliates it surveyed in Southeast Asia in 1998 are relying on Japanese transplants for the lion share of their locally purchased parts and materials.<sup>39</sup> And in certain industries, this figure is much higher. For example, 100 percent of Japanese automakers in Thailand and 88 percent of Japanese electronics manufacturers in Indonesia reported that they relied on Japanese suppliers for at least half of their local inputs.



Focusing again on the electronics industry, Sunada, Kiji, and Chigira (1993: 64) find that 70 percent of the “local” suppliers used by Japanese assemblers in Asia are actually Japanese parts producers operating in the region. These Japanese firms completely dominate the supply base for parts such as large and small motors, magnetic heads, capacitors, and modulators. Moreover, if we consider the total value of parts supplied, rather than simply the number of firms supplying such parts, the role of Japanese suppliers is even larger. Capannelli (1997: 172) finds that Japanese suppliers make up 60 percent of the firms supplying Japanese electronics assemblers in Malaysia, but that they account for 82.7 percent of the value of the parts used by those same assemblers. This is because indigenous firms are called on most often to supply only the very low value-added items such as packing materials.<sup>40</sup>

Capannelli’s statistical analysis is actually based on the total number of suppliers, and total value of parts supplied -- regardless of location. In other words, it covers suppliers producing parts not only in Malaysia, but also in Japan, Singapore, and other countries. However, the point remains even if we restrict ourselves solely to “local” parts. Parts produced by Japanese firms in Malaysia accounted for 28.2 percent of the value of inputs used by the nine assemblers; parts produced by *all* firms in Malaysia -- regardless of nationality -- accounted for 36.5 percent. Kiba and Kodama (1991: 30) confirm this result in their own study of parts used in TVs manufactured by Japanese firms in South Korea, Taiwan, Singapore, Hong Kong, Thailand, and Malaysia. They conclude that: “There was an overwhelming tendency for parts to be

procured from Japanese companies. The move towards procuring parts from the local area has progressed only in the form of Japanese parts manufacturers establishing local production bases.”

According to a different study conducted by the Foreign Investment Advisory Service (FIAS) (1991: 41) for the government of Thailand, Japanese affiliates in Asia’s electronics industry “tend to bring their own subcontractors from Japan or create their own satellite subcontractors, neither of which generates significant backward linkages with domestic firms.” Likewise, Okamoto (1996: 20) expresses concern that export-oriented production by Japanese electronic firms in Southeast Asia is carried out in “enclaves” that are well connected to Japanese subcontractors in the region, but rather poorly connected to truly local firms.

The automobile industry presents the same picture. Kumon (1997: 161) visited dozens of Japanese car and truck manufacturers in Asia and found that, in parts purchasing, they have a “high dependency on Japanese or J-affiliated suppliers.” Ueno (1997: 27-38) reports that up to 70 percent of the “local” suppliers used by Japanese assemblers in the ASEAN-4 are, in reality, Japanese transplants. But this, again, actually understates the dominant position of such transplanted subcontractors. Measured in terms of the value of parts rather than in terms of the number of suppliers, these Japanese suppliers play even more significant roles in Southeast Asia. Consider two studies:

- **JETRO (1999b: 10) finds that Japanese suppliers in the region account for 90 percent of the value of parts purchased locally by Japanese auto manufacturing affiliates in Southeast Asia.**
- **Looking at this equation from the other side, Kasahara (1997: 9) finds that only 11.5 percent of the value of “locally supplied” parts in the Thai auto industry come from Thai suppliers; the rest come from Japanese suppliers in Thailand.**

**The pattern resurfaces even when Japanese automakers set out consciously to build “Asian cars” with a preponderance of locally manufactured parts. In the case of the “City,” Honda’s “Asian car,” which it began manufacturing in Thailand in the 1990s, the assembler used 93 local suppliers -- 67 of which (72 percent of the total) were affiliates of Japanese subcontractors. Truly local suppliers produced only very simple pressed parts.<sup>41</sup>**

**FIAS (1991: 62) argues that Japanese automakers in that country deliberately avoid Thai suppliers: “One local producer claims he was excluded from the OEM market by a Japanese assembler until he could prove, by using a Japanese testing company, that his components were of higher quality than those Japanese components being used by the assembler at that time.” This is reminiscent of the story, recounted in chapter three, about the local auto parts producer who had supplied flywheels to a Japanese automobile assembler in Indonesia for several years -- until early 1996, when the assembler’s Japanese supplier set up a rival plant in that country.**

What, then, is happening here? Are Japanese manufacturers replicating their domestic *keiretsu* in Asia? The evidence suggests they are. Consider the example of M, the Thai affiliate of one of Japan's leading electronics manufacturers. Since the late 1980s, it has been producing floppy disk drives for computers with parts purchased from its *keiretsu* suppliers in Japan, Thailand, Singapore, and the Philippines. Independent suppliers account for less than 0.7 percent of the value of those parts.<sup>42</sup>

Or consider the example of S, the Thai affiliate of a prominent Japanese automaker. All of its leading *keiretsu* suppliers in Japan have either established parts manufacturing facilities in Thailand or have forged technology licensing agreements with local Thai firms. The only part that S buys from a completely unaffiliated firm is the muffler and tail pipe unit, a rather low-tech piece of equipment.<sup>43</sup>

Likewise, news reports show how Toyota has moved into the Chinese port city of Tianjin with 14 of its most important Japanese suppliers to manufacture passenger vehicles. The giant automaker, according to one report, is "rebuilding its *keiretsu* supply system" in Tianjin.<sup>44</sup>

Others have unearthed equally compelling evidence that Japanese automakers are attempting to bring core members of their domestic supply networks with them as they expand into Asia. Nishioka (1998: 66), focusing on ASEAN, concluded that, "with the exception of those cases in which an established supplier has stayed home, we find very few examples of Japanese automakers [in Southeast Asia] engaging in transactions outside their established *keiretsu* groups." Likewise, Kasahara (1997: 22)

argues that Japanese automakers in Thailand are seeking to capture “relational rents” by conducting almost all of their business with Japanese subcontractors who belong to their parent firm’s *keiretsu* network.

As they have done at home, Japanese automakers have established cohesive supply groups in each Asian country in which they operate. These groups, which ostensibly are managed by representatives of key suppliers, but which meet regularly under the auspices of the assembler, even carry the same name as the vertical *keiretsu* in Japan after which they are patterned. Thus, in Thailand, Nissan has its Thai Takara-kai, dominated by the local affiliates of its most trusted Japanese subcontractors; Mitsubishi Motors has its Thai Kashiwa-kai; Toyota has its Thai Kyôhō-kai; and so on. Table 5.4 is a comprehensive list, as of 1997, of the 32 Japanese members of Toyota’s supply club in Thailand. It includes the affiliates of many of Toyota’s major subcontractors in Japan -- from Denso to Aishin, from Kallawis to Kayaba, from Koito to NHK Spring. In fact, the parents of all but four of these affiliates belong to Toyota’s supply club in Japan.

Some observers have countered by noting that Japanese supply networks in Thailand, Indonesia and Malaysia are more “open” and less exclusionary than parts supply networks in Japan.<sup>45</sup> This observation is correct but misleading because it ignores the fact that automobile markets in Asia are still tiny compared to the Japanese market and that parts suppliers, as a result, are unable to achieve economies of scale -- and thus unable to operate at maximum efficiency -- without selling to a wider circle of

customers. Indeed, representatives of Japanese automakers in Asia told me that, when their *keiretsu* suppliers first followed them into the region, they encouraged those suppliers to sell parts to other automakers as well. In the words of one such representative: “We wanted them to get to the point where they could be really efficient and produce parts cheaply. They couldn’t get there by relying solely on us.”<sup>46</sup>

If this successfully explains the difference between Japanese *keiretsu* in Asia and Japanese *keiretsu* in Japan, one would expect such variation to decline gradually as automobile markets in host countries throughout the region get larger and larger. That is, the need to engage in extra-*keiretsu* transactions would lessen as suppliers begin to achieve economies of scale when they sell only to their primary customers. Higashi (1995: 46-7) states this most simply: “As the market grows, the emphasis on *group-ka* (tighter ties inside the group) also grows.

Table 5.4 supports this logic. It shows that none of the four “independent” affiliates in Toyota’s supply club in Thailand moved into that country in the 1992-97 period, when the Thai auto market was growing most rapidly. On the other hand, it shows that three of the four came in a period of steady but less dramatic growth: Ojihara (1990); Sunstar (1989); and Enkei (1987). The data in Table 5.4, then, are merely suggestive, not conclusive.

To test the hypothesis that Japanese automobile manufacturers have moved more aggressively to replicate their *keiretsu* networks in Asia as automobile markets in that region have grown, I carried out an ordinary least squares (OLS) multiple

regression analysis using company-level data on three Japanese assemblers (Toyota, Nissan, and Mitsubishi Motors) and scores of subcontractors identified by each assembler as a member of its supply club in Thailand, and Indonesia. The study actually considers two different hypotheses:

- 1) **The regionalization of production by Japanese automobile assemblers contributes to the regionalization of production by their Japanese subcontractors/*keiretsu* suppliers. In the equation, “regionalization” is expressed as a ratio: a firm’s total sales in Thailand or Indonesia, divided by its total sales in Japan.**
- 2) **This correlation increases from a period of moderate growth in the local automobile market (1989-91) to a period of rapid growth in the market (1995-97).**

While far from robust, the regression results provide some support for both hypotheses. Overall, there is a positive and statistically significant correlation between the regionalization of production by assemblers and the regionalization of production by their subcontractors. And while this correlation disappears when we consider only the first period (1989-91), it reappears clearly in the second period (1995-97). In the appendix to this chapter, I present these findings in more detail and discuss limitations with the model I utilized.

Although they examine different aspects of this issue, several other statistical studies come to the same general conclusion: Far from jettisoning their homegrown *keiretsu*, Japanese manufacturers are replicating them – and using them strategically – as they expand into Asia. For example:

- Belderbos (1997) uses a multinomial logit model to study the factors that caused 204 Japanese electronics and precision machinery manufacturers to invest (or not invest) in different regions of the world before June 1989. The results indicate that firm-specific assets, such as R&D capability and marketing expertise, drove firms to invest in North America and Europe, but horizontal *keiretsu* ties drove them to invest in Southeast Asia. “A striking finding,” Belderbos concludes (p. 217), “is that, while the possession of *firm-specific* intangible assets is in general a prerequisite for investment in Western industrialized countries, it is *interfirm* linkages that are the major determinants of the decision to invest in Southeast Asia.”
- Belderbos, Capannelli, and Fukao (1998) use a tobit model to explain the variation in local content ratios (measured both by local value added and the procurement of inputs from local suppliers) of 157 Japanese electronics manufacturers operating in Asia in 1992. They find that membership in a vertical *keiretsu*, especially one with strong intra-group



ties, leads to increased local content, particularly for Japanese affiliates operating in places such as Southeast Asia and China, where the indigenous supply base remains weak.<sup>47</sup> This, they conclude (on p. 12), reflects the fact that Japanese MNCs have replicated their supply networks “mostly .... through the establishment of overseas manufacturing plants by existing Japanese manufacturers of parts and components, in which the latter were often assisted by the ‘core’ firm of the *keiretsu*.”

- Sazanami and Wong (1996) use a multiple regression analysis to try to understand why Japanese MNCs engage in intrafirm (or intra-group) trade; that is, trade between a parent company and an overseas affiliate in which the parent owns some equity. One possible explanation they test is that MNCs hope to exploit established *keiretsu* ties. The results, using 1992 data on trade in 22 manufacturing industries, show that *keiretsu* ties (reflected in subcontracting or “production consignment” arrangements) do not – in general – explain this trading behavior. But this finding lands on its head when they introduce a dummy variable for location; thus, for Japanese MNCs operating in Asia, it turns out that *keiretsu* ties matter a great deal.

Although these studies focus on *keiretsu*, we should not limit our analysis of the regionalization of interfirm ties to this particular institution alone. Rather, we should treat “*keiretsu*” as a metaphor for industrial cooperation, which -- as noted earlier -- tends to be more intensive and more durable in Japan than elsewhere. With this in mind, it is useful to note that Japanese manufacturing affiliates in Asia themselves now operate much like first-tier subcontractors for their parents in Japan. They are tightly controlled by the home office, which -- as noted in chapter three -- coordinates the swapping of parts among various regional operations. For example, in 1996, Toyota affiliates in Southeast Asia traded \$200 million in parts with another; before the Asian economic crisis erupted, the parent company in Japan was planning to quadruple the volume of this intra-regional, intra-firm trade by 2000.<sup>48</sup> Thus, we can conclude that Japanese manufacturers are forming not only interfirm but also intrafirm networks across the region.

Regionalization, then, is fostering both the reorganization and the consolidation of business ties in Japan.

### **Management and Labor**

Just as the word “deindustrialization” entered the vocabulary of Americans in the late 1970s and early 1980s, the word *kidōka* (“hollowing out”) found its way into the Japanese lexicon in the 1990s. And for good reason. In the electrical machinery industry, Japanese manufacturers expanded the payroll at their plants across Asia by

180,000 between 1990 and 1995, while -- at the same time -- they eliminated 150,000 jobs at their plants in Japan.<sup>49</sup>

The impact of *kūdōka* was not, however, felt equally by all; women suffered far more than men. While the number of male Japanese workers in the industry grew by 100,000 over those five years, the number of female workers fell by 250,000. As a result, women -- who had accounted for 46 percent of Japan's electrical machinery workers in 1990 -- suddenly accounted for only 38 percent in 1995.<sup>50</sup>

These numbers present no mystery.<sup>51</sup> During this period, Japanese electronics manufacturers exported many of their assembly line jobs, traditionally held by women, from Japan to Asia. By contrast, they retained technical and management posts, as well as relatively high-paid jobs in prototype manufacturing plants. Men traditionally have occupied these jobs.

Thus, the regionalization of Japanese production has contributed to the kind of distributional change described in chapter four. At the same time, however, it has served to block or inhibit structural change in the Japanese employment system. More specifically, it has helped maintain the strong relational ties that have bound longtime employees to their employers. Japanese manufacturers, in particular, have incorporated their Asian operations into regionwide personnel systems that allow them to better protect the job security of their typically male, skilled, and middle-aged workers.

During the hard economic times of the 1990s, the managers of those manufacturing firms scrambled to cut production costs, particularly labor costs. As we

have seen, however, they were not inclined to lay off “core” workers. Instead, they relied on less drastic means -- including *shukkō* (“seconding,” or the temporary transfer of employees), including what I call “cross-border *shukkō*” -- to trim their payrolls. Asia, home to an expanding list of Japanese manufacturing affiliates, has served as a “parking place” to store surplus white-collar workers from Japan.

In the mid-1990s, when Asia was still booming, Honda transferred a large number of supervisors from Japan to its affiliates in the region, especially Thailand. This eased some of the growing pressure at home, according to a Honda spokesman. “Our network of operations [in Asia] provides more flexibility in personnel management.”<sup>52</sup>

The same goes for Nissan. “We have too many managers at Nissan Motors in Japan,” confides an executive for the automaker. “Our overseas operations give us a convenient way to relieve this excess supply of management staff.”<sup>53</sup>

In the 1990s, when it struggled to reduce its domestic employment by 10,000 workers, Hitachi relied heavily on natural attrition, an early retirement program, and temporary transfers, including cross-border *shukkō*.<sup>54</sup> In 1991, the electronics giant had 450 Japanese managers stationed overseas, including Asia; by 1996, that number had nearly doubled to 830. Hitachi’s experience is not extraordinary. As Table 5.5 shows, the total number of Japanese employees at private firms in Asia increased almost twofold over that period, reaching 103,688 by 1996.<sup>55</sup>

Cross-border *shukko* is an expensive practice, both financially and politically. Japanese MNCs must pay much higher salaries and benefits to their expatriate managers than to their local managers at overseas affiliates -- in some cases, as much as 10 times higher. Furthermore, they receive heated, often blistering, criticism from host government officials for using Japanese rather than local staff at their operations in Asia. Given these two constraints, one would expect to find a steady reduction in the share of these expatriate managers.

In fact, however, there has been no real progress on this front -- despite repeated pledges by Japanese parent companies to "localize" (*genchika*) their Asian operations. This phenomenon is evident not only in wholly owned subsidiaries but also in joint ventures in which the Japanese partner owns less than 50 percent of the stock. "In places like Indonesia and the Philippines, where we do not have a majority of the equity," says Akira Yokoi, vice-president for international affairs at Toyota, "we are still able to aggressively send in our own management team and maintain control."<sup>56</sup> Even in those rare instances in which an Asian manager ends up in charge of production, finance or some other important division in a Japanese subsidiary or joint venture, he often is paired with an expatriate manager, who serves as a "big brother" or adviser.<sup>57</sup>

As Table 5.6 shows, the percentage of expatriate (Japanese) managers at Japanese manufacturing affiliates in Asia actually doubled from 1986 to 1989, and then dropped only slightly over the following six years. Indeed, Kitajima (1997: 55) found

that nearly 60 percent of Japanese machinery manufacturers in Thailand, Malaysia, and Singapore planned to maintain or increase the number of expatriate technicians and managers at those overseas affiliates. (Even more surprising, Kitajima (1997: 57) found that 96.2 percent of those firms planned to maintain or increase the number of Japanese directors supervising their operations.)

Official statistics grossly understate the scale of the expatriate staff at Japanese manufacturing affiliates in Asia. This is because most of these staffers are engineers and technicians who rotate into such jobs for relatively short periods of time, thereby avoiding host country tax obligations and circumventing host country restrictions on the supply of work permits for foreigners.<sup>58</sup>

In chapter 3, we pondered various explanations for the slow pace of localization, and found that the most plausible one had to do with the desire of Japanese employers to preserve the relational ties they have nurtured so carefully in Japan over the years. This explanation, which does not offer much hope for imminent change, is supported by evidence that, in transferring technology, Japanese parent firms continue to prefer to dispatch technicians from home rather than rely on experts in the host country who could be armed with technical manuals or even trained in Japan via OJT.<sup>59</sup> And the Japanese state often supports this bias. At a 1997 seminar in Bangkok on strategies to cope with the region's unfolding currency crisis, JETRO officials encouraged Japanese assemblers in Thailand to consider importing an even larger number of technicians from Japan to work directly with their Thai (and Thailand-based)

subcontractors on a long-run project to increase the quality of locally produced parts. JETRO offered the services of its own Japan Overseas Development Corporation (discussed in chapter three), which dispatches Japanese technicians who are unemployed or who have retired from their jobs at home.<sup>60</sup>

It should be noted here that cross-border *shukko* can move in either direction. Parent companies in Japan, using what they call “on-the-job training programs,” routinely import less-skilled Asian workers from their regional affiliates and put them to work on home-based assembly lines, and particularly in “3 K” jobs (that is, *kiken*, *kitsui*, *kitanai*; or in English, dangerous, difficult, and dirty jobs). This can happen either when the supply of Japanese workers willing to perform such labor in Japan is low, or -- as we shall see below -- when the supply of Asian workers at overseas affiliates becomes over-abundant. For example, in 1992, Toyota sent about 200 workers from its assembly plant in Indonesia to its plants in Japan to receive on-the-job training. This was double the number of “trainees” sent in an average year. Why? Nakamura and Padang (1999: 93) provide a succinct explanation: The parent company in Japan “was experiencing a boom and faced a shortage of manpower ... [while its affiliate in Indonesia] did not have favorable market conditions and suffered from excessive manpower.”<sup>61</sup> In addition, parent companies in Japan may move export-oriented assembly lines -- and thus jobs -- back to Japan when relative costs shift in response to exchange rate adjustments. For example, in 1997, when the yen weakened against the dollar, Matsushita moved its production of 16 inch and 25 inch color TV

sets back to Japan from Malaysia -- even though it anticipated having to run its Japanese plants at a loss for at least a short time. It did so because it wanted to protect domestic jobs, according to Shirafuji Hiroyuki, managing director of Matsushita TV (Ishibashi 1997: 19). Or, in less altruistic language, it wanted to avoid the even greater cost, over the long run, of losing its investment in human capital at home.<sup>62</sup>

Thanks to this ongoing concern about domestic employment, leading Japanese labor organizations have been able to express qualified support for business plans to “rationalize” production activities through regionalization. In one report, Denki Rengô (1998: 169) -- the Electrical Workers Union, a subset of the conservative Rengô (Japan Trade Union Confederation) -- argues that Japanese manufacturing investment in Asia, carried out as part of a regional division of labor, can actually protect the jobs of skilled “core employees” in Japan. This position is quite different from the one taken by Rengô’s U.S. counterpart, the AFL-CIO, in the debate over the North American Free Trade Agreement.

The point here is not that Rengô is different from the AFL-CIO, or that it has been somehow “co-opted” by the Japanese business community while its American counterpart has remained a vigilant opponent of “rationalization” through regionalization. The point is that Japanese FDI into Asia, motivated in part by the desire to maintain network ties, has produced a wholly different outcome than U.S. FDI into Mexico.



### **Summary**

**In this chapter, we have demonstrated that regionalization has helped preserve if not strengthen network ties under stress in the political economy of Japan, while at the same time narrowing the distribution of gains from relationalism. All three nexuses of cooperation -- that is, the ties between state and industry, between otherwise independent firms, and between labor and management -- have been fortified, if narrowed, through the regional expansion of Japanese institutions.**

**Although one might have expected the Asian economic crisis of the late 1990s to slow down the process of regionalization, and thus jeopardize relationalism, it did nothing of the sort. Japanese business and political elites used extraordinary measures to cope with the collapse of markets in Asia and, in the process, actually increased their positional power in the region. For example, between November 1997 and January 1999, 244 joint ventures in Thailand received life-saving transfusions of capital from their foreign parents -- and nearly two-thirds of that money came from Japan.<sup>63</sup> In other words, while many American, European, and Korean manufacturers withdrew from the market, Japanese MNCs hunkered down. "Everyone knows Asia will come back in three to five years, so we're just trying to get ourselves ready for when it does," confided a Sony official.<sup>64</sup>**

**By late 1999, when the crisis showed signs of easing, this "hang-tough" strategy was already paying off. In Thailand, Mitsubishi Motors was preparing to quadruple its annual production of automobiles and was moving ahead with plans to**

use some of its increased capacity to build an “Asian car.”<sup>65</sup> In Indonesia, Toshiba was able to begin expanding production of cathode ray tubes for color TVs after its competitors there closed assembly lines. “In some areas, we are facing less competition,” said Tsubota Yutaka, manager of the conglomerate’s Asian operations.<sup>66</sup> “We are already as profitable [in the region] as we were before the crisis.” Toshiba apparently is not alone. JETRO reports that 75 percent of Japanese manufacturers in Southeast Asia expected to break even or turn a profit in 1999.<sup>67</sup>

To enhance their positional power in Asia, Japanese manufacturers had to hold onto supply networks in the region. And they did: For example, in Thailand, where scores of local suppliers went bankrupt and an equivalent number of foreign suppliers shut down their factories, not a single Japanese parts producer gave up -- despite having to operate at sometimes as little as 20 percent of production capacity.<sup>68</sup> How did they do it? The answer reveals an interesting twist: In this instance, interfirm relationalism actually came to the rescue of regionalization.

Consider what happened in the automobile industry. Parent companies in Japan pursued a three-pronged strategy to help Japanese subcontractors in Asia. First, they provided emergency financial assistance to members of their regional supply groups. Toyota, for example, agreed to make advance payments to its parts producers throughout Asia, and financed critical but short-run expenses such as the lease of equipment.<sup>69</sup> Nissan also planned to come to the defense of its beleaguered parts suppliers in Thailand, subsidizing up to \$26 million in production there.<sup>70</sup> Second, to

breathe some life into an otherwise flat market, the parent companies temporarily assigned to their affiliates in Asia some of the production chores that had, until then, been done entirely in Japan. Toyota, for example, gave its Thai affiliate the responsibility of manufacturing -- and then exporting -- a line of pick-up trucks. Stanley Electric transferred a share of the production of headlights to its affiliate in Thailand.<sup>71</sup> Mitsuba, meanwhile, turned over all production of IC flasher relays to its Thai affiliate, which then exported the goods back to Japan.<sup>72</sup> This brings us to the third measure. Parent firms dramatically boosted the import of parts from struggling parts suppliers in Asia. Toyota was buying only 2.5 billion yen worth of auto parts from Japanese subcontractors in Asia in 1997, when the region's economic crisis began; by 2000, however, it was planning to import auto parts valued at 14 billion yen -- a nearly six-fold increase.<sup>73</sup> In just one year (1998), Honda increased its import of auto parts manufactured in Thailand by 150 percent.<sup>74</sup> MMC, likewise, began importing parts from Japanese suppliers in Thailand and using them in its Galant, produced in the U.S., and its Lancer, produced in Japan (Mori 1999: 23).

Of course, automakers hoping to ride out the economic storm in Asia had to do more than just shore up their supply base; they also had to hang onto their labor force. Here, too, regionalized relationalism came in handy. To cite just one example, Toyota officials boast that they did not lay off regular employees in Southeast Asia during the crisis -- even though they had to suspend production at several factories.<sup>75</sup> One reason they were able to fulfill their pledge of protecting jobs was that they dramatically

expanded their program of sending overseas employees to Japan for training. In 1998, at the peak of the crisis, Toyota doubled the number of Southeast Asians in its training program (from 250 to 500), and doubled the amount of time spent in Japan (from an average of three months to an average of six months) (Fourin 1998b: 6). We should not be surprised to learn that the Japanese state helped finance this and other training programs through the Association for Overseas Technical Scholarships, an arm of MITI.

For Japan's political elites, the economic crisis in Asia has presented a difficult challenge -- but also a golden opportunity to increase Japan's positional power in the region and to reinforce relationalism. "Our status in the region has increased, and so has our budget at home," boasted one official.<sup>76</sup> MITI, in particular, has used the crisis as a pretext to aggressively pursue its controversial scheme of implementing a nationwide industrial policy. It has convened "joint public-private sector dialogues" under the auspices of AMEICC in Bangkok to consider how it can work with state officials in each country to help "guide" investments that will contribute to the development of the entire region. When it discusses its AMEICC activities, MITI deploys virtually the same logic (and rhetoric) it deployed in the 1960s when it was defending the use of industrial policies at home. The Asian economic crisis, according to MITI, reflects the failure of government officials in Asia to cooperate with one another, and with firms in their own countries -- a failure that led to uncoordinated production and excess competition, which unduly lowered the price of manufacturing

goods in Southeast Asia (*Nihon Keizai Shinbun*, November 23, 1998, p. 3). AMEICC is ostensibly designed to overcome this failure of industrial policy.

To spur economic recovery, Japan announced in 1998 that it would dramatically increase the flow of ODA loans and grants, as well as technical assistance, to its hardest-hit neighbors in Asia. On its face, the emergency plan to spend \$80 billion over 10 years seems undeniably generous. But upon closer inspection, one finds that it includes a number of items designed to strengthen relational ties between the Japanese state and Japanese industry, as well as to help maintain interfirm and labor-management ties.

First, the aid package renews the controversial practice of “tying,” that is, providing financing for a project only on the condition that it is carried out by home country firms. Asian countries hit by the crisis will receive a total of \$6 billion in “special loans” over three years for equipment purchased from Japanese suppliers or for public works performed by Japanese contractors.<sup>77</sup>

Second, the package makes it possible to dispatch an unprecedented number of JICA experts to Asia, providing advice to host country officials on everything from industrial structure reform to trade finance.<sup>78</sup> This advice, as noted earlier, tends to favor the interests of Japanese MNCs operating in those countries. And in the case of a new program proposed by the head of Nikkeiren (Japan Federation of Employers Associations), this advice will also serve the interests of some firms remaining in Japan. For the first time ever, the government is recruiting “white collar experts” from Japan’s

private sector -- particularly its financial institutions -- to provide guidance to Asian governments on such matters as accounting and auditing. All of the volunteers -- an estimated 1,000 each year -- are between the ages of 40 and 69; many, it turns out, have been rendered superfluous by the hard economic times in Japan. For this reason, says a JICA official, the program can help Japanese firms as well as Asian governments. "In most of these Asian countries, there is a serious shortage of administrators trained in fields such as financial management. On the other hand, in Japan, we now have an excess number of such people."<sup>79</sup>

Finally, the massive aid package includes a significant amount of financing for Japanese firms in Asia, particularly the SMEs that make up an all-important supply base for machinery assemblers and that might otherwise be tempted to withdraw from the region. Some of this money goes to host governments, which in turn loan it to private interests. Malaysia, for example, is receiving such a "two-step" loan (\$160 million in 1999) for SMEs, and especially Japanese suppliers, suffering from a credit crunch in that country. Much of the money, however, is channeled to Japanese firms through government-affiliated banks in Tokyo. For example, as of July 1999, the Export-Import Bank of Japan had agreed to provide \$900 million in additional assistance to Japanese affiliates in Indonesia through what it calls "investment financing."<sup>80</sup>

Furthermore, these government-affiliated banks are now authorized to not only subsidize new overseas investment for plant and equipment, but also to provide operating funds for Japanese SMEs in jeopardy of closing down existing facilities in

Asia. Government money is loaned to the parent company in Japan, which is then expected to inject capital into its affiliate in Asia. In just the first three months of 1999, JFS loaned nearly \$10 million to keep 14 affiliates afloat.<sup>81</sup>

In addition, MITI has tried to maintain investment in Asia by expanding its already generous program insuring foreign bank loans for the overseas activities of Japanese affiliates. In March 1998, the government announced it would begin to cover ordinary credit risks, such as the bankruptcy of an overseas affiliate borrowing money.<sup>82</sup> Then, a few months later, it announced it would relax the insurance program further by eliminating the requirement that Japanese parent firms participate in providing up-front guarantees for overseas loans made to their affiliates.<sup>83</sup>

The Japanese state has not tried to disguise the fact that its massive bailout plan for Asia is also designed to help Japanese industry. Indeed, when he announced his \$30 billion piece of the package in 1998, Finance Minister Miyazawa Kiichi noted candidly that a substantial sum would go to Japanese SMEs. OECF (1999: 7) justified the expenditures in these terms:

Japanese companies, which have contributed greatly to the economies of these countries, are also facing difficulties due to the economic crisis. If this situation continues, it would be difficult to invigorate these economies with new economic activity, with the strong possibility that many companies might have to pull out of the region. This would be

**damaging to the local economies, and could possibly have damaging effects on the bilateral relationships of these countries with Japan.**

**Host governments throughout Asia are not naive; they know that Japanese efforts to activate their stalled economies are also designed to energize Japan's. In doing so, they acknowledge the asymmetrical interdependence that characterizes their relationship with Japan, and also acknowledge the latter's positional power in Asia. Singapore's Ambassador-at-Large Tommy Koh greeted visiting MITI minister Yosano Kaoru in September 1998 by invoking the agency's favorite metaphor: "We need the Japanese goose to grow strong so that it can lead the other geese in the region to fly again."<sup>84</sup>**

**Koh, however, may not recognize the underlying paradox: The longer Japanese elites use desperate measures such as the regionalization of production and administrative networks to preserve the solid ties of relationalism at home, the longer it will take for Japan to rediscover its wings and fly again. I address this paradox in the next chapter.**



**Table 5.1**  
**Export-Import Bank Loans for JFDI to Asia**

<i>Year of Commitment</i>	<i>Overseas Investment Loans to Asia (bill yen)</i>	<i>Share of Total Commitments (%)</i>
1996	330.6	22.3
1995	251.2	15.3
1994	188.5	10.9
1993	163.7	13.1
1992	319.3	16.7
1991	188.7	12.7
1990	199.7	12.6
1989	135.7	8.0
1988	42.0	2.9
1987	198.7	14.1
1986	11.9	1.1
1985	41.3	4.7
1984	52.4	6.7
1983	77.0	8.0
1982	n/a	n/a
1981	90.2	5.6
1980	79.1	8.5

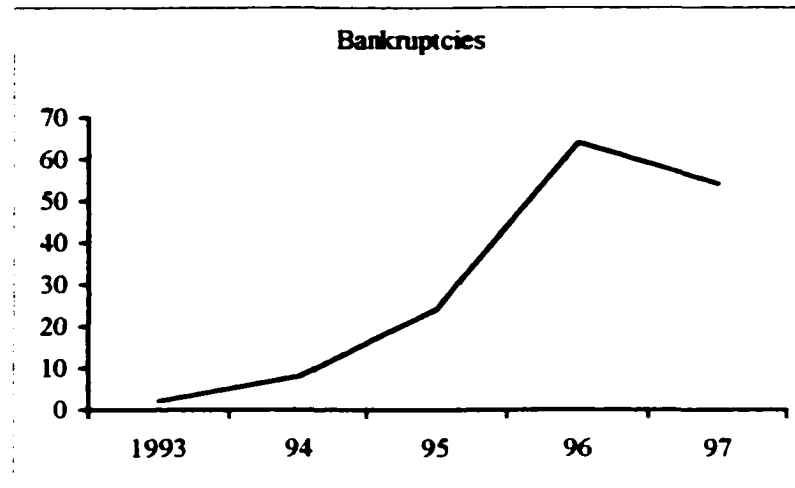
Source: Export-Import Bank of Japan, Annual Report (various years)

**Table 5.2**  
**Special Loans by JFS for Overseas Investment**

	<i>1987</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>
<b>amount</b>	2,693	6,147	15,227	8,462	4,194	3,759	3,991	10,798	9,095	5,458
<b>projects</b>	36	85	164	112	75	49	53	115	95	60

Note: "amount" in million yen

Source: Japan Finance Corporation for Small Business (JFS)



Source: Teikoku Data Bank, *Teikoku Nyūsu*, various years.  
Note: Unit is number of bankrupt firms.

**Figure 5.1**  
**Bankruptcies**  
**Due to “Hollowing Out” of Manufacturing**

**Table 5.3**  
**Japanese Subcontractors Moving into Asia**  
 (% indicating they invested to “supply parts to an assembly manufacturer”)

	1991	1992	1993	1994	1995	1996
<b>NIEs</b>	2.3	0.0	3.8	10.7	23.5	13.8
<b>ASEAN-4</b>	6.1	8.2	17.1	17.4	32.5	24.1
<b>China</b>	0.0	3.4	12.2	10.2	21.3	12.8

**Source:** annual surveys, Research Institute on Overseas Investment (Export-Import Bank of Japan)

**Note:** The institute asked respondents each year to identify the motivation behind their decision to invest in a particular foreign location. Multiple responses were allowed

**Table 5.4**  
**Japanese Members of Toyota Supply Club**  
**in Thailand**

<i>Name of Thai affiliate</i>	<i>Parts Produced</i>	<i>Year Established in Thailand</i>
<b>Aoyoma Thai</b>	<b>metal fasteners</b>	<b>1965</b>
<b>Bangkok Foam</b>	<b>interior trim</b>	<b>1971</b>
<b>Thai Bridgestone</b>	<b>tires, tubes</b>	<b>1969</b>
<b>CI-Hayashi</b>	<b>carpeting</b>	<b>1993</b>
<b>Denso Thailand</b>	<b>alternators, regulators</b>	<b>1974</b>
<b>Enkei Thai</b>	<b>aluminum wheels</b>	<b>1987</b>
<b>Siam GS Battery</b>	<b>batteries</b>	<b>1970</b>
<b>Inoue Rubber Thailand</b>	<b>industrial rubber parts</b>	<b>1970</b>
<b>Kallawis Autoparts</b>	<b>wheels</b>	<b>1973</b>
<b>NHK Spring Thailand</b>	<b>seats, springs</b>	<b>1963</b>
<b>Nippon Paint Thailand</b>	<b>paint</b>	<b>1968</b>
<b>National Thai Co.</b>	<b>car radios</b>	<b>1961</b>
<b>Ogihara Thailand</b>	<b>pressed parts</b>	<b>1990</b>
<b>Pioneer Electronics Thailand</b>	<b>car stereos</b>	<b>1991</b>
<b>Sunstar Chemical Thailand</b>	<b>pressed parts</b>	<b>1989</b>
<b>Siam Aishin</b>	<b>brake drums</b>	<b>1996</b>
<b>Siam Furukawa</b>	<b>battery</b>	<b>1992</b>
<b>Siam Kayaba</b>	<b>shock absorbers</b>	<b>1996</b>
<b>SNC Soundproof</b>	<b>soundproofing</b>	<b>1994</b>
<b>Thai Auto Works</b>	<b>body parts</b>	<b>1988</b>
<b>Thai Arrow Products</b>	<b>wire harness</b>	<b>1963</b>
<b>TCH Suminoe</b>	<b>upholstery</b>	<b>1995</b>
<b>TG Pongpara</b>	<b>steering wheels</b>	<b>1995</b>
<b>Thai Koito</b>	<b>headlamps</b>	<b>1986</b>
<b>Thai Kansai Paint</b>	<b>paint</b>	<b>1970</b>
<b>Thai Parkerizing</b>	<b>metal coating</b>	<b>1979</b>
<b>Thai Seat Belt</b>	<b>seat belts</b>	<b>1994</b>
<b>Thai Steel Cable</b>	<b>control cables</b>	<b>1981</b>
<b>Thai Stanley Electric</b>	<b>signal lamps</b>	<b>1981</b>
<b>Thai Safety Glass</b>	<b>windshield, windows</b>	<b>1988</b>
<b>Toa Shinto</b>	<b>paint</b>	<b>1989</b>
<b>Yuasa Battery Thailand</b>	<b>batteries</b>	<b>1963</b>

Source: Toyota Motor Company

**Table 5.4 (cont.)**

<i>Name of Thai affiliate</i>	<i>Year Established in Thailand</i>	<i>Name of Japanese Parent</i>	<i>Does Parent Belong to Keiretsu kai in Japan?</i>
<b>Aoyoma Thai</b>	1965	<b>Aoyama</b>	Y
<b>Bangkok Foam</b>	1971	<b>Inoac Corporation</b>	Y
<b>Thai Bridgestone</b>	1969	<b>Bridgestone</b>	Y
<b>CI-Hayashi</b>	1993	<b>Hayashi</b>	Y
<b>Denso Thailand</b>	1974	<b>Denso</b>	Y
<b>Enkei Thai</b>	1987	<b>Enkei</b>	N
<b>Siam GS Battery</b>	1970	<b>Nihon Denchi</b>	Y
<b>Inoue Rubber Thailand</b>	1970	<b>Inoac Corporation</b>	Y
<b>Kallawis Autoparts</b>	1973	<b>Chuo Hatsujo</b>	Y
<b>NHK Spring Thailand</b>	1963	<b>Nihon Hatsujo</b>	Y
<b>Nippon Paint Thailand</b>	1968	<b>Nippon Paint</b>	Y
<b>National Thai Co.</b>	1961	<b>Matsushita</b>	Y
<b>Ogihara Thailand</b>	1990	<b>Ogihara</b>	N
<b>Pioneer Electronics Thailand</b>	1991	<b>Pioneer</b>	Y
<b>Sunstar Chemical Thailand</b>	1989	<b>Sunstar Engineering</b>	N
<b>Siam Aishin</b>	1996	<b>Aishin</b>	Y
<b>Siam Furukawa</b>	1992	<b>Furukawa Denchi</b>	Y
<b>Siam Kayaba</b>	1996	<b>Kayaba</b>	Y
<b>SNC Soundproof</b>	1994	<b>Nihon Tokushu Toryo</b>	Y
<b>Thai Auto Works</b>	1988	<b>Toyota Autobody</b>	Y
<b>Thai Arrow Products</b>	1963	<b>Yazaki</b>	Y
<b>TCH Suminoe</b>	1995	<b>Suminoe Orimono</b>	Y
<b>TG Pongpara</b>	1995	<b>Toyoda Gosei</b>	Y
<b>Thai Koito</b>	1986	<b>Koito</b>	Y
<b>Thai Kansai Paint</b>	1970	<b>Kansai Paint</b>	Y
<b>Thai Parkerizing</b>	1979	<b>Nihon Parkerizing</b>	N
<b>Thai Seat Belt</b>	1994	<b>Tokai Rika Denki</b>	Y
<b>Thai Steel Cable</b>	1981	<b>Nihon Cable Systems</b>	Y
<b>Thai Stanley Electric</b>	1981	<b>Stanley</b>	Y
<b>Thai Safety Glass</b>	1988	<b>Asahi</b>	Y
<b>Toa Shinto</b>	1989	<b>Shinto Toryo</b>	Y
<b>Yuasa Battery Thailand</b>	1963	<b>Yuasa</b>	Y

**Table 5.5**  
**Japanese Expatriates in Private Firms in Asia**

<b>Year of Data</b>	<b>Japanese Employees in Asia (Total Number)</b>	<b>Percent of All Japanese Employees Overseas</b>	<b>Percent Change (Year on Year)</b>
<b>1996</b>	103,688	35.7	+ 9.6
<b>1995</b>	94,589	34.4	+ 13.3
<b>1994</b>	83,474	31.7	+ 7.4
<b>1993</b>	77,708	28.5	+ 8.5
<b>1992</b>	71,608	26.4	+ 10.2
<b>1991</b>	64,990	24.5	+ 16.9
<b>1990</b>	55,590	23.1	+ 10.8
<b>1989</b>	50,177	22.9	+ 9.7
<b>1988</b>	45,750	23.5	+ 8.1
<b>1987</b>	42,305	24.1	

Source: Ministry of Foreign Affairs, *Kaigai Zairyû Hôjinsû Chôsa Tôkei* (various years)

**Table 5.6**  
**Japanese Managers**  
**at Japanese Manufacturing Affiliates in Asia**

	<u>1986</u>	<u>1989</u>	<u>1992</u>	<u>1995</u>
<i>A: J Mgrs</i>	800	1,715	1,728	3,766
<i>B: Total Mgrs</i>	10,488	11,178	12,366	28,195
<i>Percent (A/B)</i>	7.63	15.34	13.97	13.36

Source: MITI, *Kaigai Jigyô Katsudô Kihon Chôsa* (Basic Survey on Overseas Business Activities), various years

Note: "Asia" equals China, Asian NIEs, ASEAN-4



## Notes to Chapter Five

<sup>1</sup> See Ministry of Finance, annual reports. Small and medium sized firms drove this trend, concentrating 92 percent of their overall FDI in Asia that year. See chapter three (and especially Table 3.2) for more complete data and sources.

<sup>2</sup> MITI. 1998. *Wagakuni Kigvô Kaigai Jigvô Katsudô: Dai 26 Kai* (The Overseas Business Activities of Japanese Firms, Number 26).

<sup>3</sup> In this same manner, a Japanese academic argues that Japanese capital and technology have transformed Asia into what he calls a "core strategic network." For more on the bold concepts used to describe economic regional integration in Asia, see Hatch and Yamamura (1996: 5).

<sup>4</sup> Regionalization has not only given Japanese bureaucrats a new set of markets in which to intervene; it also may have relieved some of the pressure for regulatory relief at home. To the extent that Japanese firms setting up production facilities in Asia manage to escape burdensome regulations at home, they become less dedicated to the political goal of regulatory reform in Japan. Using the terminology of Hirschman (1970), they exercise the "exit" option (literally) rather than the "voice" option. And, surprisingly, some of the new regulations adopted in the 1990s have had to do with notification requirements for small and medium-sized enterprises receiving government assistance to undertake foreign direct investment. Thus, notwithstanding the conventional wisdom that views Japanese multinationals as the locomotives pulling deregulation, the evidence suggests instead that Japanese "multinationalization," or at least regionalization, has actually helped impede that process.

<sup>5</sup> Interview, Tokyo, August 20, 1997.

<sup>6</sup> The staff for this group produced a comprehensive report on its activities. See Kokusai Boeki Tôshi Kenkyûjo. *Ajiadai no Sangvô Kôzô Seisaku ni kansuru Chôsa Kenkyû* (Research Report on Industrial Structure Policies for Greater Asia), March 1998.

<sup>7</sup> Interview, June 23, 1999, Tokyo.

<sup>8</sup> See MITI 1995c: 25.

<sup>9</sup> Interview, Koike Osamu, deputy representative, Japan Overseas Development Corporation, Bangkok, September 8, 1997.

<sup>10</sup> Internal memo, produced by JICA planning department and released to the author on July 23, 1999.

<sup>11</sup> Akira Suehiro, ed. *Kuni jôhô: Tai* (Government Information: Thailand) (Tokyo: Nihon-Tai Kyôkai, March 1998), p. 160.

<sup>12</sup> *Nihon Keizai Shinbun*, November 11, 1998.

<sup>13</sup> *Yomiuri Shinbun*, March 2, 1997.

<sup>14</sup> Interviews with MITI officials, 1997-99.

<sup>15</sup> *Nikkan Kōgyō*, September 20, 1996.

<sup>16</sup> "MITI Urges Electronics Firms to Produce Abroad," *Nikkei Weekly*, June 13 1992, p. 1.

<sup>17</sup> "Ajia Shokoku ni Sangyō Ritchi Shidō" (Industrial Siting Guidance in Different Countries across Asia), *Nihon Keizai Shinbun*, September 20, 1990, p. 5.

<sup>18</sup> *Nikkan Kōgyō*, October 12, 1996.

<sup>19</sup> JETRO intervened on behalf of Japanese producers in Malaysia who complained when Sony lured skilled technicians to its new factory there by offering wages 30 percent higher than its competitors. See "Gathering of the Clan," *Far Eastern Economic Review*, March 28, 1991, p. 52.

<sup>20</sup> For example, JETRO (1997d: 4) frets openly that competition between Japanese producers in Thailand is becoming "an extremely serious problem."

<sup>21</sup> The Japan Export-Import Bank (*Sanjūnen no Ayumi (The Past Thirty Years)*, 1983, p. 40.

<sup>22</sup> FILP, which was tapped by the Japan Development Bank and other government-affiliated banks in the rapid growth period to finance loans to strategic industries, used to be known as Japan's "second budget" (because it included so much money from postal savings) and Japan's "hidden budget" (because it was beyond the deliberative reach of the Diet). The program, which now pays for special appropriations such as public works projects and ODA loans, is still well-endowed -- a function of the public's growing concern over the solvency of private banks. In 1998, it was funded to the tune of 50 trillion yen. And the program remains firmly under the control of the Ministry of Finance, which merely reports income and expenses to the Diet.

<sup>23</sup> Interview with Ishikawa Kokuo, senior assistant manager, international section, JFS, July 5, 1999.

<sup>24</sup> The Economic Planning Agency (EPA 1996: 61) reports that SMEs in Japanese manufacturing industries traditionally lead by about two quarters in the cyclical recovery of corporate profits. This pattern, however, failed to hold in the mid-1990s -- a fact that EPA pinned on the slower pace with which SMEs have pursued regionalization strategies such as the purchase of parts and materials from suppliers in Asia.

<sup>25</sup> A survey by the SME Agency (1998: 93) confirms that, as they transfer more and more production overseas, Japanese assemblers place fewer and fewer orders with domestic subcontracting firms.

<sup>26</sup> Although I interviewed several representatives of Japanese firms in the electronics industry, none of them ever mentioned a "20 percent rule." They all indicated, however, that assemblers had tried -- and, indeed, continued to try -- to maintain a solid parts supply base in Japan.

<sup>27</sup> Data on these firms were obtained through interviews and files maintained by Teikoku Data Bank.

<sup>28</sup> Interview with Sora Yoshitada, director of international affairs for Zenkoku Shitauke Kigyō Shinkō Kyōkai (National Association for the Promotion of Subcontracting), an arm of MITI, November 20, 1997, Tokyo.

<sup>29</sup> It is true, of course, that some larger urban centers -- and even some areas within Tokyo (particularly those in which SMEs are concentrated) -- have also suffered heavy losses in employment and sales as a result of the regionalization of Japanese production. A survey by the local government of Osaka (Institute for Advanced Industrial Development (Osaka) 1996: 161), for example, found that a significant number of subcontracting firms in that city (42.2 percent of respondents) had experienced a reduction in orders following a main customer's decision to relocate certain operations in Asia. Likewise, a survey of suppliers in Ōta-ku (Jichirōrento Shokurō Keizaishibu, 1997: 7-8) reveals the deep and widespread impact of so-called "Asian prices."

<sup>30</sup> Author interviews.

<sup>31</sup> See Small and Medium Size Enterprise Agency 1996: 208.

<sup>32</sup> Interview, April 24, 1993, Shah Alam, Malaysia.

<sup>33</sup> Miyai Yumiko, "Overseas production pioneer Porite relies on innovation, client loyalty," *Daily Yomiuri*, April 30, 1997, p. 17.

<sup>34</sup> Interview. Tokyo, June 9, 1998.

<sup>35</sup> This term (*sendan-gata*) is also used to describe the way MOF has compelled stronger banks to work together to save failing institutions.

<sup>36</sup> The survey, conducted in 1991 by the Nikkei Research Institute of Industry and Marketing, garnered 133 reliable responses from Japanese manufacturing affiliates operating in Asia. Thirty of these came from automakers and auto parts producers. The survey is cited by Urata (1996a: 11), who was a member of the team.

<sup>37</sup> Export-Import Bank of Japan, 1995 survey. See also Small and Medium Enterprise Agency (1997: 204), which shows the results of its own survey of SMEs. The reason most often mentioned for investing in the ASEAN-4 was "to follow one's parent firm, or main customer."

<sup>38</sup> In 1989 and 1992, Japanese manufacturers in Asia used local suppliers in the host country for 49.8 percent and 48.5 percent of their procurements. That rate fell to 40.3 percent in 1995 and 40.9 percent in 1996. See MITI, *Wagakuni Kigyô no Kaigai Jigyô Katsudô*, various years.

<sup>39</sup> JETRO does not actually "report" any such figure. But one can calculate it rather quickly by using the raw data for five different countries (Thailand, Malaysia, Singapore, Indonesia, and the Philippines) on five different pages (63, 108, 151, 198, 242).

<sup>40</sup> Watanabe (1996: 13) comes to the same conclusion.

<sup>41</sup> Interview. Tokyo, Japan, October 13, 1998, and Nishioka 1998 (18). Honda was not alone in its effort to manufacture an "Asian car;" Nissan and Toyota launched similar projects in the 1990s. Toyota's project, the "Soluna," was the subject of an NHK documentary in February 1997 (*Ajia Senryakusha wa Kôshite Tsukurareta* or "This is How the Asian Car was Built"). The lengthy documentary included several interviews with the head of Toyota's parts procurement division in Thailand, a Japanese engineer who openly expressed concern about the ability of local suppliers to meet Toyota's quality standards. However, the documentary failed to report that Japanese subcontractors in Thailand were producing the lion share of the complicated components for this "Asian Car."

<sup>42</sup> Interview and survey data. Samutprakarn, Thailand, September 9, 1997.

<sup>43</sup> Interview. Atsugi, Japan, July 8, 1997; and company data.

<sup>44</sup> *Asahi Shinbun*, "Chûgoku de Toyota Seisan Byôyomi" (The Countdown for Toyota in China), January 28, 2000, p. 13. We should note here that the Chinese government, eager to receive investment in parts manufacturing, encouraged Toyota to replicate its *keiretsu* network in Tianjin.

<sup>45</sup> See, for example, Dobson 1997 (246), Kamo 1997 (77), Tejima 1997 (87-88) and Guiheux and Lecler 2000 (13-16).

<sup>46</sup> Interview. Bangkok, Thailand, September 2, 1997.

<sup>47</sup> Capannelli (1997: 196) obtained similar results using a larger sample (618 firms).

<sup>48</sup> See Matsuoka Katsunori, "Accord Drives Change to Asian Car-making," *Nikkei Weekly*, 7 April 1997.

<sup>49</sup> Data on employment in Asia come from MITI (Ministry of International Trade and Industry), *Wagakuni Kigyô no Kaigai Jigyô Katsudô*, various years. Data on domestic employment come from Management and Coordination Agency, *Rôdôryoku Chôsa Tokubetsu Chôsa* (Special Survey on the Labor Force), various years.

<sup>50</sup> Although this trend is most pronounced among medium-size firms, it is quite evident at some large firms as well. At Sanyo, for example, women made up 33.1 percent of the workforce in 1985, but only 21.9 percent in 1995. See Toyonaga 1998 (4).

<sup>51</sup> Indeed, Toyonaga (1998: 5-10) performs a simple regression analysis that confirms the correlation between the regionalization of production and the loss of jobs for women in Japan's electronics industry.

<sup>52</sup> Interview, October 13, 1998, Tokyo.

- <sup>53</sup> Interview. July 24, 1992. Tokyo.
- <sup>54</sup> Interview. July 29-30, 1998. Hitachi-city.
- <sup>55</sup> Ministry of Foreign Affairs, *Kaigai Zairyū Hōjinsu Chōsa Tōkei*, various years.
- <sup>56</sup> See *Asahi Shinbun*, "Ajia no Jidōsha Sangyō: Zadankai," November 27, 1996, p. 15.
- <sup>57</sup> Interviews, Bangkok, Beijing, Jakarta, Kuala Lumpur, Seoul, Singapore, Taipei, 1992-1997. See also Nakamura and Padang (1999: 22)
- <sup>58</sup> Interviews, Bangkok, Beijing, Jakarta, Kuala Lumpur, Seoul, Singapore, Taipei, 1992-1997. See also Kumon 1997 (165) and Lin 1995 (67).
- <sup>59</sup> In addition to the numerous works on technology transfer by large manufacturing firms, which have been cited in chapter 3, please see Kawai et al. (1997: 51) and Yahata (1996: 6). They examine technology transfer by Japanese SMEs and come up with similar findings.
- <sup>60</sup> JETRO, "Seminaa Rejime: Kawase Hendō ni Tauru Shizai Chōtatsu ni Tsuite" (Summary of a Seminar on Procuring Inputs in the Midst of Exchange Rate Fluctuations), JETRO Bangkok office, September 5, 1997, p. 3.
- <sup>61</sup> In interviews, host government officials often complained to me that training programs set up by Japanese manufacturers are nothing more than a way to supply their domestic factories with cheap labor from their Asian factories. And the Japanese government has all but acknowledged as much. In a 1999 report, the Justice Ministry alleged that some Japanese manufacturers force their Asian "trainees" to work extra hours without extra pay -- often on tasks that have nothing to do with their training program (*Daily Yomiuri*, August 11, 1999).
- <sup>62</sup> As noted in chapter three, this motivation of protecting domestic employment also helps explain Japan's relatively low level of "reverse imports" from manufacturing affiliates in Asia.
- <sup>63</sup> See Uehara 1999: 20. The *Far Eastern Economic Review* (July 29, 1999, p. 52) reported that the Japanese government -- through the Export-Import Bank -- helped finance a number of these capital injections.
- <sup>64</sup> Interview. February 25, 1999.
- <sup>65</sup> *Asahi Shinbun*, April 14, 2000, p. 10.
- <sup>66</sup> Emily Thornton, "Japan's Asian Comeback," in *Business Week*, November 1, 1999, p. 19.
- <sup>67</sup> *Ibid.*, p. 18.
- <sup>68</sup> See JETRO 1999b (10). Indeed, a large percentage of the Japanese manufacturing affiliates that injected capital into established operations in Asia, and thereby increased their equity position in those joint ventures, were parts producers. These included Showa and Keihin, Honda suppliers in Thailand, and Unisia Jecs, a Nissan supplier in South Korea. See *Nikkei Weekly*, June 15, 1998, p. 18.
- <sup>69</sup> See *Nikkei Weekly*, October 19, 1998, p. 18; and Dec. 21, 1998.
- <sup>70</sup> See *Nikkei Weekly*, May 11, 1998, p. 19.
- <sup>71</sup> See *Nihon Keizai Shinbun*, February 5, 1998.
- <sup>72</sup> See *Nikkei Sangyō Shinbun*, April 6, 1998.
- <sup>73</sup> See *Nikkei Weekly*, October 5, 1998, p. 18. Aishin Seiki, one of Toyota's most trusted suppliers in Japan, also got into the act by importing door locks from its affiliates in Thailand and Indonesia (*Nikkei Weekly*, October 26, 1998, p. 18). Asahi Glass did the same, importing auto glass for as many as 50,000 vehicles a year from its affiliate in Thailand (see *Nikkei Weekly*, January 11, 1999, p. 18).
- <sup>74</sup> See *Nikkei Weekly*, September 21, 1998, p. 22.
- <sup>75</sup> Interview. Tokyo, November 27, 1997.
- <sup>76</sup> Interview, Tokyo, July 23, 1999.
- <sup>77</sup> *OECD Newsletter*, No. 73, April/May 1999.
- <sup>78</sup> JICA handout, "Activities for ASEAN Financial Crisis in Fiscal 1998," undated.
- <sup>79</sup> Interview with Shukunobe Masami, July 23, 1999, Tokyo.
- <sup>80</sup> JICA handout, "JICA and Japan's Support to Cope with Asian Financial Crisis," 22 July, 1999.

---

<sup>81</sup> Interview with Ishikawa Kokuo, senior assistant manager, international section, JFS, 5 July, 1999

<sup>82</sup> *Nikkei Weekly*, March 9, 1998.

<sup>83</sup> *Yomiuri Shinbum*, July 11, 1998.

<sup>84</sup> *Straits Times* (Singapore), September 24, 1998.

## **Appendix to Chapter Five**

### **OLS Regression Analysis of the Regionalization of Keiretsu**

Japanese manufacturers that assemble machines have cultivated close, longstanding and mutually reinforcing ties with suppliers who, in most cases, produce high quality parts and deliver them to the assembler on time. These vertical *keiretsu*, or supply networks, reduce transaction costs, and thus have served as a source of competitive advantage. We should not be surprised to learn, then, that Japanese assemblers have asked their most valued subcontractors to follow them as they expand into overseas markets.

In Southeast Asia, for example, Japanese automakers have established supply networks in each host country market in which they operate. Parts manufacturers from Japan usually occupy the central positions in these networks, supplying everything from wire harnesses to seat upholstery, from alternators to brake systems. Indigenous firms occupy peripheral positions, and usually supply only very low-value-added parts.

Despite this hierarchy, many observers believe these networks are more “open” than their Japanese equivalents; that is, they are composed of “looser” (weaker or less restrictive/exclusionary) ties between assembler and supplier. Indeed, one can find the local affiliates of Toyota suppliers producing parts in Bangkok and Jakarta for Nissan’s affiliates in those two cities, and vice versa.

But this empirical fact may reflect nothing more than relatively small size of automobile markets in Southeast Asia; in 1996, the Thai market, for example, was only 8.3 percent as big as Japan's, while Indonesia's was 5.8 percent as large. As a result of this, parts suppliers are unable to achieve economies of scale (and thus are unable to operate at maximum efficiency) without selling to a wider circle of customers. Consequently, Japanese automakers have encouraged their key subcontractors in Japan to come to Southeast Asia, establish local production facilities, and supply parts to them as well as other assemblers -- at least for the time being.

If this fact *does* explain the difference between Japanese *keiretsu* in Asia and Japanese *keiretsu* in Japan, one would expect such variation to decline gradually as automobile markets in host countries throughout the region get larger and larger -- as they did in Southeast Asia from 1990 through 1996. (The number of vehicles manufactured in the Thailand, Indonesia, Malaysia, and the Philippines jumped from 822,000 to 1,417,000, a 72 percent increase over those six years.<sup>1</sup>) That is, the need to engage in *extra-keiretsu* transactions would lessen as suppliers begin to achieve economies of scale by manufacturing parts for one primary customer. And by implication, then, *intra-keiretsu* transactions should increase as the overseas market reaches a sufficient scale.

The preceding can be restated as a pair of hypotheses to be tested with an ordinary least squares (OLS) multiple regression analysis of both firm and country-level data:

1) As Japanese automobile assemblers increasingly regionalize their production activities (producing more in Southeast Asia relative to Japan), their affiliated subcontractors do the same.

2) This correlation between the regionalization of *keiretsu* assemblers and subcontractors grows stronger as automobile markets in Southeast Asia increase in size.

### **Data**

Of the four leading automakers in Japan, three (Toyota, Nissan, and Mitsubishi Motors) agreed to provide lists of a) their *keiretsu* suppliers (here “subcontractors”) in Japan; b) the *keiretsu* suppliers of their affiliates in Thailand; and c) the *keiretsu* suppliers of their affiliates in Indonesia. (A Honda representative initially indicated his firm would cooperate, but in the end -- after numerous requests -- did not produce any lists.)

The original plan was to collect data on these subcontractors for 1990, when the regionalization activities of Japanese automobile subcontractors began to accelerate, and 1990, when these activities reached their peak. But this proved to be too narrow a target; data on sales by the overseas affiliates of Japanese firms are occasionally included in a statistical volume published annually by Tôyô Keizai Shinpôsha (*Kaigai Shinshutsu Kigyô Sôran*) -- but only when firms agree to supply it. Indeed, I quickly discovered that data on sales in Thailand or Indonesia were spotty;



when they were available at all, they often were available for 1989 or 1991, rather than 1990, or for 1995 or 1997, rather than 1996. So I decided to collect as much firm-level data as possible for all six years, relying not only on the Tôyô Keizai volume mentioned above, but also on published records in the two host countries,<sup>2</sup> and on responses to a survey I submitted to some affiliates in Thailand and Indonesia. A number of holes remain in these data for host country sales by subcontractors.

Coverage is also incomplete for data on some of the firm-level control variables, especially the R&D intensity and export intensity of subcontractors in Japan. These are sometimes included in and sometimes omitted from the annual reports (*Yûka Shôken Hôkokusho*) filed by individual firms with the Tokyo Stock Exchange (if listed firms) and the Ministry of Finance (if unlisted). In a limited number of cases, I was able to fill holes by relying on Teikoku Databank's *Kaisha Nenkan*. On the other hand, the annual reports filed by the companies almost invariably include data on sales in Japan, as well as number of employees.<sup>3</sup>

Country-level data on wages, interest rates, and the size of different automobile markets were relatively easy to obtain. For wage data, I relied on International Labor Organization, *International Labor Statistics*, as well as Government of Japan, *Japan Statistical Yearbook*, and Government of Indonesia, *Indonesian Statistical Yearbook*. For data on interest rates (as well as the Consumer Price Index, which was used to deflate those nominal rates), I relied on International Monetary Fund, *International Financial Statistics*. For data on market size, I relied on a handout from Automotive

Resources Asia, a private consulting company based in Bangkok, and the webpage of the Japan Automobile Dealers Association.

For the reasons stated earlier, I collected data for two sets of years: 1989, 1990, and 1991; and 1995, 1996, and 1997.

### **Building a Model**

The dependent variable (Y) in this model, which I refer to here as “regionalization of subcontracting,” is defined as the annual sales by a Japanese auto parts manufacturing affiliate in Thailand and/or Indonesia (the host countries), divided by the annual sales of its parent firm in Japan (the home country). This gives us a measure, expressed in percentage terms, of the intensity of a subcontractor’s regional production.

The following is a list of independent variables (the key explanatory variable, three country-level variables, and four firm-level variables) that may contribute to the regionalization of automobile subcontracting.<sup>4</sup>

- **Regionalization (or regionalization of automobile assembly).** This is the annual sales by a Japanese automobile manufacturing affiliate in the host countries, divided by the annual sales of its parent firm in the home country. As in the case of the dependent variable, this test variable gives us a measure -- in percentage terms -- of the intensity of the assembler’s regional production. If our hypotheses are correct,

regionalization (that is, regionalization of automobile assembly) should have a positive and statistically significant impact on Y (regionalization of subcontracting), particularly in later years.

- **Wages (or wage level).** This is the ratio of wage levels in host and home countries in a given year. Subcontractors may be inclined to produce more in locations offering relatively cheap wages. Therefore, we expect the sign here to be negative. (Note: Ideally, we would adjust wage data to account for productivity differentials. But because we were unable to obtain comparable productivity figures for the automobile industry in different countries, that adjustment was not made here.)
- **Irate (or interest rate).** This is the difference between real interest rates in host and home countries in a given year. Each country's real interest rate is obtained by subtracting the change in the Consumer Price Index during a given year from the nominal lending rate (i.e., the short and medium-term rate) for that year. Although they obtain much of their capital in Japan and offshore financial markets such as Singapore and Hong Kong, subcontractors do borrow in the host country. Thus, higher real interest rates in Thailand and/or Indonesia -- relative to Japan -- should have a negative impact on the regionalization of subcontracting.
- **MktSize (or market size).** This is the size of the market for automobiles in the host country in a given year, divided by the size of the Japanese market. Market size is measured by the total number of new vehicles sold per year. We expect the sign to be positive.

- **RDInt (or Research and Development Intensity).** This is the amount of money spent on research and development by the subcontractor in Japan in a given year, divided by total sales in Japan. We cannot predict the outcome here. Although it seems logical to expect innovating firms to be more capable of investing overseas, it also seems quite likely that Japanese subcontractors are becoming less internationally competitive and pursuing a regionalization strategy in lieu of making domestic investments in R&D. In addition, because it is could be multicollinear with V-added, we are hesitant to predict the sign.
- **V-added (or Value-added).** This is the sum of the subcontractors' personnel expenses, rent and tax payments, patent royalties, depreciation, and operating income in a given year. We predict the sign of the coefficient to be positive. But because it might be multicollinear with RDInt, we are reluctant to predict the sign of the coefficient.
- **ExInt (or export intensity).** This is measured by the ratio of a subcontractor's exports from Japan divided by its total sales in Japan. It is assumed that export-oriented firms will be more likely to engage in FDI, and that the sign will thus be positive.
- **FirmS (or firm size).** This is the based on the number of workers employed by the subcontractor in Japan. It is assumed that larger firms will be more capable of investing overseas, and that the sign will therefore be positive.

## **Results**

Five different tests were conducted using a two-way, fixed-effect model with panel data.<sup>5</sup> Test results are displayed in the tables at the end of this appendix.

One unavoidable conclusion is that the model is flawed. First, it leaves far too much unexplained; even the most robust test produces an R-squared of only 0.079. Second, it contains a large amount of “noise;” that is, there is a great deal of multicollinearity between independent variables. For example, R&D Intensity and Value-Added were highly correlated.

Despite these problems, however, the model does lend limited support for both of our hypotheses:

1. For the entire time period under study (1989-97), the regionalization of Japanese automobile assembly had a positive and statistically significant impact on the regionalization of Japanese automobile subcontracting. This is evident in the test for “All Years.” “Regionalization” was one of only three variables that proved reliable; and when the test was re-run with fewer variables (to control for multicollinearity), it was the *only* variable that actually became more reliable.
2. This correlation grows stronger in time with an increase in the size of the host country automobile market. Whereas the test for 1989-91 showed that the regionalization of automobile assembly did not then contribute to the

regionalization of subcontracting, the test for 1995-97 showed that it had a positive impact. Indeed, when I dropped “noisy” variables from the first test for 1995-97 and ran another test to control for multicollinearity, the T-statistic for “regionalization” (the key explanatory variable) jumped rather sharply.

**Table 5A.1**

All Years (#1)

<u>Variable</u>	<u>Coefficient</u>	<u>Standard Error</u>	<u>T-Statistic</u>	<u>Probability</u>
Constant	0.0065	0.0046	1.4163	0.1570
Regionalization	0.0018	0.0007	2.7941	0.0053
Wages	-0.0421	0.0503	-0.8370	0.4028
IRate	-0.0006	0.0003	-1.9704	0.0491
MktSize	-0.0353	0.0353	-1.0020	0.3166
RDInt	-6.52E-06	1.63E-06	-3.9984	6.84E-05
V-added	1.13E-06	9.84E-07	1.1509	0.2500
ExInt	0.0026	0.0043	0.6049	0.5454
FirmS	1.37E-07	122E-07	1.1213	0.2624

R-squared: 0.048

Adjusted R-squared: 0.041

Number of Observations: 1031

**Table 5A.2**

All Years (#2: re-run to address multicollinearity)

<u>Variable</u>	<u>Coefficient</u>	<u>Standard Error</u>	<u>T-Statistic</u>	<u>Probability</u>
Constant	0.0022	0.0014	1.6627	0.0966
Regionalization	0.0020	0.0005	3.8722	0.0001
IRate	-0.0003	0.0002	-1.7874	0.0741
RDInt	-5.89E-07	1.17E-06	-0.5021	0.6157

R-squared: 0.013

Adjusted R-squared: 0.010

Number of Observations: 1163



**Table 5A.3**

1989-1991

<u>Variable</u>	<u>Coefficient</u>	<u>Standard Error</u>	<u>T-Statistic</u>	<u>Probability</u>
Constant	0.0027	0.0012	2.2021	0.0282
Regionalization	-3.09E-05	0.0003	-0.1054	0.9161
Wages	-2.43E-07	4.45E-06	-0.0547	0.9564
IRate	-9.01E-05	7.08E-05	-1.2726	0.2039
MktSize	-0.0432	0.0208	-2.0782	0.0383
RDInt	-5.20E-08	3.95E-07	-0.1319	0.8952
V-added	-1.03E-07	2.67E-07	-0.3876	0.6985
ExInt	-0.0009	0.0012	-0.7180	0.4732
FirmS	7.45E-09	2.75E-08	0.2713	0.7863

R-squared: 0.018

Adjusted R-squared: -0.002

Number of Observations: 409

**Table 5A.4**

1995-1997 (#1)

<u>Variable</u>	<u>Coefficient</u>	<u>Standard Error</u>	<u>T-Statistic</u>	<u>Probability</u>
Constant	0.0083	0.0069	1.1933	0.2332
Regionalization	0.0019	0.0010	1.8438	0.0657
Wages	-2.17E-05	2.91E-05	-0.7472	0.4552
IRate	-0.0008	0.0005	-1.6187	0.106
MktSize	-0.0327	0.0729	-0.4480	0.6543
RDInt	-1.01E-05	2.46E-06	-4.1186	0
V-added	-2.66E-06	1.83E-06	-1.4511	0.1473
ExInt	0.0002	0.0062	0.0354	0.9718
FirmS	8.69E-07	2.61E-07	3.3242	0.0009

R-squared: 0.079

Adjusted R-squared: 0.067

Number of Observations: 622

**Table 5A.5**

1995-97 (#2: re-run to address multicollinearity)

<u>Variable</u>	<u>Coefficient</u>	<u>Standard Error</u>	<u>T-Statistic</u>	<u>Probability</u>
Constant	-0.0021	0.0011	-1.9553	0.0510
Regionalization	0.0017	0.0007	2.5465	0.0111
RDInt	-1.05E-05	2.39E-06	-4.3805	1.39E-05
FirmS	5.15E-07	8.08E-08	6.3716	3.66E-10

R-squared: 0.071

Adjusted R-squared: 0.066

Number of Observations: 622

## Notes for Appendix to Chapter Five

---

<sup>1</sup> Nikkan Jidōsha Shinbunsha, *Jidōsha Sangyō Handobukku*, various years. For more on changes in the Asian automobile market, see Maruyama (1997).

<sup>2</sup> Two sources in Thailand proved useful: *Thailand Company Information* (an annual report published by Advanced Research Group, a consulting firm in Bangkok) and *1,000 Companies* (an annual report published by The Nation Publishing Company, a Bangkok media group). I am grateful to Prof. Suehiro Akira at the University of Tokyo for introducing me to these sources. For additional data on firms in Indonesia, I used: *Profiles of 800 Major Non-Financial Companies in Indonesia* (prepared by P.T. CISI Raya Utama, a member of the CIC Consulting Group in Jakarta). I am grateful to Sato Yuri of Ajia Keizai Kenkyūjo for pointing me toward this source.

<sup>3</sup> They do not, however, include data on value-added. For these, I relied on Nihon Keizai Shinbunsha, *Nikkei Keiei Shihyō* (Nikkei Financial Index). I am grateful to Naruse Takatoshi, a research consultant in Tokyo, who provided invaluable assistance in collecting firm-level data on parent firms.

<sup>4</sup> Many of the independent variables in this list (as well as the dependent variable) are money values initially stated in baht or rupiah (but later converted to dollars) divided by money values initially stated in yen (and then converted to dollars). As a consequence, I was compelled to drop from the model a variable designed to measure the influence of relative exchange rates.

<sup>5</sup> With this methodology, the panel data are organized by year, stacked end-on-end, and then analyzed jointly. See Carter R. Hill, et al. *Undergraduate Econometrics* (John Wiley, 1997), chapter 12; and William H. Green, *Econometric Analysis* (Prentice Hall), fourth edition, 2000.

## **Chapter Six**

# **Preserving Core Networks: Implications**

In the previous chapter, we demonstrated that the regionalization of Japanese production networks is helping to extend the shelf life of relationalism, a system of network capitalism under stress from the forces of globalization. In this chapter, I examine the implications of this phenomenon for Japan. More specifically, I attempt to answer the following question: What will happen to the Japanese political economy as relationalism survives into the 21st century? The answer, spelled out in more detail below, is that selective relationalism is now fostering institutional rigidity as elite actors organized into close-knit, exclusionary exchange networks lose their ability to recognize, evaluate and seize new opportunities.

As we argued in chapter one, strong ties always come with both benefits and costs. On the one hand, they provide what Yamagishi (1998 and 1999) calls “reassurance” (which, as he pointedly notes, is quite different from “trust”); that is, actors who forge strong ties with (and thereby make long-term, credible commitments to) one another are reassured that they will not be subjected to opportunistic behavior (cheating). The result is a set of institutions that reduce transaction costs, a stable system that allows information to circulate rapidly -- albeit within a narrow band. On the other hand, a relatively dense network structure characterized by strong ties will constrict the free flow of information. It will, as Granovetter (1973 and 1974) and Burt (1992) argue, and as I discussed in chapter one, serve as a barrier to new ideas.

In a developing economy, one in which firms can continue to adopt technology from the global reservoir of revealed technical knowledge, the benefits of this dense pattern of social organization outweigh the costs. This is because the chief obstacle facing such an economy is the shortage of institutions to cope with the collective action problems that impede firms from making productive investments, or the collective action problems that later lead to overinvestment. Firms in a developing economy, an economy that is playing follow or chase the leader, can generally see the technological path ahead. What they cannot so easily detect are the landmines placed along the way by fellow travelers.

In a developed economy, however, the costs of strong ties outweigh the benefits. This is because firms no longer can simply adopt existing technology and transfer it to related firms; they now must pursue radical innovation. That is, they must acquire and develop new ideas, new information in an environment of technological uncertainty. But firms in a highly relational political economy are unable to do this; they are bound by strong ties and thus cut off from such sources of new ideas and information.

Japan sits today on the cutting edge of the global technology frontier. It is a fully developed economy whose manufacturing firms, to compete, must introduce new products and develop new production techniques. But they are not always able to take such bold steps -- in large part because they are paying excessively high opportunity

costs under a system of selective relationalism, a system -- as Yamamura (1997: 301-3) puts it -- that has degenerated into "institutional collusion."

However, as we have seen already, collusion is not new to Japan. Indeed, elites occupying pivotal positions in relational networks have colluded with one another for decades, and in this way have monopolized or "hoarded" resources, particularly information, tucked inside those networks. Outsiders, those who do not enjoy positional power in Japan's political economy, have been -- by definition -- handicapped by this asymmetry of information.

Consider, for example, the impact on Japanese consumers, who -- collectively -- constitute perhaps the largest groups of outsiders in the political economy of Japan. Due to barriers created by relational networks encompassing the Japanese state and private firms, as well as barriers created by inter-firm ties, they have been forced to pay prices well above the global market price for everything from fruit to furniture. And they continue to do so. In an analysis of changes in import and domestic producer price differentials between February 1985 and February 1995, Kimura, Kawai and Tanaka (1996) document a steadily growing gap for a large number of the 139 commodities under study and conclude that Japan's non-tariff trade barriers actually expanded over that decade (1985-95).<sup>1</sup> This conclusion is confirmed in a follow-up analysis by Sazanami, Kimura, and Kawai (1997: 3), who trace the gap to "government regulations and restrictive private business practices that may not necessarily be designed to discriminate against imports, but in fact limit their market penetration."



Until the 1990s, Japanese elites were largely able to cover such distributional costs (i.e., the costs borne by “losers” or, in this case, outsiders). Selective relationalism had yielded sufficient gains to allow those elites to make side-payments to excluded outsiders handicapped by their marginal positions in exchange networks. (Consumers, for example, received side-payments in the form of generous after-market service.) In time, however, the system became increasingly outmoded and the costs of those strong ties of cooperation (between state and industry, between firms, and between management and labor) began to swamp the gains. Even insiders began to experience losses as Japan’s economy matured. The problem of information asymmetry gave way to a larger problem of information impactedness or “bounded information exchange,” which was described above. In sum, elite actors -- from bureaucrats to company managers to permanent workers -- began to miss opportunities because they could not recognize and act upon them. As a result, the Japanese economy began to lose its ability to generate profits, create new industries, and sustain employment.

Here I present only two of the many possible examples of how an outmoded system of relationalism has led to information impactedness, which in turn has taken its toll on the Japanese economy:

- The close ties between government regulators and bank executives contributed to the financial crisis that began with the collapse of mortgage lending companies (*jūsen*), spread to regional banks such Hokkaido Takushoku, and

eventually touched the entire industry in Japan. In March 1998, Japanese banks estimated they were carrying up to \$300 billion in non-performing loans.<sup>2</sup>

According to Horiuchi (1998: 150-62), they ended up in this deep hole because financial regulators hoping to retire into *amakudari* positions at banks under their supervision were induced to authorize high-risk banking practices. Using a simple statistical test, Horiuchi found that banks accepting *amakudari* officials from MOF and the BOJ had a bad loan ratio almost double that of banks declining to accept *amakudari* officials. This assertion is supported by strong anecdotal evidence. Until the mid-1990s, when they acknowledged their financial woes, the *jūsen* had been run by 26 different executives. More than a third of those 26 executives (10) had “descended” from MOF.<sup>3</sup>

- Inter-firm ties hurt the Nissan Motor Co, which accumulated \$20 billion in interest-bearing debts on its way to a grave financial crisis in the late 1990s from which it was rescued only by a cash infusion from France’s Renault. Nissan, which once was Japan’s number two automobile manufacturer, had expanded capacity without paying sufficient attention to its bottom line. When it came time to reduce output and streamline its operations, it was unable to move quickly -- in large part because of longtime business alliances. As it turns out, all three of Nissan’s leading suppliers (Calsonic, Kansei, and Unisia-jecs) are run by former Nissan directors, and half of its distributors are directly supervised by the automaker. (By contrast, Toyota maintains strict control over

only 7 percent of its dealers.) As the *Asahi Shinbun* concluded, “One reason for the sharp drop in [Nissan’s] sales is said to be this bureaucratic [*sarariman-teki*] management.”<sup>4</sup>

### **Reforming (or not reforming) Relationalism**

For Japanese elites, then, the regionalization of domestic networks is a double-edged sword. With one blade, they cut themselves slack, preserving a system of relationalism that -- at least in the short-run -- affords them positional power in Japan and now increasingly in Asia as well. With the other blade, however, they weaken the Japanese economy and thus jeopardize their own long-run interests. Some unusually enlightened members of the Japanese establishment recognize what is happening, and have issued desperate calls for structural reform to a) broaden participation in policy networks; and b) allow information to flow more freely in the Japanese political economy.

Gyôten Toyô, former vice minister of international affairs for the Ministry of Finance, is one of these reformers. He blames what he calls the “troika” of Japanese politicians, bureaucrats and business leaders who “cooperate behind closed doors in formulating policy.” Once upon a time, he writes,

the troika demonstrated a tremendous ability to lead and help bring about a dynamic economy. However, there have been dramatic changes

in the world economy over the past twenty years ....Unfortunately, the troika has not been able to keep up. Efforts by different groups to maintain their vested interests have given rise to inertia. Attempts to break the logjam and create a new system of governing have not borne fruit.<sup>5</sup>

Nukazawa Kazuo (1998), former managing director of the Keidanren, is another reformer. He complains that Japan's political economy lacks transparency, and that information is too often locked inside exclusionary networks of human relationships. "Information is money," he notes, "and it is difficult to prevent the select group of people who are close to the authorities, and who thus have access to information, from gaining advantage in the market."

Despite such criticism of relationalism, proposals to carry out structural reform, particularly legislative proposals, have fallen woefully short. The Products Liability Act, approved by the Diet in 1994, is one example. On paper, the new act brings Japan into line with other industrialized democracies that use rules of strict liability in tort cases. In fact, however, the act was implemented in such a way that it continues to rely heavily on alternative dispute resolution procedures that will block the disclosure of information about defective products. These procedures include face-to-face negotiations between consumers and manufacturers (*aitai kōshō*), which we discussed in chapter two, as well as mediation services provided by organizations such as the

Product Safety Association (Shôhin Anzen Kyôkai) and the Electric Home Appliances Association (Kaden Seihin Kyôkai), which are affiliated with MITI and thus likely to be biased in favor of the manufacturer.<sup>6</sup>

### **Relationalism and Technology**

For better and for worse, relationalism directly impacts the ability of firms to innovate. In the rapid growth period (1950-73), it stabilized an otherwise volatile market for Japanese manufacturers, allowing them to adopt existing technology from the global reservoir of existing know-how. In more recent times, however, it has actually presented an obstacle to mature firms hoping to develop basic or breakthrough technology.<sup>7</sup> The Japanese IT (information technology) industry is perhaps the most illustrative example. Until now, it “has been catching up, just copying what America already has made,” says Nishi Kazuhiko, president of ASCII Corp. a Japanese software manufacturer. “Now there’s not much left uncopied, and we are all facing the much tougher question of what to do next.”<sup>8</sup>

Not everyone, of course, is so glum.<sup>9</sup> Some observers believe Japanese manufacturers never lost their technological prowess, and that the ongoing economic crisis was caused only by the massive build-up of unproductive assets in the financial sector. The real economy, according to these observers, is alive and well -- and Japanese chipmakers and automobile producers will return to their world-beating ways as soon as the banking system finds its feet again.<sup>10</sup> Others, such as Katz (1998),

believe innovating firms have been dragged down by the heavy weight of highly protected, highly regulated “deadwood” sectors such as food processing that produce largely for the domestic market. Large export-oriented firms in machine manufacturing remain highly competitive, according to this view, and will flourish again -- once the Japanese state manages to carry out regulatory reform and thereby eliminate the deadwood.

Finally, Yamamura (1999) goes even further, arguing that Japan’s high tech manufacturing industries are fundamentally sound, and that structural reform (especially the kind designed to make Japan’s economy look more like America’s) is ultimately not needed. Japan’s current woes, he argues, are a result of the mismatch between its “cooperation-based capitalism” and the current “breakthrough phase” of the 21st century technology paradigm based on digitization. As that paradigm matures (probably within the next 20-30 years), Japan’s system of capitalism is likely to regain its dynamism while the Anglo-American system of market-oriented capitalism – which does better during a breakthrough phase than during a maturation phase of the technological paradigm -- is likely to fall behind, just as it did in the 1970s and 80s.

The evidence, however, suggests that Japanese manufacturers -- including many of the well-known giants -- have failed to sustain a healthy pace of investments in R&D, particularly basic research, which would allow them to remain internationally competitive. Instead, they have focused their resources on developing new applications with old technology. In one survey, the Kikai Shinkô Kyôkai (1998: 10), or the Japan

Society for the Promotion of Machine Industries, found that most firms were content to continue utilizing existing know-how; fewer than 27 percent of firms were planning to innovate. Watanabe and Hemmert (1998: 51-55) document the result: investment in R&D as a share of total investment fell from 13.2 percent in 1987 to 8.9 percent in 1994, and R&D intensity (research expenditures as a share of total sales) also dropped -- in real terms -- during the 1990s.

One could argue, of course, that this slowdown in R&D activity reflects nothing more than a slowdown in the larger economy of Japan. Firms are earning less, and thus investing less, according to this view. But the problem actually originated in the booming bubble years, when Japanese manufacturers focused on expanding production capacity -- in Japan as well as overseas -- rather than innovating. No one can deny that R&D expenditures increased rapidly during the late 1980s. But as Watanabe and Hemmert show, R&D *intensity* (measured, again, in constant prices) was stagnant at that time. This means that firms in the 1990s had to try to compete without the benefit of innovations that could or should have been made in the late 1980s. "In other words," Watanabe and Hemmert point out (on page 53) "the long-lasting virtuous circle between capital investment and technological advance appears to be on the verge of collapse."

The Japanese state, of course, has attempted to take up some of the slack by increasing its financial commitment to basic research, which is -- after all -- a quasi-public good.<sup>11</sup> Moreover, Japanese academics, according to Pechter and Kakinuma

(1999), have begun to collaborate more regularly with manufacturers on basic research, or at least on the publication of technical papers. But the results continue to disappoint. Although Japan has more than twice as many scientists and engineers as Germany, and nearly four times the number in France, the productivity of their research is surprisingly low. Boyer (1998) has shown that Japan in the mid-1990s produced half as many research articles -- on a per capita basis -- as Germany, and only about one third as many as France. And the research environment apparently is not improving. Since 1985, the number of scientists and engineers leaving Japan to pursue research elsewhere has exceeded the number of scientists and engineers coming to Japan. And the gap is growing wider each year; in 1995, the "brain drain" was equivalent to a net loss of 110,000 people.<sup>12</sup>

For Japanese firms, the bottom line is reduced competitiveness.<sup>13</sup> In the first half of the 1990s, value added by manufacturers of general machinery and precision instruments fell 20 percent; value added by manufacturers of transportation equipment fell 13 percent.<sup>14</sup> Of the four major machinery industries, only electronics managed to achieve growth. But this was due primarily to a temporary surge in domestic demand for computer and telecommunication equipment in the early 1990s; indeed, the industry's fortunes turned sour in the second half of the 1990s as demand collapsed. Profits in these machinery industries plummeted nearly 60 percent in the first half of the decade, then recovered a little in 1996 -- only to fall sharply again.



For Japan as a whole, the bottom line is slow economic growth today and into the near future as Japanese firms move too slowly to upgrade their technological capabilities. From 1991 through 1999, Japan's economy managed to grow (on average) by only 1.3 percent a year -- less than any other industrialized economy in the world. And at the end of what has come to be called the "lost decade" of the 1990s, it just barely avoided the dubious distinction of being the only economy since the global depression of the 1930s to experience three consecutive years of contraction. (Japan's GDP grew by 0.2 percent in 1999. And this "achievement" was made possible only with the help of statistical sleight of hand by the Economic Planning Agency.<sup>15</sup>) The Japan Center for Economic Research expects the pain to get worse before it gets better; it estimates that the Japanese economy will barely hold its own until 2005, then slow by an average rate of 0.1 percent a year until 2015, and slow even more (0.2 percent a year) until 2025.<sup>16</sup> Exports, which had provided a necessary boost at various times in the past, no longer can do the trick. Japanese exports, as it turns out, are heavily concentrated in sectors with low growth intensity; Legewie (1997: 24-5) reports that, in 1992, only 5 percent of those exports belonged to product groups that had enjoyed high performance. Rather than exports, it has been extraordinary government spending on public works -- enough to push the budget deficit up to 9.4 percent of GDP in fiscal year 2000 -- that has kept the economy from collapsing in the 1990s. The construction industry, which has received more cash than any other

industry targeted in recent stimulus packages, now employs close to 7 million people, or 10.4 percent of Japan's workforce.<sup>17</sup>

Public spending on construction is a poor substitute for private spending on digital programming and other kinds of information technology (IT). Investment in IT, which at one time helped drive the economy, began to lose its power in the late 1990s. The Japan Research Institute (1998: 17-18) reports that IT investment reached its peak in 1996, accounting for as much as 9.4 percent of all spending on machinery, but quickly dropped after that. Just a year later, at the end of 1997, it accounted for as little as 3 percent of spending on machinery. U.S. investment in IT has been much more aggressive.<sup>18</sup> A comparative study by the Japan Economic Research Center (1998) found that the total value of Japanese goods and services incorporating IT (both "hard" technology such as computer machinery and "soft" technology such as computer programs) was only 7 percent of Japan's GDP in 1996. That value, it estimated, would grow to only 10.4 percent by 2005. (By contrast, the total value of U.S. goods and services incorporating IT was 9.9 percent of U.S. GDP in 1996, and was estimated to grow to 13.7 percent by 2005.)

In the race to develop cutting edge technology, how did Japan, which only a decade earlier looked like a sure winner, manage to fall behind? Some blame the Japanese system of higher education, which they say fails to promote independent scholarly research at a sufficiently advanced level.<sup>19</sup> Others, including the Japanese government, blame Japanese culture in general, saying it is conformist and thus stifles

creativity.<sup>20</sup> But these explanations fall short because they cannot tell us why success in Japan's case so quickly turned to failure. The answer, I argue, has more to do with the institutions -- or, more specifically, the network structures -- that make up relationalism in Japan.

State-industry cooperation, which worked so well when public and private technocrats could see the technological road ahead, now impedes the important signaling function of the market, which provides "bottom-up" information on consumer needs and wants to producers. Inter-firm linkages, while facilitating the diffusion of already developed technology through established networks, nonetheless limit opportunities for acquiring new ideas for product, process, and organizational innovation. At the same time, intra-firm linkages between labor and management, which had promoted teamwork and thus served to protect the firm's investment in human capital, now inhibit risk-taking in an environment of technological uncertainty.

In the aggregate, these relational ties form a national system of innovation that is ill equipped to cope with such uncertainty. This system is founded on what Rtischev and Cole (1998:3) call "organizational continuity," that is, it works well when the status quo is stable, but "less well when there are fundamental and frequent changes in industry standards and dominant designs." Steffensen (1998: 519), for his part, suggests that business networks in Japan have constructed "complex, costly, proprietary, and customized information systems" that tend to be exclusionary and thus

inward-looking. Okimoto and Nishi (1996: 203) use different words to make virtually the same argument. Japan's system of innovation, they argue,

Is not designed to encourage bold new conceptualizing, radical departures from the prevailing orthodoxy, and freewheeling exploration of territories unmapped by known theories. Instead, Japanese organization is geared to operate on the basis of caution, conservatism, and incremental change. It filters out bold new ideas if those ideas cannot be readily proved. It can be accommodating in such areas as hardware, because hardware is predictable and susceptible to design proof; but radical, new concepts seldom pass through the intricate mechanism of consensual deliberation.

Unfortunately, these descriptions -- while enormously insightful -- only tell part of the story. They fail to note that elite actors occupying central positions in Japanese exchange networks are disinclined to promote or pursue radical innovations because such innovations, by definition, threaten established relationships, and thus threaten their positional power.

### **Small is Beautiful**

A burgeoning body of literature suggests that, for many countries, small and medium-sized enterprises (SMEs) represent a vital source of new technology, especially “breakthrough” innovations.<sup>21</sup> In the U.S., for example, Okimoto and Saxonhouse (1987: 399) found that SMEs produce a relatively large number of patents with a relatively small amount of investment in R&D; in Japan, however, they found that SMEs are not as productive in generating new technology. Of 34 major technological innovations achieved over a 20-year period in postwar Japan, SMEs accounted for only two. This finding is confirmed by the Small and Medium Enterprise Agency (1996), which reports that 70.6 percent of manufacturing subcontractors in Japan have never filed a patent. It concludes that “technical development activity in the small manufacturing sector has fallen to a low ebb.”

In the 1950s and 1960s, Japanese SMEs tended to depend heavily on large firms for technology, as well as capital and markets. In spite of this, some -- even many -- prospered, growing into large, independent, innovative firms with names like Canon, Kyocera, and Oliva. But nowadays, when the economy has matured and growth has slowed overall, such powerful upstarts are few and far between. Indeed, small manufacturing firms in Japan today are more likely to *shrink* than to grow in size.<sup>22</sup> As Tokuhsa (1997: 75) argues, “a new generation of SMEs has yet to step forward and continue the progress that others have made.” Kiyonari Tadao, the president of Hosei University, notes that “microenterprises” (tiny start-up ventures) are popping up

virtually everywhere in the industrialized world -- with the exception of Japan, "where such small businesses are rapidly declining in number."<sup>23</sup>

Figure 6.1 paints this picture in black and white: The rate at which Japanese entrepreneurs launch new firms has fallen sharply since the early 1970s, when 7 percent of all firms were start-ups. In the early 1990s, the start-up rate fell below the closure rate for the first time in the postwar period; this means, of course, that Japanese firms are unable to hold their own and are, in the aggregate, declining in number. Today, the start-up rate is less than 4 percent (and even lower for manufacturing) -- well below the U.S. start-up rate of about 14 percent.

Who are these brave souls bucking the trend and opening their own businesses? Journalists have painted an uplifting picture of young, restless, highly educated, and computer-savvy entrepreneurs forming a "venture vanguard" in Japan -- much like in the U.S.<sup>24</sup> But the reality is quite different. According to the government's Research Group on New Business Creation (1999), which conducted a survey of more than 1,000 microenterprises identified in 1998 by the *Nihon Keizai Shinbun* as new, fast-paced, and innovating, the typical venture businessman in Japan is 55; does not have a technical background in science or engineering (64 percent of the presidents of these venture firms did not); and, in a surprising number of cases (36 percent), may not even have graduated from a four-year college.<sup>25</sup> Only 12.5 percent of these firms are involved in information technology.<sup>26</sup>

Perhaps the most telling fact about these new start-ups is that they increasingly tend to be affiliated in some way with a large firm. Figure 6.2 documents this ongoing trend. Among start-ups created since 1991, only 8.7 percent can be classified as truly independent (by contrast, nearly half of the start-ups founded in the early 1950s were independent). All of the other firms created in the 1990s are tied to a parent firm: 46.7 percent can be classified as “spin-offs” (in which an employee retires from an existing firm to start his own); 20.1 percent are “affiliates” (or, in Japanese, “*norenwake*,” a pattern in which an employee retires from a firm but intends to maintain a business relationship with his former employer); and 24.5 percent are “directed affiliates” (or, in Japanese, *bunsha*, a pattern in which an employee sets up a new firm under the direction of his old employer).

A program created in 1995 by mega-computer maker Fujitsu is an example of what can only be called “sponsored entrepreneurship.” The company has agreed to provide matching investment funds to employees who decide to launch their own technology firms. This, according to Katayama (1996: 242), provides a tremendous opportunity for “people who are unable to make full use of their abilities within the confines of a large organization.” One should note, however, that the program also includes the stipulation that Fujitsu may gobble up the start-up if it proves successful.

There are at least two problems with sponsored entrepreneurship. One is that large firms tend to be risk-averse, and their tethered offspring are likely to share this trait. Nishizawa Jun’ichi (1988), the inventor of the semiconductor laser, recalls how he

first tried to sell his idea to NTT, the Japanese telecommunications giant. They told him they were unwilling to invest in such an “uncertain proposition.” So he had the technology commercialized in the United States. The other problem with sponsored entrepreneurship is that large firms launching start-ups may be motivated by a desire to trim expenses via personnel transfers (*shukkō* or *tenseki*) rather than by any authentic hunger for innovation. In other words, they may be trying to relieve employment pressures jeopardizing core workers, not trying to promote new ideas.

### **Relationalism and Start-ups**

Our analysis thus far has begged the question: Why is the business start-up rate in Japan so low? In 1998, the Japanese government asked entrepreneurs to help them solve this puzzle.<sup>27</sup> Respondents identified three main obstacles they faced in launching their firms: obtaining capital; developing suppliers, distributors, and customers (*torihikisaki*); and securing employees. Let us consider each of these problems separately.

Despite some improvements in recent years, the financing of new ventures remains woefully underdeveloped in Japan. Too many independent, micro-enterprises are thus asphyxiated at birth. Banks continue to dominate the venture capital market in Japan, which has only about 150 funds dedicated to high-growth, high-risk investments.<sup>28</sup> This pales in comparison with the U.S., which has about 1,000 venture capital funds that, in 1995, pumped about \$5 billion into infant firms. U.S. funds invest



early, usually before a new venture becomes one year old. Japanese funds are far more cautious; they invest much later -- usually after a firm has proved it will fly.<sup>29</sup> A micro-enterprise in Japan must struggle to stay afloat for at least five to ten years before it can dream of going public via an initial public offering (IPO).<sup>30</sup>

In the U.S., venture capital funds typically provide a lot more than capital; in most cases, the managers of these funds have acquired technical expertise in a particular field -- whether biotechnology or e-commerce -- and will provide valuable market information to new ventures. Japanese funds, by contrast, view themselves only as financiers. As Hata (1997: 64) argues, "Unlike their counterparts in the U.S., Japanese venture capitalists do not provide management assistance."

This brings us to the second obstacle mentioned by Japanese entrepreneurs: the cultivation of customers, suppliers, and distributors (*torihikisaki*). In a different survey, the Japan Productivity Research Institute (1997: 3) asked 335 venture firms to list the sources of information they found most useful in running their firms.<sup>31</sup> Venture capital funds, mentioned by only 1.5 percent of respondents, showed up at the very bottom of the list of 11 possible sources. Respondents also gave low marks to management consultants, government agencies, and other venture firms. Ironically, they gave the highest marks by far to "customers, suppliers, and distributors" (*torihikisaki*), which were mentioned by 83 percent of respondents. This reflects a catch-22. By definition, venture firms desperately need information about the market, especially about potential customers, suppliers, and distributors. In Japan, however, they tend to have difficulty

obtaining such information unless they are already affiliated with customers, suppliers, or distributors. This is because that information often is locked inside established business networks. A basic principle, formulated a bit differently in chapter one, tells us that: The stronger the ties in any exchange network, the harder any core member will work to safeguard his investment in “social capital,” or in the longstanding, mutually reinforcing relationships that hold the network together.

Finally, entrepreneurs indicated they often were stymied by difficulties in securing skilled personnel. This should come as no surprise to anyone who knows anything about the Japanese labor market, which -- as we saw in chapter four -- remains quite rigid. The top graduates of Japan’s leading engineering and business schools are still snatched up by the largest firms, and employed there for years. Unless one is a sponsored entrepreneur (an affiliate), one faces an uphill battle in recruiting the best and brightest technicians and managers. Here, too, relationalism shifts transaction costs from insiders to outsiders.

### **Independence as a Virtue**

In a fully developed economy, then, a high level of selective relationalism serves to curb the growth of venture business. It cannot, however, smother it altogether. Japanese entrepreneurs occasionally can defy the odds and launch their own independent start-ups. And when they do, we should expect them to perform relatively well -- primarily because, as untethered operators, they tend to be less risk averse and

less hidebound. That is, they should be more willing -- and more able -- to quickly seize market opportunities than firms locked into established business relationships. This hypothesis is tested by examining data on small manufacturers in machinery and metalworking industries in three different locations in Japan: Hitachi City, Gifu Province, and Ôta Ward. To the maximum extent possible, I hold constant all variables other than location, a variable that is closely correlated with a firm's level of independence. (SMEs from Gifu Province tend to be much more independent than those from Hitachi City and Ôta Ward.) In each area, I examine data for the early and mid-1990s, when machinery/metalworking manufacturers throughout Japan faced roughly the same set of adverse conditions in the macro-economy.

Hitachi City, located in Ibaraki Prefecture, northeast of Tokyo, is a classic company town (*jôkamachi*). Its namesake, a huge conglomerate that produces everything from rice cookers for homes to turbines for nuclear reactors, is not only the largest employer in the area; it also serves as the customer of last resort for a small army of manufacturing subcontractors, many of them engaged in casting, welding, or other forms of metalworking and many others engaged in parts production. In 1991, those firms in Hitachi City employed 9,841 workers and generated sales of 469 billion yen. Five years later, metalworking and machine manufacturing SMEs in Hitachi City employed only 1.5 percent fewer workers (9,736 altogether), but they generated 12.2 percent less in sales (418 billion yen altogether). In other words, sales fell much more sharply than employment in that area.

Gifu Prefecture is located in the middle of Japan, nearly 200 miles from Tokyo and 125 miles from Osaka. It is well known for its cutlery, paper, and plastics industries, but -- unlike Ibaraki -- does not have any large-scale assembly plants operated by world-class machine manufacturers.<sup>32</sup> SMEs in Gifu thus tend to be more independent. During the 1990s, the number of employees in metalworking and parts production fell by about 6 percent -- a steeper fall than in Hitachi City. Despite this, however, sales by those SMEs in Gifu Prefecture held their own during the same period -- whereas they fell precipitously in Hitachi City.

One could argue, perhaps, that these two cases are extreme, and that I selected them merely because I knew they would support my hypothesis. Or one might argue that data for Hitachi City are skewed by the idiosyncratic performance of that area's leading manufacturer (Hitachi). To settle this matter, let us turn to Ôta Ward, located in the Keihin industrial belt of southwest Tokyo. The ward, which emerged as a center of military arms production in the 1930s and early 1940s, now has perhaps the densest concentration of machinery subcontractors in all of Japan. Although most of these parts producers supply more than one assembly firm, they tend to maintain longstanding relationships with their customers. Based on their survey of 167 metalworking and machinery manufacturing SMES in Ôta Ward, Fukushima et al (1998: 96) found that 43 percent consider themselves first tier subcontractors, 32 percent consider themselves second tier subcontractors, and nearly 10 percent view themselves as third tier subcontractors.

Like Hitachi City and Gifu Prefecture, the number of employees in Ôta Ward fell during the first half of the 1990s. But like they did in Hitachi City, and unlike Gifu Prefecture, sales at these manufacturing plants fell even more sharply -- by as much as 22 percent between 1990 and 1995.

These results are not, of course, conclusive. They do, however, suggest that, in a fully developed economy characterized, on average, by a slower rate of economic growth, independent manufacturing SMEs may be able to adjust more easily and thus outperform subcontractors that are solidly embedded in longstanding business relationships with large firms. The dilemma, as we have shown, is that relationalism inhibits the creation of such independent SMEs.

### **Government Policy**

On a vague, meta-policy level, the Japanese government seems to understand this dilemma. For example, a report commissioned by the Economic Planning Agency (EPA 1998a: 23) notes that the institutions of Japanese capitalism were well-suited to an era of "catch-up economic growth," but not the present era. "As the need to explore the frontiers of technology has grown, we now find it imperative to uphold the principle of competition on the basis of efficiency. The current system based on long-term ties of cooperation is outdated." MITI (1998b: 155) goes even further, stating that "Japan, as it enters the 21st century, must carry out a dramatic reform of its industrial structure if it hopes to maintain its competitiveness."

But how, specifically, should the government attempt to carry out this reform? Matsushima Shigeru, director of MITI's policy planning office, says his agency is trying to devise a new set of industrial policies that "are more appropriate for Japan's current stage of development."<sup>33</sup> He notes that MITI established a commission to advise it on policies to nurture innovating, risk-taking small and medium-sized enterprises (SMEs). The commission's final report (*Chūshō Kigyō Seisaku Kenkyūkai Saishū Hōkoku*), produced in May 1999, includes a lengthy critique of existing government policies, but very few recommendations of its own.

Thus far, the government's strategy has revolved around various schemes to increase public assistance for small business. For example, the commission has proposed a relaxation of eligibility requirements for government programs, thereby allowing an additional 16,000 companies to call themselves "SMEs" and, if they so desire, receive aid.<sup>34</sup> In addition, MITI has offered to loan up to 5.5 million yen to unemployed or retired individuals who want to start their own ventures.<sup>35</sup> And the agency also has proposed an expansion of its credit guarantee program for small business.<sup>36</sup>

Representatives of venture business groups have been underwhelmed by the government's strategy. Ito Masaaki, founder of Smart Valley Japan, calls it "more of the same."

Government officials, business leaders, and even many academics keep talking about how to incorporate the new entrepreneur into Japan's industrial base. They are counting on the existing set-up, the organizations and systems already in place, to carry out some kind of revolution. This is the point I do not understand. The existing set-up is the problem.<sup>37</sup>

Indeed, this may be one of those situations in which the state can actually do more by doing less. That is, instead of increasing public assistance to SMEs, Japanese government officials might consider simply enforcing the anti-monopoly act more vigorously and, in the process, introducing stronger market incentives into the economy.

### **Hollowing Out**

While new ventures struggle to take root in Japan, many established firms -- especially small and medium manufacturers -- scramble to survive. In 1995, the number of industrial real estate developments in the Tokyo area was half the number in 1989, and existing industrial parks were operating at only 80 percent capacity. But as low as Tokyo's rate seemed, it was still higher than the national average of 70 percent.<sup>38</sup> In 12 rural prefectures across Japan, the number of factories dropped by more than 5 percent

between 1991 and 1997.<sup>39</sup> Tottori prefecture lost 11.1 percent of its manufacturing base during that time; Saga lost 10.7 percent; Fukui lost 9.6 percent.

Statistics like these led many observers to wonder if foreign direct investment, especially FDI to Asia, was contributing to the “hollowing out” (*kudōka*) or “de-industrialization” of Japan. Indeed, Japanese manufacturers reduced their domestic labor force by more than 1 million employees in the first half of the 1990s, even as they hired an additional 520,000 workers for their overseas operations -- including 436,000 in Asia.<sup>40</sup> Kikai Shinkō Kyōkai (1994: 68-71) reported that two-thirds of Japanese automakers and nearly half of electrical machine manufacturers were planning to reduce domestic capacity and expand overseas production. This shift was most pronounced in rural Japan, where 77 percent of firms in the automobile industry and 51 percent of firms in the electronics industry planned to replace domestic production capacity with new or expanded manufacturing overseas.

Unsurprisingly, Asia was the favorite destination. Two-thirds of the surveyed manufacturers (and a whopping 80 percent of electrical machine manufacturers based in rural prefectures) were expanding operations in that region. In the first half of the 1990s, Japanese manufacturing investment in Asia increased dramatically while manufacturing investment in new plant and equipment at home dropped sharply.<sup>41</sup>

MITI (1998a: 71-74) has attempted to carefully measure the impact of Japanese FDI on Japan's trade balance, domestic production, and domestic employment. In making these calculations, the ministry begins with the assumption that Japanese



investment in Asia (and, indeed, in the world at large) yields three direct effects on the domestic economy of Japan. One of these, which is positive, is an “export stimulation effect,” an increase in Japanese exports, particularly capital and intermediate goods used by overseas affiliates. The other two are negative: an “import effect,” an increase in reverse imports from overseas affiliates; and an “export displacement effect,” a decrease in the volume of Japanese exports that now are produced by overseas affiliates.<sup>42</sup>

MITI (1998a: 68) found that Japanese FDI had a net positive effect on Japan’s trade balance in the 1991-1993 period, but a negative and worsening effect in 1994 and 1995. It attributed this deterioration to a trend on the part of overseas affiliates to purchase more parts from local suppliers (including other Japanese affiliates) in the host country, as well as a growing volume of reverse imports from overseas affiliates. (As expected, Asia is the leading source for those imports. In a separate study, JETRO (1998: 18) asked parent companies in Japan to identify the region they rely on most for reverse imports; 81 percent said Asia.) The direct impact on domestic production and employment, according to MITI (1998a: 69-70), turned negative even sooner.

Thus, FDI did indeed contribute to the hollowing out of Japan in the 1990s.<sup>43</sup> Despite this fact, Japanese government and business elites have continued to push for the regionalization of Japan’s domestic political economy. As MITI (1996: 78) stated: “To maintain their international competitiveness, Japanese corporations have no choice

but to invest overseas, setting up and expanding production, distribution, development, and supply networks in those markets.”<sup>44</sup>

This sanguine view has been endorsed by a number of neo-classical economists who claim the *indirect* effects of FDI have been entirely positive for Japan, and more than compensate for any negative direct effects. For example, Legewie (1997: 21) notes that “FDI can lead to a strengthening of the global competitiveness of companies investing abroad,” and this, in turn, should lead to increased production and employment in the multinational firm’s home country. Kwan (1997), using the neoclassical model of international trade and investment, argues that Japanese FDI should bring about a more efficient allocation of production factors in Japan, thereby raising real income. And Ishiyama (1996) takes this argument a step further, noting that manufacturing occupies an unusually large role in a mature economy such as Japan’s. Rather than too much hollowing, he believes Japan actually has experienced too little.

If the neo-classical argument were correct, we would expect to find -- *ceteris paribus* – a positive and significant correlation between a firm’s overseas production ratio and the efficiency (and thus profitability) of its domestic operations. That is, parent firms (or industries) that produce a larger amount of their total output in overseas factories (relative to firms that concentrate more on domestic production) should also enjoy higher profit margins relative to firms that concentrate more on producing at home. The Economic Planning Agency (EPA 1995: 282-3) conducted its own statistical test, fully expecting to confirm what it viewed as a common-sensical

assumption. But it could not. The analysis showed that the relative earnings to sales ratio of Japanese parent firms in 1992 was only very weakly correlated with the overseas production ratio; more interestingly, though, the relative profitability of Japanese parents actually *fell* as their overseas production ratio in *Asia* rose (relative to other firms staying closer to home).<sup>45</sup> (Of course, parent firms are able to repatriate a large share of the profits earned by their Asian affiliates; thus, they still can achieve a net gain from FDI in spite of losses incurred at domestic operations.)

The reason for this discrepancy between neo-classical assumptions and observed results is that relational ties -- not unfettered market forces -- drive the Japanese political economy. In other words, the hollowing out of the Japanese economy is not being accompanied by any significant reallocation of the factors of production because those factors (capital, labor, technology) are dedicated to particular relationships, and are thus "sticky. As noted earlier, investments in relational ties are equivalent to sunk costs, and core members of established networks will not blithely walk away from such investments. Instead of fostering a reallocation of production factors and structural adjustment in Japan, the regionalization of the domestic political economy actually eases the short-term costs of "sticky" relationalism. By expanding their operations into Asia, Japanese firms help preserve relational ties at home while extending them across a wider geographical space.

In the case of the United States in the 1980s, hollowing out was associated with industrial upgrading as labor-intensive manufacturing eventually gave way to more

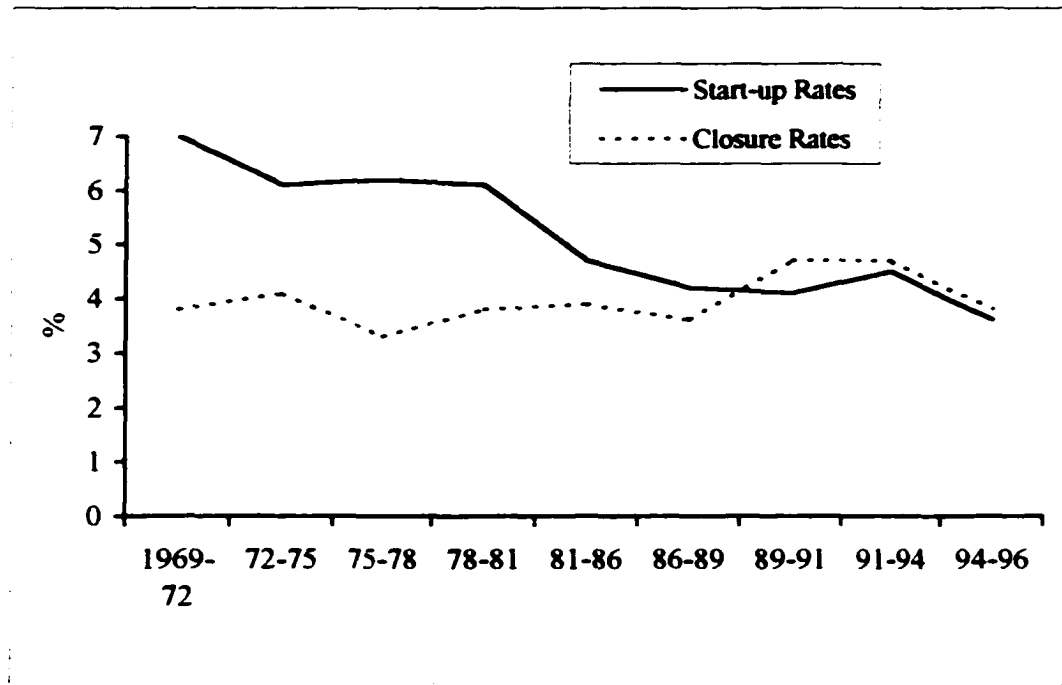
technology-intensive activities.<sup>46</sup> In the case of contemporary Japan, however, no such virtuous cycle is occurring. Okina and Kôsaka (1996: 46) note that “Japan’s industrial hollowing out derives from not only an exodus of manufacturing industry, but also the inability of foreign companies to set up operations in Japan,” and thereby replace lost capital. In 1997, the ratio of outward investment by Japanese manufacturers to inward investment by foreign manufacturers was 9:1, which reflects the costs of relationalism manifested in exclusionary and inflexible capital and labor markets. Here, the “outsiders” are literally just that: foreign firms who find it difficult to enter a Japanese market characterized by strong relational ties.

SMEs, as we argued in chapter five, may pay the highest price -- at least in the short run. “Smaller companies, especially the majority of those with 10 employees or fewer, face tremendous obstacles in the form of factory siting, environmental standards, and high-cost labor conditions as well as difficulties in finding suitable successors for senior management and recruiting suitable staff,” according to Okina and Kôsaka (1996: 74). “Many are forced to change their line of business or close down altogether.”

The SME Agency (1996: 109) agrees. “By encouraging the transfer of large corporate operations overseas, the high cost structure of the Japanese economy will at the same time deal a heavy body blow to small manufacturers in general and to those involved in the subcontract system in particular.” Those SMEs will struggle to develop new markets in a political economy that privileges established relationships.

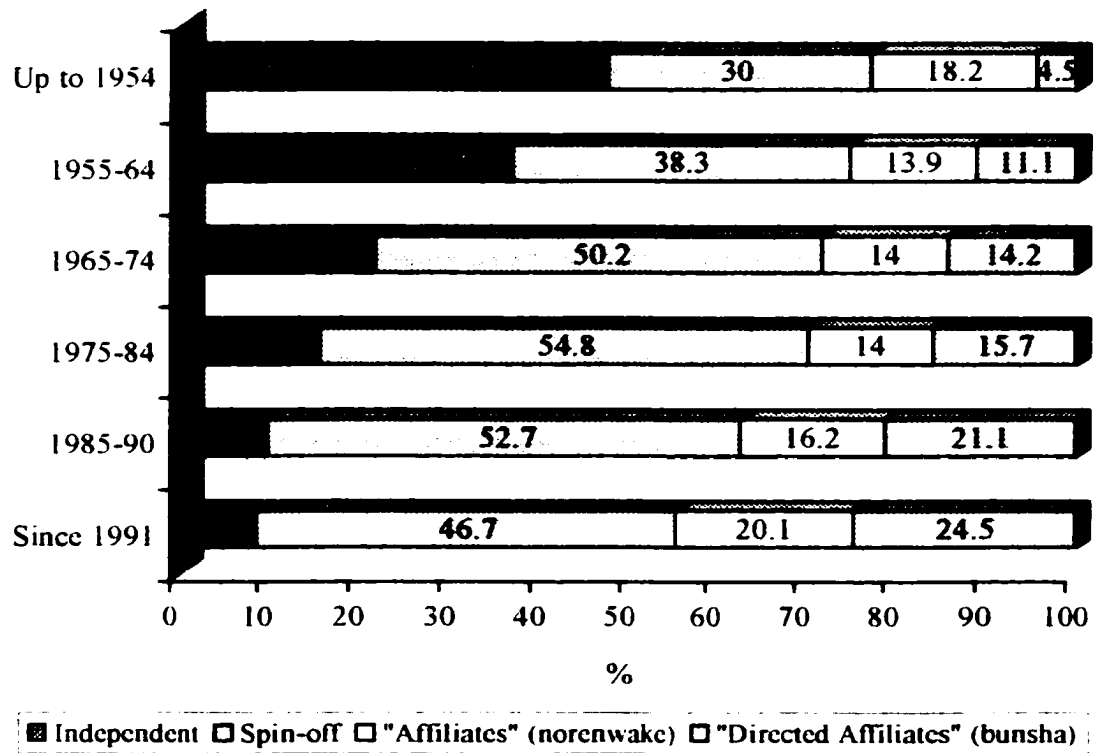
At the end of the day, the fundamental problem remains one of information – or, more precisely, the fact that, in Japan, information tends to be locked inside exclusionary networks of economic and political exchange. I have focused here on the costs of information asymmetry for outsiders, primarily economic actors excluded from networks of economic exchange, and on the costs of information impactedness for insiders, as well as for the economy as a whole. But as Harari (1999: 40–41) notes, this same logic applies to networks of political exchange. In suggesting ways for the Japanese state to regain public confidence in its handling of economic policy, he emphasizes

the necessity to not only increase the scope of participation in policy processes without undermining political stability, but also create the conditions under which participation in policy processes equals sharing information and participating in creating and diffusing knowledge. Transparency is essential for lowering “agency costs” [in business], which are considered relatively high in the Japanese mode of *corporate* governance. It is just as essential for making national governance more effective from the point of view of both domestic and international “stakeholders.”



Source: SME Agency, *Chūshō Kigyō Hakusho*, 1998, p.306.  
 Note: All industries, yearly average.

**Figure 6.1**  
**Business Start-up and Closure Rates**



Source: SME Agency, *Chūshō Kigyō Hakusho*, 1997, p.320.

Note: Like *keiretsu* subcontractors, "affiliates" and "directed affiliates" are not formally or legally members of the parent firm's corporate group.

**Figure 6.2**  
**Character of Start-ups in Different Periods**

## Notes for Chapter Six

<sup>1</sup> They actually considered two indicators: import pass-through rates and domestic-import price differentials (DID). The latter, which is more relevant to the discussion here, measures change in prices at the “second layer,” and thus may reveal the presence of trade barriers. DID can be defined mathematically as  $PDI(\text{yen}) - PM(\text{yen})/E$ , where  $PDI(\text{yen})$  is the proportional change in the domestic input price index (on a yen basis), and  $PM(\text{yen})$  is a proportional change in the import price index (on a yen basis), and  $E$  is the rate of yen appreciation (in terms of the nominal effective exchange rate).

<sup>2</sup> The figure was revised upward (from about \$200 billion) after Japanese banks were pressured to use the more inclusive definition of non-performing loans. See Horiuchi (1999: 26).

<sup>3</sup> *Nihon Keizai Shinbun*, January 27, 1996.

<sup>4</sup> *Asahi Shinbun*, “Nissan Dai-risutora: ‘Keieijin no Sekinin’ Doko ni” (Nissan’s Major Restructuring: Where Does the Responsibility of Management Lie?), October 20, 1999, p. 13.

<sup>5</sup> *Yomiuri Shinbun*, May 10, 1998, p. 1.

<sup>6</sup> See Maclachlan (1999: 260-2).

<sup>7</sup> For two very different views, see Gerlach (1995) and Kodama (1991).

<sup>8</sup> Brenton Schlender, “Japan: Hard Times for High Tech,” *Fortune*, March 22, 1993, p. 19.

<sup>9</sup> See, for example, Suzuki (1996).

<sup>10</sup> This view is associated with unrepentant “revisionists” who express both admiration for — and fear of — Japan’s (latent) economic power. A recent example is Fingleton (2000).

<sup>11</sup> See Inose (1997: 22).

<sup>12</sup> See Science and Technology Agency (1996: 61-2). Of the scientists and engineers leaving Japan, most are headed to the U.S. or Europe. And most of those coming to Japan hail from Asia.

<sup>13</sup> In a survey of 670 firms conducted by the Tokyo Chamber of Commerce (1996: 3), 65 percent said they thought Japanese manufacturing had lost some of its competitive edge in the 1990s. The chamber explained this pessimism by noting that, in the past, Japanese manufacturers had managed to climb out an economic hole by holding the line on wages for workers and parts prices for subcontractors. “But even though they have tried again to squeeze water from a virtually dry towel, manufacturers continue to face hard times.”

<sup>14</sup> MITI, *Kōkōgō Shisū Nenpō (Annual Report on Manufacturing and Mining Indices)*, various years.

<sup>15</sup> In calculating growth for October-December 1999, the EPA omitted data showing extraordinarily weak capital investment by Japanese financial institutions. These data have been included in previous government studies of economic growth. But if it had followed its standard practice and included these data in its calculation, EPA would have had to report an even gloomier (and more politically damaging) GDP figure than it ultimately did. See Stephanie Strom, “Japan Assailed for Omitting Data in Growth Calculations,” *New York Times*, May 24, 2000.

<sup>16</sup> See the JCER webpage at <http://www.jcer.or.jp/eng/eco-for/97long.htm>.

<sup>17</sup> *Nihon Keizai Shinbun*, May 3, 1998, p. 9. Employment in some rural prefectures is now sustained by public works spending. In Hokkaido, for example, the construction industry accounted for 52 percent of new job offers in the summer of 1997 (*Daily Yomiuri*, July 20, 1997, p. 3).



<sup>18</sup> One study estimates that, in the mid-1990s, IT accounted for less than 20 percent of total business investment in Japan, compared with 40 percent in the U.S. It also concludes that only 2 percent of Japan's GDP was invested in IT, compared with 3 percent for the United Kingdom and 4 percent for the United States. These results are cited in Irene M. Kunii, "Will Technology Leave Japan Behind?" *Business Week*, August 31, 1998.

<sup>19</sup> See, for example, Karthaus (1997), who laments the comparatively low quality of chemistry training in general, and polymer science in particular, in Japan.

<sup>20</sup> See the Ministry of Labor (1996: 90-91), which assails Japan's "risk-averse institutional culture." Also see Ikawa Yojiro, "'Village mentality' makes winning Nobel Prize even harder for Japanese," *Daily Yomiuri*, October 22, 1997; and Ikeda (1997).

<sup>21</sup> Bonin (1991: 276) puts it this way: "When the process of innovation is broken down into phases, it appears that small firms have an advantage in the initial stages of invention, as well as an advantage for less expensive, but much more 'radical' inventions." Also see Freeman (1982); Dasgupta and Stiglitz (1980); and Kamien and Schwartz (1982).

<sup>22</sup> See Small and Medium Enterprise Agency (1996). In the 1988-90 period, 7 percent of SMEs shrank substantially in size (as measured by number of employees) and nearly 8 percent grew substantially. But in the 1991-93 period, almost 9 percent of SMEs shrank and only 6 percent grew.

<sup>23</sup> Kiyonari Tadao, "Japan's Small Businesses Need Bigger Hand," *Nikkei Weekly*, July 14, 1997.

<sup>24</sup> See, for example, Peter Landers, "Venture Vanguard: Small firms aim to re-ignite Japan's entrepreneurial spirit," in *Far Eastern Economic Review*, July 31, 1997; Kazunari Yokota, "Start-ups find ways to vault into mainstream economy," in *Nikkei Weekly*, November 8, 1999; and Chisaki Watanabe (Associated Press), "Young Japanese Venture Online for Better Jobs," in *The Seattle Times*, June 15, 2000.

<sup>25</sup> Respondents to this survey came from a directory of 2,400 venture firms listed in Nihon Keizai Shinbunsha, *1998-nenban Nikkei Benchaabijinesu Nenkan* (The 1998 Nikkei Venture Business Yearbook), which focuses on firms that: a) possess their own technology or know-how; b) have enjoyed high growth; and c) are relatively young. The National Institute of Science and Technology, the sponsor of the "Research Group on New Business Creation," followed up on this survey with two policy reports – Sakakibara (1999) and Maeda (1999) – containing recommendations on how to promote high tech venture firms.

<sup>26</sup> A different study by the Nikko Research Center (1991: 32-1) found that eight of the top ten firms engaged in information processing and information services were established by large manufacturers of information hardware (such as Hitachi) or large users of information software (such as Nomura Securities). The two independent firms in this key industry were established in the 1960s.

<sup>27</sup> SME Agency, "Chūshō Kigyō Sōzōteki Katsudō Jittai Chōsa," December 1998. The results are also contained in SME Policy Research Group (1999: 84).

<sup>28</sup> In Japan, even the venture capital funds tend to be affiliated with big banks and securities.

<sup>29</sup> See, for example, Hata (1997: 64) and Ueda (1996: 205-6).

<sup>30</sup> This should improve later in 2000 with the inauguration of two new stock markets that will compete with the highly regulated over-the-counter market run by the Japan Securities Dealers Association. One of these new markets – affectionately known as "mothers" (market of the high-growth and emerging stocks) – will allow firms to list before they have begun to show a profit. The other, Nasdaq Japan, is expected to impose slightly higher barriers to entry. See Kazunari Yokota, "Start-ups find new ways to vault into mainstream economy," *Nikkei Weekly*, November 8, 1999, p. 1.

<sup>31</sup> The respondents were drawn from the same registry of venture firms (*Nikkei Benchaabijinesu Nenkan*) used by the Research Group on New Business Creation.

<sup>32</sup> Gifu Prefecture has an average of only 20 employees per business, making it 41st out of Japan's 47 prefectures in terms of size of establishment.

<sup>33</sup> Interview. Tokyo, June 4, 1998. Matsushima proposed, for example, the creation of “industrial clusters” (*sangyō shūseki*) based on a horizontal division of labor, rather than vertical networks generating economies of scale only at the top of the hierarchy. It is not clear, however, that the government (or, for that matter, the private sector) would actually create such “clusters.”

<sup>34</sup> See the press release issued by JETRO on October 29, 1999, and posted on the web at <http://www.jetro.org/newyork/focusnewsletter/focus8.html>

<sup>35</sup> *Daily Yomiuri*, “MITI to Fund Small Business Start-ups,” September 13, 1998.

<sup>36</sup> *Nikkei Weekly*, “Economic debate focuses on small firms,” November 8, 1999.

<sup>37</sup> Interview. Tokyo, October 1, 1998.

<sup>38</sup> These data come from KK Halifax Association, “Halifax Tokyo Market Survey,” June 1996.

<sup>39</sup> *Nihon Keizai Shinbun*, “Chihō Eigō Kyoten Genshō ga Kasoku,” August 4, 1997, p. 1.

<sup>40</sup> Domestic employment statistics come from Management and Coordination Agency, *Rōdōryoku Chōsa Tokubetsu Chōsa* (Special Survey on the Labor Force); overseas employment figures come from MITI (Ministry of International Trade and Industry), *Wagakuni Kigyō no Kaigai Jigyō Katsudō*.

<sup>41</sup> Economic Planning Agency (EPA 1995: 291), and Industrial Bank of Japan (1995: 3).

<sup>42</sup> The “export stimulation effect” is equivalent to the volume of investment in plant and equipment by overseas affiliates x the share of capital goods they import from Japan, plus the volume of parts procurement by overseas affiliates x the share of such components they import from Japan. The “import effect” equals the volume of sales by overseas affiliates x the share of their sales to Japan. The “export displacement effect,” the most controversial measure, is the volume of sales by overseas affiliates x (1 - ratio of sales to Japan) x Japan’s share of world exports. Legewie (1997) does a good job of critiquing the methodology used in MITI (1995b: 33-41) to calculate direct effects. In particular, he notes that trade barriers erected by foreign governments make it unlikely that FDI is displacing as many exports as the model predicts. Even so, when MITI revised its methodology in 1998, it made the estimation of the “export displacement effect” even *less* conservative.

<sup>43</sup> See also Fukao and Amano (1998: 85-95) for an impressive econometric analysis confirming the reality of hollowing.

<sup>44</sup> We should acknowledge, however, that MITI was internally divided over *kūdōka*, and what kind of threat it actually represented. MITI researchers (Nakamura and Shibuya 1995:31-33) represented the mainstream. They downplayed the threat, saying Japanese manufacturers were retaining R&D facilities and prototype production plants in Japan even as they expanded mass production overseas. On the other hand, the MITI industrial policy bureau (1996: 100) warned that, without counter-measures to stimulate domestic investment, Japan would lose 1.24 million jobs domestic jobs in the second half of the 1990s. The alarmists within MITI were proven wrong – thanks to the depreciation of the yen (which slowed down the torrid pace of FDI), and the Asia economic crisis.

<sup>45</sup> The EPA study actually measured industries, not firms. That is, it tested the impact of the overseas (or regional) production ratio (X) of a given industry on its domestic earning/sales ratio (Y). For both tests (overseas and regional production ratios), the profitability of the automobile and electronics industries fell below the regression line. In the case of overseas production in total, the coefficient for X was +0.22; in the case of overseas production in Asia, the coefficient was -0.48. The EPA test relied on data from MITI’s comprehensive 1992 survey of firms with overseas operations.

<sup>46</sup> While employment in the U.S. manufacturing sector has fallen steadily since the 1940s, output in that sector has remained remarkably stable – even during the decade of the 1980s. This is a function of the high rate of productivity growth in manufacturing relative to other sectors of the U.S. economy, particularly services. See, for example, Clarida and Hickok (1993) and Rowthorn and Ramaswamy (1997).

## **Chapter Seven**

### **Beyond the Case Study**

This thesis adopts what Gourevitch (1978) has called a “second image reversed” perspective; that is, it examines the international political economy’s “feedback effects” on the domestic political economy of a single country. It concedes that globalization may be the awesome, punishing force it is so often said to be, but asserts that the domestic actors trying to cope with its impact may not always be the flotsam and jetsam they are so often said to be. Under admittedly restrictive conditions, those public and private actors may even be able to utilize a countervailing force – that is, regionalization – to trump globalization and thwart its power to compel institutional convergence among different nation-states in the international system.

Indeed, the case study outlined here demonstrates rather plainly that Japanese government and business elites have managed to preserve the administrative and production networks that make up the highly relational political economy of Japan by extending those networks into developing Asia, where they have been able to generate net gains. This is because strong relational ties, as we saw, work best in the context of development, when firms are still adopting technology from the global reservoir of existing know-how. Thus, by going regional, Japanese elites have bought themselves precious time in the face of a) growing demands from political and business leaders in other industrialized countries to abandon selective relationalism and instead adopt “best practices” or “global standards” for organizing economic activity; b) increasingly stiff competition brought on by liberalization; and c) market volatility associated with high

levels of capital mobility. In other words, they have sidestepped, for now, the onerous task of making structural changes to the highly relational political economy of Japan.

Although this argument is novel, it is not entirely new. It is vaguely anticipated by Katzenstein and Shiraishi (1997: 344), who note in their comparative analysis of Japan in Asia and Germany in Europe that states suffering a loss of economic sovereignty due to globalization may try to “compensate” by pursuing regional integration schemes over which they have some control. And it is even foreshadowed in a roundabout way by Moravcsik (1994), who argues that state executives in Europe have used regional institutions (and more specifically, the supranational institutions of the European Community/European Union) to “cut slack” for themselves at home, where myriad domestic actors otherwise impose constraints on their policy authority. This approach sets him quite apart from Putnam (1988), who believes state executives want to “tie their hands,” or encourage domestic actors to impose constraints on them, so as to increase their leverage in negotiations with other state executives. To the contrary, Moravcsik (p. 64) writes that, when bargaining at the supranational level (and specifically here, at a regional level above the nation-state), the heads of state in Europe have a strong incentive to create intergovernmental cartels, perpetuating traditional foreign policy prerogatives. The result: They have enhanced their institutional, informational, and ideological control over EC policy to the point where they dominate domestic agendas. Effective

opposition is costly and, as a result, generally incoherent, almost always taking the form of scattered negative criticism.<sup>1</sup>

This thesis, then, breaks no ground in showing that regionalization can boost the power of domestic actors who control or guide that process. Unlike previous efforts, however, it does offer an integrated, comprehensive framework for understanding precisely how and why this is possible. In building this framework, I have relied heavily on the “embeddedness” or “network” literature in economic sociology, and have sought to incorporate it, for the first time, into a model of political economy.

In this chapter, I retrace my steps and point out a few gaping holes I skipped over along the way. These, obviously, represent opportunities for further research. In addition, and most importantly, I use the theoretical model presented in chapter one, as well as the lessons learned inductively through the case study presented in chapters two through six, to spell out here the conditions under which elites might be able to utilize regionalization to trump globalization. I then briefly consider other possible cases that might satisfy those conditions.

### **Once Around Lightly**

Chapter one noted an under-appreciated fact: Economic and political exchange is almost always embedded, to a greater or lesser degree, in a structure of social

relations. In simple terms, we may occasionally get a haircut from someone we have never met, but rarely from someone who has not been recommended to us by a valued source of information. Most transactions occur within a network of human relationships, not in a faceless spot market. In some places, such as Japan, exchange networks are, on the whole, rather cohesive; that is, relational ties between network members are rather strong. In a political economy sewn together by such strong ties, and thus a political economy characterized by a high level of what I call “selective relationalism,” well-positioned actors – those who occupy central positions inside those exchange networks – will be able to control access to resources, particularly information, embedded in those networks. The stronger the network ties, the greater the opportunity for the exercise of such positional power.

In chapter two, I examined the domestic political economy of Japan, charting the rise of selective relationalism in the postwar period and probing the exchange networks that define this system of network capitalism. The exercise helped establish a baseline to use later in measuring the amount of change or continuity in the “three-legged stool” of cooperation between state and industry, between otherwise independent firms, and between labor and management inside the firm. It was found that valuable resources, particularly information, remain locked inside the relatively closed and exclusionary networks of the Japanese political economy. In chapter three, I shifted the analysis to the international (or, more precisely, the regional) level and documented efforts made by Japanese government and business elites in the 1990s to

regionalize this system of selective relationalism through such means as official development assistance and foreign direct investment. These elites, it was learned, act as agents of economic integration who enjoy positional power in the region -- much as they do at home. I returned to the domestic level in chapter four, looking for evidence of change or continuity in key indicators of relationalism in Japan. This analysis suggested that Japan has experienced massive distributional change, but very little structural change in its political economy.

From the perspective of the "second image reversed," chapter five attempted to explain this result. It showed how the regionalization of Japanese administrative and production networks has helped to rescue Japanese relationalism, at least for the moment. Although this process has contributed further to the marginalization of already peripheral players in the political economy of Japan, it has at the same time consolidated and tightened existing ties between "core" members of administrative and production networks.

Finally, in chapter six, I considered the implications of this process and suggested that rescuing relationalism will not rescue the Japanese economy. Indeed, strong relational ties, which provided important benefits when Japan was still developing, are now imposing heavy costs. The problem is not networks in the abstract; Saxenian (1994) demonstrates this brilliantly in her comparison of business practices in Silicon Valley in northern California, where networks are open and flexible, and Route 128 in the Boston area, where firms are more often organized into vertical



hierarchies. The problem is the inward-looking (“locked-in”) and exclusionary (“locked-out”) character of exchange networks in Japan. Indeed, Saxenian’s description of Route 128 applies nicely to Japan: “Corporations that invested in dedicated equipment and specialized worker skills find themselves locked in to obsolete technologies and markets, while hierarchical structures limit their ability to adapt quickly as conditions change. Their inward focus and vertical integration also limit the development of a sophisticated infrastructure, leaving the entire region vulnerable when large firms falter” (p. 9).

### **The Puzzle**

Of all the questions addressed in this thesis, perhaps the most vexing one is this: How can we explain the desire of Japanese political and business elites to preserve the institutional status quo, especially when the costs of selective relationalism -- measured in rent-seeking behavior, organizational rigidity, inefficient investment, and high consumer prices -- now so clearly outweigh the benefits in Japan, a fully developed and thus “mature” economy?

Economistic assumptions of “rational choice” will not carry us very far, unless we use a highly plastic definition of “utility” (the preferences that rational actors are out to maximize). It seems rather unlikely that business elites, in particular, would rationally choose to undermine the health of the economy, and thus jeopardize their own economic well-being. What could be the “utility” in that?

At the same time, however, we need not entirely jettison the assumption of rationality and resort instead to cultural arguments that amount to generalizations about the way “the Japanese” or even “Japan” behaves. We should be able to offer a stronger explanation for institutional continuity than “path dependence,” which simply suggests that established institutions narrow the options available to actors, and thus fundamentally shape if not preemptively dictate the next move to be taken by those actors. Indeed, I believe this thesis *does* offer a stronger explanation.

Japanese political and business elites are not motivated solely or perhaps even primarily by economic interests such as high salaries or profit rates, and they are not passive subjects driven to repeat the past. It is argued here that Japanese elites, operating within a given structure of human relationships, are motivated by a desire to maintain the positional power they have come to enjoy in a system of selective relationalism. This power, derived from occupying central nodes in an exchange network, means elites are less dependent on other actors for access to information and other nominally shared resources tucked inside that network. Conversely, it means other actors in the exchange network are *more* dependent on elites for access to those resources. Thus, for elites, positional power carries with it much more than just a material advantage to be used in political or economic competition. It also may carry a certain amount of prestige and status.<sup>2</sup>

This study undoubtedly will raise a number of other questions that are not carefully addressed in these pages. Let me try to anticipate a few of them here.

### **How Long Can Relationalism Survive in Japan?**

While Japanese elites tend to stand rock solid behind the system of selective relationalism, others have begun to express vocal frustration with the institutional status quo. Academics, particularly economists, openly question longstanding policies and practices that fail to generate net social gains. Newspapers carry editorials calling for economic and political reform. And as a result, Japanese industry and the Japanese state occasionally appear ready to move in a wholly new direction.

Let me cite just one example: In July 2000, government officials announced they would use \$2 billion in public funds to help rescue the ailing Sogo Co., a giant retailer that had -- through its own mismanagement -- accumulated as much as \$18 billion in debt. This decision, however, prompted a noisy outcry. Among the many critics was Takagi Masaru, an economics professor at Meiji University (and a former banker). "The spirit of capitalism is nowhere to be seen in this nation right now," he railed in one newspaper article (*Mainichi Shinbun*, July 7, 2000). "It is a desperate situation." Japanese citizens apparently felt the same way; in opinion polls, they overwhelmingly opposed the government's bailout plan.

Government officials took heed. They abandoned the bailout proposal, leaving Sogo no alternative but to file for bankruptcy.<sup>3</sup>

Similarly, critics have called for a radical reorganization of the largely vertical ties of relationalism between Japan and its neighbors. For example, Seki (1997: 247-8)

has called for a new way of thinking about Asia, a shift away from the hierarchical pecking order implicit in the “flying geese” model of regional development. Japanese industry, he writes, must learn to fly alongside its neighbors in Asia, forging more equal partnerships and transferring technology more aggressively.

Despite new terms and concepts, however, the prevailing discourse on Asia has an oddly familiar ring to it. Listen, for example, to Ichikawa (1996: 4-5), a consultant in a Tokyo think tank, who writes about the need to achieve “horizontal integration” and “synergy” between Japan and Asia. His book is a manifesto, an action plan to create an “Asia-wide Full-set Industrial Structure” that he says would enhance economic prosperity throughout the region. In the end, however, he seems to be seeking a new way to achieve the old goal of achieving economic power in Asia.

My call for an “Asia-wide Full-set Industrial Structure” is a strategic response to the threat of “Japan-passing.” In its dealings with the outside world, the nation-state is always driven by its interest in power, diplomacy, and dignity. Japan’s power is rooted in its capacity as trading state. In Asia, however, the era in which Japan could arrogantly and brazenly wield its “trading power” has come to an end. My call for an “Asia-wide Full-set Industrial Structure” reflects this fact. It would transcend Japanese nationalism, requiring us to exercise leadership while linking arms with the various countries of Asia.

Likewise, Takahashi (1997: 44-9) has proposed an “Asian Superhub,” a kind of federation of economically interdependent states, to replace the region’s loose and broadly inclusive grouping -- APEC, which spans five continents and includes 21 different members. APEC stands for Asia Pacific Economic Cooperation, but Takahashi facetiously calls it “Asia Pacific Economic CONFLICT,” because he believes it gives its biggest member, the United States, too much leverage and undermines the economic sovereignty of Asian countries in the region. Due to its pivotal position in the emerging regional economy, Japan, he writes, should serve as the leader of this new “Superhub,” which could be called “PEACE” (Pan East Asia Coastal Economies) or “AREA” (Asian Regional Economic Alliance).

The Japanese state, meanwhile, has offered its own “new” proposal, which – when examined carefully – seems safely situated in the status quo. In a report on “industrial policies for the 21st century,” MITI (1999b: 55-6) suggests that Japan and Asia are wholly interdependent; neither can survive without the cooperation of the other. “Japan must be more than a bridge between Asia and the West; it must move beyond the ‘flying geese’ model and participate in the search for a new approach to development.” But the MITI document offers no specifics; instead it reaffirms its longstanding support for a “dynamic international division of labor,” which in the past was synonymous with the flying geese” model.

### **How Long Can Regionalized Relationalism Survive in Asia?**

To preserve their homegrown networks of strong relational ties, Japanese elites have had to extend them into Asia through such channels as FDI and ODA. But this, in turn, has required the willing participation of host country business and political elites. Until recently, the economic gains from serving as junior partners in Japanese dominated exchange networks have been sufficient to secure such compliance. Who, after all, could argue with success? But this unstable equilibrium cannot hold indefinitely.

Consider China, which has used its huge population, its growing defense capability, and its increasingly productive economy to become a potential rival to Japan's "soft hegemony" in the region. During the first half of the 20<sup>th</sup> century, China suffered bitterly under Japanese regional leadership. As a consequence, its elites are almost perennially skeptical of the regionalization schemes promoted by their Japanese counterparts. This skepticism is expressed cogently by Ding Xinghao of the Shanghai Institute of International Studies: "Japan's view is always a flying geese formation with Japan as the head goose. Our memories are long, so we aren't about to fly in Japan's formation."<sup>4</sup>

China has what Myrdal (1968) might now consider a "hard" state, or what Migdal (1988) would call a "strong" state. That is, the Chinese state is at least semi-autonomous; it is not captured by powerful social interests. Political elites are thus able to develop long-term policy objectives based on their interpretation of the national

interest, which largely has to do with protecting the integrity and sovereignty of the nation-state. In dealing with foreign investors, for example, political elites in China oppose technology agreements that subordinate the state's long-term strategic interests to short-run commercial interests. Rather, they try to secure the best possible deal for the country by promoting a kind of bidding war between rival firms.

This poses an obvious challenge for Japanese government and business elites. Across the rest of the region, they have made inroads by inviting their Asian counterparts to join administrative and production networks that they have created and that they continue to dominate. Although Japanese elites have managed to recreate such networks in a few places in China, such as in the port city of Dalian (located in what used to be Japan's puppet state of Manchukuo), they generally have been unable to acquire the kind of positional power they enjoy in the rest of Asia. However, to the extent that local governments in China win increased autonomy from Beijing, Japanese elites may yet prevail. Inter-provincial competition for foreign capital and technology could allow them to mediate China's incorporation into the emerging regional economy.<sup>5</sup>

China is not the only occasionally reluctant consumer of Japanese-mediated regionalization. Just before the Asian economic crisis of the late 1990s, political and economic elites throughout Asia were questioning the behavior of Japanese MNEs, accusing them -- as we noted in chapter three -- of failing to transfer technology to host countries. Even Prime Minister Mahathir of Malaysia, who had allowed Mitsubishi

Motors to get behind the wheel of his national car project (the Proton Saga), began to criticize Japanese industry for its presumed “stinginess.”

For at least two reasons, the weak condition of the Japanese economy has helped fuel this new criticism. First, it has slowed the growth of Asia’s manufactured exports to the Japanese market. Second, and perhaps even more importantly, it has slowed the expansion of *independent* technology transfer from Japan to Asia. In 1992, more than 60 percent of Japan’s technology exports to Asia went to unaffiliated firms in the region; by 1995, fewer than 48 percent of Japan’s technology exports went to such unaffiliated firms in Bangkok, Singapore, Jakarta, and places in between.<sup>6</sup> Instead, technology moved increasingly through intra-firm channels.

Clearly, Asian nationalism represents an ongoing source of potential opposition to the regional ambitions of Japanese elites. But the economic crisis of the late 1990s hushed this opposition, at least for the moment. As discussed in chapter five, the Japanese state showered Asia with bailout funds as the crisis deepened, and Japanese MNEs pumped money into their joint venture operations -- rescuing a large number of local capitalists who otherwise faced the prospect of drowning in debt. In general, Japan was quiet but generous during the crisis -- quite unlike the United States, which was viewed as obnoxious (paradoxically triumphant and nagging at the same time) and unhelpful. A headline in one of Bangkok’s English-language daily newspapers captured the resentment felt toward not only the Washington D.C.-based International Monetary Fund, which had imposed stiff requirements on Asian borrowers, but also toward the



United States in general: “West rides on Asian money crisis.”<sup>7</sup> The article referred to the economic crisis as a massive “transfer of wealth” from Asia to the U.S.

In the long run, of course, Japanese elites will find it increasingly difficult to sell their product (selective relationalism) in Asia. This is because strong network ties are, as we saw in chapter six, continuing to stifle innovation and economic growth at home. As the Japanese state and Japanese MNEs run out of resources (technology and capital) to share with the region, they will lose their premier positions in the administrative and production networks that span Asia. That is, they will steadily lose their positional power.

#### **Is the Japan/Asia Case Sui Generis?**

The theoretical model used in this thesis seems to neatly cover the Japanese case; so neatly, in fact, that a skeptic might be justified in wondering whether it is merely a *post-hoc*, idiographic explanation for a single, non-portable case. To properly address such skepticism, we first must define the conditions under which the model “works;” that is, the conditions under which elites could possibly regionalize domestic institutions under stress and thereby protect themselves against the forces of globalization. Following the model’s logic, I have assembled the following “recipe” of necessary ingredients:

1. **An advanced, capitalist state whose political economy is held together by relatively strong relational ties.**
2. **A nearby region comprised entirely or largely of developing economies.**
3. **Elites from the developed country who occupy pivotal positions in the flow of private and public capital, as well as merchandise trade, within the surrounding region; in other words, elites who enjoy at least a modest level of positional power in the region.**

**The case of the United States in Latin America (Central and South America) would seem to satisfy the second and third conditions. Although the U.S. government is no longer the leading donor of foreign aid to Central America, it dominates policy networks in the region. And U.S. MNCs provide nearly half of all the FDI flowing into the region every year. In Mexico, the power of U.S. is most pronounced; it accounts for 60 percent of all FDI inflows. Eight of Mexico's top ten firms (in terms of sales) are the affiliates of U.S.-based multinationals: General Motors, Chrysler, Ford, Cifra (Walmart), Femsas (Coca-Cola), IBM, Sabritas (Pepsi), and General Electric.<sup>8</sup>**

**But this case fails to meet condition number one. The United States, as we pointed out in chapter one, used to have a political economy characterized by strong relational ties -- but not anymore. Relationalism in the U.S. long ago gave way to a more atomistic system of spot market exchange, as well as mutual suspicion between government and business, and between management and labor. In fact, compared to**

Japan, the United States today is probably at the opposite end of any spectrum of relationalism.

The case of Germany in Central Europe is a much better fit. In the mid-1990s, the German state provided more than half of the ODA to transitional states in central and Eastern Europe.<sup>9</sup> And like Japan in Asia and the U.S. in Central America, it has come to dominate FDI flows into that region, supplying about 30 percent of the foreign direct investment received each year by the Czech Republic, about 25 percent received by Hungary, about 21 percent by Slovakia, and 20 percent by Poland.<sup>10</sup>

Research conducted by the Berkeley Roundtable on the International Economy suggests that German MNCs are building production networks that are helping to integrate the economies of Central Europe. For example, Linden (1998: 7) notes that Siemens has built factories in Hungary, Poland, and the Czech Republic, and is swapping parts among them.

The factors motivating German multinationals to invest in Central Europe sound very much like those motivating Japanese multinationals to invest in Asia. According to Lemoine (undated: 4) German MNCs “were faced with high domestic production costs and [so] they intensified the transfer of production to low wage countries.”

In her own study of the impact of regionalism on states in Europe, Schmidt (1998: 23-4) looks further to the west, where economic integration and the pooling of sovereignty have gone hand in hand. But while she considers a different regional space,

one characterized by relative parity in levels of economic development, Schmidt asks similar questions about the “feedback effects” of supranational forces. Her conclusion, consistent with our model, is that Germany has maintained its own distinctive set of institutions in the face of regional economic integration. Europeanization has forced change in France, but not in Germany, which

has until very recently lost comparatively little autonomy or control in response to the pressures of globalization or Europeanization. In the macroeconomic sphere, it has effectively imposed its own macroeconomic patterns and prejudices on the rest of Europe through its leadership role in monetary policy. But while it has been a Europeanizing force in the macroeconomic sphere, it managed to delay deregulation and privatization in the microeconomic sphere so as to ensure as little disruption as possible to traditional relationships. Only in the past few years has the German formula for economic success come into question as a result of the costs of unification and the pressures of global competition, putting strain on its traditionally cooperative business-labor-government relationship and jeopardizing its generous social welfare system.

Obviously, much more research must be done to determine whether German elites are, like their Japanese counterparts, preserving the status quo by regionalizing their relational ties.<sup>11</sup> But the preliminary evidence is -- at the very least -- suggestive.

### **Bringing Society Back in to Social Science**

The headline over the essay in the June 1997 issue of the *Journal of Economic History* asked, rather sheepishly, "Is it Kosher to Talk about Culture?" Peter Temin, the author of that essay, was not at all shy in answering, "yes." Economic historians may not know exactly how to use such an "elusive concept," he wrote (p. 268), but they certainly ought to try.

I am not quite as enthusiastic about such an endeavor. The field of political science today is filled with "norms" and "epistemic communities" and "constructed identities" that pop out of nowhere and float in space, like ghosts in a Halloween fun house. At the same, though, I wholeheartedly support Temin's appeal for theoretical work that analyzes more carefully the social structures that create opportunities for – and impose constraints upon – individual action.

Economic sociologists – from Granovetter to Knoke, Emerson to Burt, Hamilton to Yamagishi – have made an extremely valuable contribution in this regard. An underlying objective here has been to introduce their contributions to those working in the field of political economy, and thereby increase the flow of information across the disciplinary divide separating scholarly networks.

## Notes for Chapter Seven

---

<sup>1</sup> One implication of Moravcsik's controversial argument is that the EU's often noted "democratic deficit" is not an accident, but rather an intended result of state executives seeking leverage over domestic interests.

<sup>2</sup> In her analysis of the "tea pourers' rebellion" in a Kyoto city office, Pharr (1984) notes that status continues to play an important function in ordering Japanese society.

<sup>3</sup> It should be noted, however, that Sogo approached the government for help only after it failed to persuade a Japanese bank now controlled by U.S. investors to write off some of the retailer's debt. Seventy-two other banks had endorsed Sogo's plan, but Shinsei Bank balked. That bank is owned by Ripplewood Holdings, a U.S. partnership, which purchased the assets of the failed Long Term Credit Bank of Japan from the Japanese government in 1999 and thus became Sogo's second largest creditor.

<sup>4</sup> Quoted in Chalmers Johnson, "The Problem of Japan in an Era of Structural Change." Research Report 89-04. Graduate School of International Relations and Pacific Studies, University of California at San Diego, June 1989, p. 19.

<sup>5</sup> This point is made by Breslin (1996: 485), who argues that Japanese corporate interests "have done much to shape the pattern of China's integration into the regional economy."

<sup>6</sup> Calculated by the author from computer printouts provided by the Japanese government's Science and Technology Agency. See Hatch (1998: 18).

<sup>7</sup> *The Nation*, September 1, 1997, p. B1. The article, written by Thanong Khathong and Vatchara Charoonsantikul, begins with these words: "The United States is reaping the economic and geopolitical benefits of the foreign exchange crises in Thailand and the rest of East Asia, although its ultimate objective is to slow growth in China and pre-empt Japan from becoming its global economic rival ...."

<sup>8</sup> Data come from United Nations, *Foreign Investment in Latin America and the Caribbean, 1998 Report*. Santiago, Chile: Unit on Investment and Corporate Strategies, Division of Production, Productivity and Management, December 1998.

<sup>9</sup> See Kraus (1996: 124-5).

<sup>10</sup> Estimates come from the individual countries. My thanks to Gunter Heiduk, professor of economics at the University of Duisburg, for help in collecting these data.

<sup>11</sup> As one tidbit of evidence, we should note that Volkswagen, the German automaker, began relying heavily on German subcontractors after taking over Skoda in the Czech Republic in 1990. See Wlodek (1997: 232).

## List of References

- Abe, Hitoshi. 1978. "Shingikai Seido no Suii" (Change in the Shingikai System). *Chiiki Kaihatsu*, 160, pp. 8-14.
- Adachi Fumihiko. 1996. "Kyûseichô suru Ajia to Nihon Chûshô Kigyô" (A Rapidly Growing Asia and Japanese Small and Medium Sized Firms) in Tatsumi Nobuharu and Sato Yoshio, eds., *Shin-chûshô kigyô-ron o Manabu* (Toward A New Analysis of Small and Medium Sized Firms) (Tokyo: Yuhikaku).
- Ahmadjian, Christina L. 1997. "Japanese Autoparts Supply Networks and the Governance of Interfirm Exchange," a paper based on a PhD dissertation submitted to Columbia University.
- Akamatsu, Kaname. 1962. "A Historical Pattern of Economic Growth in Developing Countries." *Developing Economies*, vol. 1.
- Akerlof, George A. 1970. "The Market for 'Lemons': Qualitative Uncertainty and the Market Mechanism," *Quarterly Journal of Economics*, Vol. 84 (August), pp. 488-500.
- Alexander, Arthur. 1997. "U.S.-Japan Relations and the Japanese Economy," *JEI Report* No. 25A (July 4).
- Ali, Anuwar, "Japanese Industrial Investments and Technology Transfer in Malaysia," in Jomo K.S., ed., *Japan and Malaysian Development: In the Shadow of the Rising Sun*. London: Routledge.
- Allen, Nancy J. 1994. "The Cross-national Transfer and Transformation of Managerial and Organizational Knowledge: American and Japanese Direct Investment in Indonesia." an unpublished PhD dissertation, Harvard University.
- Altbach, Eric. 1997. "Small and Medium-Sized Businesses in the Changing Japanese Economy," in *JEI Report*, No. 31A, August 15.
- Amsden, Alice. 1989. *Asia's Next Giant: South Korea and Late Industrialization*. New York: Oxford University Press.
- Anchordoguy, Marie. 1988. "Mastering the Market: Japanese Government Targeting of the Computer Industry," *International Organization*, Vol. 42 No. 3 (summer).
- Anuroj, Bonggot. 1995. "Japanese Investment in Thailand: The Nature and Extent of Backward Linkages," a PhD dissertation for the University of New South Wales.
- Aoki, Masahiko. 1987. "The Japanese Firm in Transition," in Kozo Yamamura and Yasukichi Yasuba, eds., *Political Economy of Japan, Vol. I: The Domestic Transformation*. Stanford: Stanford University Press.

- \_\_\_\_\_. 1998. *Information, Incentives and Bargaining in the Japanese Economy*. Cambridge: Cambridge University Press.
- Aoki, Masahiko, Kevin Murdoch, and Masahiro Okuno-Fujiwara. 1996. "Beyond the East Asian Miracle: Introducing the Market-Enhancing View," in Masahiko Aoki, Hyung-ki Kim, and Masahiro Okuno-Fujiwara, eds., *The Role of Government in East Asian Economic Development*. Oxford: Oxford University Press.
- Asanuma, Banri. 1984. "Nihon ni okeru Buhin Torihiki no Kôzô: Jidôsha Sangyô no Jirei" (The Parts Supply Structure in Japan: A Case Study of the Automobile Industry), *Keizai Ronsô* (Kyoto University) Vol 133, No. 3, pp. 137-158.
- Baba, Hiroji. 1986. *Fuyûka to Kin'yûshihon* (Achieving Prosperity and Finance Capital). Kyoto: Minerva Shôbo.
- Baldwin, David A. 1980. "Interdependence and Power: A Conceptual Analysis," *International Organization* 34 (Autumn), pp. 471-506.
- Bank of Tokyo. 1995. "Kakudai suru Nihon no Tai-Higashi Ajia Bôeki" (Japan's Expanding Trade with East Asia), *Tôgin Chôhō* Vol 39 No. 34 (August 24).
- Bartlett, Randall. 1989. *Economics and Power: An Inquiry into Human Relations and Markets*. Cambridge: Cambridge University Press.
- Bates, Robert H. 1981. *Markets and States in Tropical Africa: The Political Basis of Agricultural Policies*. Berkeley: University of California Press.
- Beechler, Schon. 1995. "Corporate Strategies of Japanese and American MNCs in Southeast Asia: Key Success Factors," a paper presented to a conference on "Managing for Success: Japanese and U.S. Corporate Strategies in Southeast Asia," Columbia University (November 9).
- \_\_\_\_\_. 1992. "International Management Control in Multinational Corporations: The Case of Japanese Consumer Electronics Firms in Asia," *ASEAN Economic Bulletin* (November).
- Belderbos, Rene A. 1997. *Japanese Electronics Multinationals and Strategies Trade Policies*. Oxford: Oxford University Press.
- Belderbos, Rene, and Giovanni Capannelli and Kyoji Fukao. 1998. "Local Procurement by Japanese Electronics Firms in Asia," an unpublished paper presented at the National Bureau of Economic Research seminar (June 25-27), Osaka Japan.
- Berger, Suzanne, and Ronald Dore, ed. 1996. *National Diversity and Global Capitalism*. Ithaca: Cornell University Press.
- Bernard, Mitchell, and John Ravenhill. 1995. "Beyond Product Cycles and Flying Geese: Regionalization, Hierarchy, and the Industrialization of East Asia," *World Politics*, Vol. 47 No. 2 (January).
- Bonin, Bernard. 1991. "Oligopoly, Innovation, and Firm Competitiveness." In Jorge Nosi, ed., *Technology and National Competitiveness: Oligopoly, Technological Innovation, and International Competition*. Montreal: McGill-Queen's University Press, pp. 267-281.



- Boyer, Robert. 1998. "Will the Japanese and the German Innovation Systems Cope with the Challenges of the Twenty-first Century?" A paper presented to the Economic Research Center, Nagoya University, autumn.
- Breslin, Shaun. 1996. "China in East Asia: The process and implications of regionalization," *The Pacific Review*, Vol. 9 No. 4, pp. 463-487.
- Broadbent, Jeffrey. 1998. *Environmental Politics in Japan: Networks of Power and Protest*. Cambridge: Cambridge University Press.
- Burt, Ronald S. 1992. *Structural Holes: The Social Structure of Competition*. Cambridge, MA: Harvard University Press.
- Calder, Kent E. 1988. *Crisis and Compensation: Public Policy and Political Stability in Japan*. Princeton: Princeton University Press.
- Calder, Kent E. 1989. "Elites in an Equalizing Role: Ex-bureaucrats as Coordinators and Intermediaries in the Japanese Government-business Relationship." *Comparative Politics* (July), pp. 379-403.
- Callon, Scott. 1995. *Divided Sun: MITI and the Breakdown of Japanese High-Tech Industrial Policy, 1975-1993*. Stanford: Stanford University Press.
- Cameron, Gavin. 1997. "Catch-up and Leapfrog between the USA and Japan," an unpublished paper for Nuttfield College, Oxford University (May).
- Capannelli, Giovanni. 1997. "Industry-wide Relocation and Technology Transfer by Japanese Electronic Firms: A Study of Buyer-Supplier Relations in Malaysia," unpublished PhD dissertation.
- Cerny, Philip G. 1995. "Globalization and the Changing Logic of Collective Action," *International Organization*, Vol. 49, No. 4 (Autumn), pp. 595-625.
- Chia, Siow Yue. 1997. "Singapore: Advanced Production Base and Smart Hub of the Electronics Industry." In Wendy Dobson and Chia Siow Yue, *Multinationals and East Asian Integration*. Ottawa: International Development Research Centre.
- Chen, Edward K.Y., and Teresa Y.C. Wong. 1997. "Hong Kong: Foreign Direct Investment and Trade Linkages in Manufacturing," in Wendy Dobson and Chia Siow Yue, *Multinationals and East Asian Integration*. Ottawa: International Development Research Centre.
- Clarida, Richard H., and Susan Hickok. 1993. "U.S. Manufacturing and the Deindustrialization Debate," *World Economy* 16 (2) (March), pp. 173-192.
- Coleman, James S. 1988. "Social Capital in the Creation of Human Capital," *American Journal of Sociology*, 94: S95-S120.
- Cook, Karen S., Richard M. Emerson, Mary R. Gillmore, and Toshio Yamagishi. 1983. "The Distribution of Power in Exchange Networks: Theory and Experimental Results," *American Journal of Sociology*, Vol. 89, No. 2 (September), pp. 275-305.

- Dasgupta, Partha, and Joseph Stiglitz. 1980. "Industrial Structure and the Nature of Innovative Activity," *The Economic Journal*, Vol. 90 No. 358 (spring), pp. 266-293.
- Denison, Edward, and William Chung. 1976. *How Japan's Economy Grew So Fast*. Washington, D.C.: Brookings Institution.
- Denki Rengo. 1998. *Nikkei Denki Kigyô no Kaigai Shinshutsu to Kokunai Sangyô/Koyô e no Eikyô* (Foreign Direct Investment by Japanese Electronics Firms and the Impact on Domestic Production and Employment). Tokyo: Denki Sogo June 1998 report).
- Deutsch, Karl W. 1963. *Nerves of Government: Models of Political Communication and Control*. London: Free Press of Glencoe.
- \_\_\_\_\_. 1981. "On Nationalism, World Regions, and the Nature of the West," in Per Torsvik, ed., *Mobilization, Center-Periphery Structures, and Nation-Building: A Volume in Commemoration of Stein Rokkan*. Bergen: Universitetsforlaget, pp. 51-93.
- Dirks, Daniel. 1997. "Employment Trends in Japanese Firms," in Deutsches Institute für Japanstudien, *The Japanese Employment System in Transition: Five Perspectives*, Working Papers (No. 3).
- Dobson, Wendy. 1997. "Crossing Borders: Multinationals in East Asia." In Wendy Dobson and Chia Siow Yue, ed., *Multinationals and East Asian Integration*. Ottawa: International Development Research Centre.
- Dore, Ronald. 1986. *Flexible Rigidities: Industrial Policy and Structural Adjustment in the Japanese Economy, 1970-80*. Stanford: Stanford University Press.
- \_\_\_\_\_. 1973. *British Factory, Japanese Factory: The Origins of National Diversity in Industrial Relations*. Berkeley: University of California Press
- Doremus, Keller, Louis Pauly, and Simon Reich. 1998. *The Myth of the Global Corporation*. Princeton, NJ: Princeton University Press.
- Dower, John. 1990. "The Useful War" in *Daedalus (Shôwa: The Japan of Hirohito, a special issue)*, 119 (summer): 49-70.
- Eckstein, Harry. 1975. "Case Study and Theory in Political Science," in F.I. Greenstein and Nelson W. Polby, eds., *Handbook of Political Science*. Reading, Mass: Addison-Wesley, pp. 79-138.
- EPA (Economic Planning Agency) 1998a. *Kôzô Kaikaku ni Chôsen, Keizai Shakai ni Dainamizumu o* (Recommendations for Structural Reform and Bringing Dynamism to the Economy), a report from the Keizai Shingikai (Deliberation Council on the Economy) (June).
- \_\_\_\_\_. 1998b. *Bukka Repôto '98: Bukka Antei no haikai o saguru*. Tokyo: EPA Printing Office.
- \_\_\_\_\_. 1997. *Working Women: In Search of a New Social System; The White Paper on Employment*.

- \_\_\_\_\_. 1996. *Keizai Hakusho, Heisei 8-nenban: Kaikaku ga Tenbô o Kirihiraku* (Economic White Paper, 1996: Reforms Open a New Outlook). Tokyo: MOF Printing Bureau.
- \_\_\_\_\_. 1995. *Nihon Keizai no Genkyô: Heisei 7-nen Keizai no Kaiko to Kadai* (The Current State of the Japanese Economy: A Review of the 1995 Economy and Issues for the Future). Tokyo: EPA Printing Bureau.
- Economist Intelligence Unit. 1998. "Worldwide Cost of Living Survey." Available on the web at <http://www.eiu.com/4wCP5311/pressrelease/WCOLDE98.html>
- Elder, Mark. 1998. "Why Buy High? The Political Economy of Protection for Intermediate Goods Industries in Japan," a paper prepared for delivery at the annual meeting of the American Political Science Association in Boston.
- Emerson, Richard M. 1962. "Power-dependence Relations," *American Sociological Review* 27, pp. 31-40.
- \_\_\_\_\_. 1972. "Exchange Theory, Part II: Exchange Relations and Networks," in J. Berger, M. Zelditch, and B. Anderson, eds., *Sociological Theories in Progress (Volume Two)*. Boston: Houghton Mifflin, pp. 58-87.
- Endo, Koshi. 1996. "Jinji-satei-seido no Nichibei Hikaku" (A Comparison of the U.S. and Japanese Performance Evaluation Systems). In *Ôhara Shakai Mondai Kenkyûjô Zasshi* 449: 1-29
- Evans, Peter. 1995. *Embedded Autonomy: States and Industrial Transformation*. Princeton: Princeton University Press.
- Evans, Peter, and John Stephens. 1988. "Studying Development Since the Sixties: The Emergence of a New Comparative Political Economy," *Theory and Society*, Vol. 17, pp. 713-45.
- Ferejohn, John. 1991. "Rationality and Interpretation: Parliamentary Elections In Early Stuart England." In Kriston Renwick Konioe, ed, *The Economic Approach to Politics: A Critical Reassessment of the Theory of Rational Action*. New York: Harper Collins.
- Field, G. Lowell, and John Higley. 1980. *Elitism*. London: Routledge and Kegan Paul.
- Fingleton, Eamonn. 2000. *In Praise of Hard Industries: Why Manufacturing, not the Information Economy, is the Key to the Future*. New York: Houghton Mifflin.
- Flamm, Kenneth. 1996. *Mismanaged Trade? Strategic Policy and the Semiconductor Industry*. Washington, D.C.: Brookings Institution Press.
- Fligstein, Neil. 1996. "Markets as Politics: A Political-Cultural Approach to Market Institutions," *American Sociological Review*, Vol. 61 (August), pp. 656-673.
- Fourin. 1998a. *Tônan Ajia-Taiwan-Taishû no jidôsha buhin sangyô* (The Automobile Parts Industry in Southeast Asia, Taiwan, and Oceania). Nagoya: Fourin.
- \_\_\_\_\_. 1998b. *Jidôsha Chôsa Geppô No. 157* (Monthly Report on the Global Automotive Industry, number 157).
- Freeman, Christopher. 1982. *The Economics of Industrial Innovation*. Cambridge, MA: MIT Press.

- Fujimura Hiroyuki. 1997. "New Unionism: Beyond Enterprise Unionism?" In Mari Sako and Hiroki Sato, eds., *Japanese Labour and Management in Transition: Diversity, Flexibility and Participation*. London: Routledge, pp. 296-314.
- Fukao, Kiyoshi, and Amano Michifumi. 1998. "Taigai Chokusetsu Tōshi to Seizōgyō no 'Kūdōka'" (Foreign Direct Investment and Industrial Hollowing) in *Keizai Kenkyū* Vol. 49, No. 3 (July).
- Fukushima, Hisakazu, et al. 1998. "Chūshō Kigyō Shūseki to Bungyō Kōzō: Ōtaku Kikai Kinzoku Kōgyō no Jittai Chōsa," *Nihon Daigaku Keizaigakubu Keizai Kagaku Kenkyūjo*, No. 26.
- Fukuyama, Francis. 1995. *Trust: Social Virtues and the Creation of Prosperity*. New York: Simon and Schuster.
- Gerlach, Michael. 1995. "Economic Organization and Innovation in Japan," an unpublished paper, University of California at Berkeley.
- \_\_\_\_\_. 1992. *Alliance Capitalism: The Social Organization of Japanese Business*. Berkeley: University of California Press.
- Gottfried, Heidi, and Nagisa Hayashi-Kato. 1998. "Gendering Work: Deconstructing the Narrative of the Japanese Economic Miracle." In *Work, Employment, and Society*, Vol. 12 No. 1 (March).
- Gourevitch, Peter. 1996. "The Macropolitics of Microinstitutional Differences in the Analysis of Comparative Capitalism," in Suzanne Berger and Ronald Dore, eds., *National Diversity and Global Capitalism*. Ithaca: Cornell University Press.
- \_\_\_\_\_. 1978. "The Second Image Reversed: International Sources of Domestic Politics." *International Organization*, Vol. 32, No. 4, pp. 881-911.
- Gramsci, Antonio. 1992. *Prison Notebooks (Quaderni del carcere)*. New York: Columbia University Press.
- Granovetter, Mark. 1973. "The Strength of Weak Ties," *American Journal of Sociology* 78: 1360-1380.
- \_\_\_\_\_. 1974. *Getting a Job*. Cambridge, Mass.: Harvard University Press.
- \_\_\_\_\_. 1985. "Economic Action and Social Structure: The Problem of Embeddedness," *American Journal of Sociology* 91: 481-510.
- Guiheux, Gilles, and Yveline Lecler. 2000. "Japanese Car Manufacturers and Parts Makers in the ASEAN Region: A Case of Expatriation under Duress or a Strategy of Regionally Integrated Production?" In John Humphrey, Yveline Lecler, and Mario Salerno, eds., *Global Strategies and Local Realities: The Auto Industry in Emerging Markets*. London: MacMillan.
- Guzzini, Stefano. 1993. "Structural Power: The Limits of Neorealist Power Analysis," *International Organization*, Vol. 47, No. 3 (summer), pp. 443-478.
- Haley, George T., Chin Tiong Tan, Usha C. V. Haley. 1998. *New Asian Emperors: The Overseas Chinese, Their Strategies and Competitive Advantages*. Oxford: Butterworth Heinemann.

- Hamaguchi, Eshun. 1977. *"Nihonrashisa" no Saihaken* (Rediscovery of "Japaneseness"). Nihon Keizai Shinbunsha.
- Harada, Yutaka. 1998. *1970 Nen Taisei no Shûen* (The End of the 1970s system). Tokyo: Tôyô Keizai Shinpôsha.
- Harari, Eshun. 1998. "Creative and Reckless Adventurousness: Knowledge, Power and Governance (In) Effectiveness in Japan: The Economic Bubble and its Aftermath," paper F-80, Institute of Social Science, University of Tokyo, Discussion Paper Series (November).
- Hashimoto, Juro, ed., 1996. *Nihon Kigyô Shisutemu no Sengoshi* (The Postwar History of the Japanese Enterprise System). Tokyo: University of Tokyo Press.
- Hata, Nobuyuki. 1997. "Nihon no Ote VC de wa Benchaakigyô o Sodaterarenai" (Microenterprises cannot grow under Japan's large-firm-dominated VC market), *Ekonomisuto* (March 18).
- Hatch, Walter. 1998. "Grounding Asia's Flying Geese: The Costs of Depending Heavily on Japanese Capital and Technology," *Briefing*, National Bureau of Asian Research (April).
- Hatch, Walter and Kozo Yamamura. *Asia in Japan's Embrace: Building a Regional Production Alliance*. Cambridge: Cambridge University Press.
- Higashi, Shigeki. 1995. "Thai no Jidôsha Sangyô: Hogo Ikusei kara Jiyûka e" (The Thai Automobile Industry: From Protection to Liberalization), *Ajiken Waarudo Torendo*, No. 4 (July).
- Higuchi, Yoshio. 1997. "Trends in Japanese Labour Markets," in Mari Sako and Hiroki Sato, eds., *Japanese Labor and Management in Transition: Diversity, Flexibility and Participation*. London: Routledge, pp. 48-49.
- Hirsh, Michael, and E. Keith Henry. 1997. "The Unraveling of Japan Inc.: Multinationals as Agents of Change," *Foreign Affairs*, Vol. 76, No. 2 (March/April), pp. 11-16.
- Hirschman, Albert O. 1958. *The Strategy of Economic Development*. New Haven: Yale University Press.
- Hirschman, Albert O. 1970. *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*. Cambridge, MA: Harvard University Press.
- Hirst, Paul, and Grahame Thompson. 1996. *Globalization in Question*. Cambridge: Polity Press.
- Hiwatari, Nobuhiro. 1996. "Japanese Corporate Governance Reexamined: The Origins and Institutional Foundations of Enterprise Unionism." Unpublished paper for a conference at Columbia University Law School.
- Hollingsworth, J. Rogers, and Robert Boyer. 1997. "Coordination of Economic Actors and Social Systems of Production," in Hollingsworth and Boyer, eds., *Contemporary Capitalism: The Embeddedness of Institutions*. Cambridge: Cambridge University Press, pp. 1-47.

- Horiuchi, Akiyoshi. 1999. "Financial Fragility and Recent Developments in the Japanese Safety Net," in *Social Science Japan Journal*, Vol. 2 No. 1 (April), pp. 23-43.
- \_\_\_\_\_. 1998. *Kin'yū Shisutemu no Mirai: Furyō Saiken Mondai to Biggu Ban* (The Future of the Financial System: The Problem of Non-Performing Loans and Big Bang). Tokyo: Iwanami Shoten.
- Ichikawa, Shu. 1996. *Hazusareru Nihon: Ajia Keizai no Kōsō* (The Japan That Could Be Left Behind: A Proposal for the Asian Economy). Tokyo: NHK Books.
- Ikeda, Masataka. 1996. "Henbōsuru Nihongata Shitauke Shisutemu." In Tatsumi Nobuharu and Satō Yoshio, eds., *Shin Chūshō Kigyō-ron o Manabu*. Tokyo: Yūhikaku.
- Ikeda, Masyoshi. 1999. Kaitai: Nissan no Keiretsu Meeka wa Gaishi Keitai ni Ikinokori o Kakeru" (Dissolution: Nissan's Keiretsu Subcontractors Try to Survive by Tying Up with Foreign Firms), *Ekonomisuto* (December 14).
- Ikeda, Nobuo. 1997. *Jōhōsūshin Shinkakumei to Nihon Kigyō* (The Digital Revolution and Japanese Firms). Tokyo: NTT Publishers.
- Imai, Ken'ichi and Kaneko Ikuyo. 1988. *Nettowāku soshiki-ron* (Theory of the Network System). Tokyo: Iwanami Shoten.
- Imai, Ken'ichi and Yamazaki Akiko. 1992. "Dynamics of the Japanese Industrial System from a Schumpeterian Perspective," SJC-R Working Papers Series No. 3 (July), Stanford Japan Center.
- Industrial Bank of Japan. 1995. "Hollowing-out of Japanese Industry," an unpublished paper by the industrial research department (July).
- Inomatsu, Satoshi. 1998. "Japanese Direct Investment and Changes in East Asian Industrial Structure," in Sano Takao and Osada Hiroshi, eds., *Deepening Industrial Linkages Among East Asian Countries*. Tokyo: Institute of Developing Economies (March).
- Inose, Hiroshi. 1997. "Boosting the Basic," in *Look Japan* (March), pp. 22- 23.
- Inoue, Ryūichirō. 1997. "Nihon Kigyō to Ajia Nettowaaku" (Japanese Firms and Asian Networks), *Jetoro Sensaa* (May).
- Institute for Advanced Industrial Development (Osaka). 1996. "Osaka Keizai Hakusho, Heisei 8: Endaka no Eikyō to Gurobaru Katsudo."
- Ishibashi, Asako. 1997. "Manufacturers Shift Strategies in Asia." In *Nikkei Weekly*, July 15, p. 19.
- Ishida, Hideto. 1983. "Anti-competitive Practices in the Distribution of Goods and Services in Japan: The Problem of Distribution Keiretsu," *Journal of Japanese Studies*, Vol. 9, No. 2 (summer).
- Ishiyama, Yoshihide. 1996. "Is Japan Hollowing Out?" MIT Japan Program Working Paper 96-08.
- Itagaki, Hiroshi. 1997. *The Japanese Production System: Hybrid Factories in East Asia*. Hampshire, UK: MacMillan Business.

- Itami, Hiroyuki. 1989. "Nihon kigyô no 'jinponshugi' shisutemu" (The Employee-firstism of the Japanese Firm), in Imai Ken'ichi and Komiya Ryutaro, eds., *Nihon no Kigyô* (The Japanese Firm). Tokyo: University of Tokyo Press.
- \_\_\_\_\_. 1998. "The Structural Upgrading of East Asian Economies and Networks," in IDE and JETRO, eds., *Can Asia Recover its Vitality? Globalization and the Roles of Japanese and U.S. Corporations*. Tokyo: Institute of Developing Economies.
- \_\_\_\_\_. 1993. "Atarashii Sangyô Dainamizumu (The New Industrial Dynamism), in *Asuteon*, no. 29 (summer), pp. 88-99.
- Ito, Mitsutoshi. 1995. "Administrative Reform," in Hyung-Ki Kim, Micho Muramatsu, T.J. Pempel, and Kozo Yamamura, eds., *The Japanese Civil Service and Economic Development: Catalysts for Change*. Oxford: Oxford University Press.
- Iyori, Hiroshi. 1995. "Kokusai-teki na Nagare ni Sotta Dokkinhō no Unyō o" (Implementing the Anti-Monopoly Law in Accordance with International Trends"), *Nihon Keizai Kenkyū Sentai Kaihō* 724 (March 15).
- Japan Economic Research Center, ed. 1998. *Heisoku Yaburu IT Sangyō*. Tokyo: Nihon Keizai Shinbun.
- Japan Finance Corp. for Small Business. 1997. "Jidōsha, Kadenkigyō ni miru Shitauke Bungyō Kōzō no Henka: Kōzō Hendō ni Tsuyoi Shitauke Kigyō no Shutsugen," *Chūshōkōko Repōto no. 97-2* (May).
- \_\_\_\_\_. 1996. "Saikin no keizai jōsei to chūshō kigyō no ugoki." *Chūshōkōko Repōto no. 96-4* (November).
- Japan Machinery Exporters Association. 1994. "Wagakuni Kikai Sangyō no Ajia ni okeru Seisan Bungyō Jittai ni tsuite" (The Actual State of Production and Division of Labor by Japanese Machine Industries Operating in Asia), an unpublished report (June).
- Japan Productivity Research Institute. 1997. "Wagakuni Bancha Kigyō no Keiei Kadai" (Issues in the Management of Japanese Venture Firms), *Seisansei Kenkyū*, Vol. 22 (July), pp. 1-4.
- Japan Research Institute. 1998. "The Japanese Economy in 1998: Avoiding a Meltdown," *Japan Research Quarterly*, Vol. 7, No. 1, pp. 3-63.
- \_\_\_\_\_. 1997. "The Long-Term Outlook for the Japanese Economy: Revitalization for the 21st Century," *Japan Research Quarterly* Vol. 6, No. 2 (spring).
- Japan Small Business Corp. 1997. "Haiteku Kigyō no Kaigai Tenkai," in *Kaigai Tōshi Gaido*, No. 139 (July).
- Japanese Chamber of Commerce and Industry (Bangkok) 1997. *Dai-sankai, Nikkei kigyō no Kōkendo: Chōsa Hōkokusho* (The Contribution of Japanese Firms in Thailand: Report on the Third Survey) (April).

- JETRO. 1999a. *Shinshutsu Kigyô Jittai Chôsa: Ajia-hen* (A Survey of Investing Firms: Ajia Edition). Tokyo: JETRO.
- \_\_\_\_\_. 1999b. *Tsûshô Guppô* (May 31).
- \_\_\_\_\_. 1998. *Gyaku Yunyû no Jittai ni kansuru Ankeeto Chôsa* (Survey Report on Reverse Imports). Tokyo: Kaigai Keizai Jôhō Sentaa (August).
- \_\_\_\_\_. 1997a. *1997 Jetro Hakusho, Tôshi Hen* (1997 White Paper on Foreign Direct Investment).
- \_\_\_\_\_. 1997b. "Ajia Shinshutsu Chûshô Seizô Kigyô no Jirei Kenkyû" (A Case Study of Small and Medium-Sized Manufacturing Firms Investing in Asia), *Jetro Sensâ* (June).
- \_\_\_\_\_. 1997c. "Ajia Seisan Nettowaaku: Nihon Kigyô no Mirai Senryaku o Tenbô suru" (Asian Manufacturing Networks: Anticipating the Future Strategies of Japanese Firms). *Jetro Sensâ* (May), p. 48.
- \_\_\_\_\_. 1997d. "Zai Tai Nikkei Seizôgyô Jittai Chôsa" (A Survey of Japanese Manufacturing Affiliates in Thailand), *Tsûshô Geppô*, June 9.–
- Jichirôrento Shokurô Keizaishibu. 1997. "Baburu Hôkaigo no Machikôba no Keiei Jittai" (The Management of Small Factories Following the Collapse of the Bubble) (July).
- Jin Shin'ichi. 1996. "Kûdôka o Kangaeru" (Thinking about Hollowing Out), *Kaigai Tôshi Kenkyûjohô* (July).
- Johnson, Chalmers. 1982. *MITI and the Japanese Miracle*. Stanford: Stanford University Press.
- Kagano, Tadao. 1999. "Crisis and Aftermath: The Prospects for Institutional Change in Japan," a roundtable discussion sponsored and published by the Asia/Pacific Research Center, Stanford University (May 3).
- Kagano, Tadao, Nonaka Ikujiro, Sakakibara Kiyonori, and Okuno Akihiro. 1983. *Nichibei Kigyô no Keiei Hikaku* (A Comparison of Management Practices in Japanese and American Firms). Tokyo: Nihon Keizai Shinbunsha.
- Kamien, Morton I., and Nancy L. Schwartz. 1982. *Market Structure and Innovation*. Cambridge: Cambridge University Press.
- Kamo, Kinoko. 1997. "Nihon Jidôsha Kigyô no Gurôbaru Senryaku to Ajia Keizai Ken" (The Global Strategies of Japanese Automobile Firms and the Asian Economic Zone). In Maruyama, Yoshinari. 1997. *Ajia no Jidôsha Sangyô* (Asia's Automobile Industry). Tokyo: Aki Shobô.
- Kanô, Yoshikazu. 1996. "Ajia no sangyôka ga Nihon shijô o Nerau" (The Industrialization of Asia, Which is Aimed at the Japanese market), *Shûkan Tôyô Keizai* (September 14), pp. 78-82.
- Kanzaki, Kôzaki. 2000. "'Kabuka Chôjûshi no Keizai Shifuto de Shain o Mamoru Koto wa Furukusai' -- Kore de Yoinoka?" ("In the Economic Shift Toward an Economy that Emphasizes Stock Values, Protecting the Employee is Old-Fashioned" -- Is This Right?), *Ekonomisuto*, March 14, pp. 72-3.



- Karthus, Olaf. 1997. "Polymer Education in Germany," *Kôbunshi* 54 (10), p. 733.
- Katayama, Osamu. 1996. *Japanese Business into the 21st Century: Strategies for Success*. London: Athlone Press.
- Kato, Takao. 1998. "Preliminary Findings on the Nature and Scope of Career Development of Managers in Japan, the U.S., and Germany: Evidence from a Cross-National Survey." In Japan Institute of Labor, *Kokusai Hikaku: Daisotsu Howaitokaraa no Jinsai Kaihatsu/koyô Shistemu: Nichi, Bei, Doku no Daikigyo* (Personnel Development and Employment Systems for White Collar College Graduates: An International Comparison of Large Firms in Japan, the U.S., and Germany"). Tokyo, JIL.
- Kao, John. 1993. "The Worldwide Web of Chinese Business," *Harvard Business Review*, March-April.
- Kasahara, Hiroyuki. 1997. "Transfer and Adaptation of Manufacturer-Supplier Relationships from Japan to Thailand: A Case of the Automobile Industry," unpublished paper, 28 July.
- Katz, Richard. 1998. *Japan, The System that Soured: The Rise and Fall of the Japanese Economic Miracle*. Armonk, NY: M.E. Sharpe.
- Katzenstein, Peter, and Takashi Shiraishi. 1997. "Regions in World Politics -- Japan and Asia, Germany in Europe," in Katzenstein and Shiraishi, *Network Power: Japan and Asia*. Ithaca, Cornell University Press.
- Kawai, Masahiro, and Shujiro Urata. 1996. "Trade Imbalances and Japanese Foreign Direct Investment: Bilateral and Triangular Issues," discussion paper no. F-52, APEC Study Center, Waseda University and Institute of Developing Economies, Tokyo.
- Kawai, Hideo, Nishizawa Futoshi, Handa Jun'ichirô, Ishijima Kazuhiro. 1997. "Ajia Shinshutsu Chûshô Seizô Kigyô no Jirei Kenkyû" (Case Studies of Asian Investment by Japanese SMEs in Manufacturing), *Jetoro Sensaa* (June), pp. 50-61.
- Keidanren. 1994. *Review of the Japanese Economy* (special issue). Tokyo: Keidanren.
- Kettler, David, and Charles T. Tackney. 1997. "Light from a Dead Sun: The Japanese Lifetime Employment System and Weimar Labor Law," in *Comparative Labor Law and Policy Journal*, Vol. 19, No. 1 (Fall).
- Kiba, Takao and Kodama Fumio. 1991. "Measurement and Analysis of the Progress of International Technology Transfer: Case Study of Direct Investment in East Asian Countries," NISTEP Report No. 18 (Tokyo: National Institute of Science and Technology Policy, Science and Technology Agency (April).
- Kikai Shinkô Kyôkai. 1998. *Engineering Industries of Japan: Moving Toward New Operations, New Products*, no. 32.
- \_\_\_\_\_. 1995. "Ajia Chiiki e no Seisan Shifuto to Sono Eikyô: Ryôsan-gata kikai buhin sangyô no kûdôka no shiten kara," Working Paper H6-4 (May).

- Kikai Shinkô Kyôkai. 1994. *Kikai Sangyô ni okeru Seisan Bungyô Shisutemu no Shôrai Tenbô* (May).
- Kimura, Fukinari. 1996. "Nihon no Taigai Chokusetsu Tôshi no Tokuchô" (The Characteristics of Japanese Foreign Direct Investment), *NIRA Seisaku Kenkyû*, Vol. 9 No. 10, pp. 8-13.
- Kimura, Fukinari, Kawai Hiroki, and Tanaka Iwao. 1996. "Naigai Kakakusa to Bôeki Shôheki: Kakaku Deita o Mochiita Bunseki" (Price Differentials and Trade Barriers: Analysis of Trade Data). In *Mita Gakkai Zasshi* 89 (2, July), pp. 85-100.
- Kishii Daitarô. 1999. "Historical Features of Japan's Public Utility Laws and the Limits of 'Deregulation'," *Social Science Japan Journal*, Vol. 2 No. 1 (April), pp. 45-63.
- Kitajima, Mamoru. 1998. "Ibunka Shakai ni okeru Nihon-teki Monozukuri no Tokushitsu" (Japanese Production in a Different Cultural Setting: The Industrial Sociology of Japanese Manufacturing Affiliates in ASEAN), *Kikai Keizai Kenkyû*, No. 29 (October).
- \_\_\_\_\_. 1997. "ASEAN Shokoku no Kôgyôka to Nihongata Shisutemu no Iten: Nihonteki Keiei/Seisan Shisutemu no Kokusai Iten ni okeru Kadai" (Industrialization in ASEAN countries and the Transfer of the Japanese System: Issues related to the Cross-border Transfer of Japanese Management and Production Systems"), *Kikai Shinkô Kyôkai Kenkyûjo Hôkokusho* H8-10 (March).
- Kitamura, Haruo. 1992. *PL Hô Kô Kangaeyô: Seizôbutsu Sekinin wa Sekai no Jôshiki* (Let's Think This Way About a PL Law: Product Liability Makes Good Global Sense). Tokyo: Daiyamondo-sha.
- Kitschelt, Herbert. 1999. "Competitive Party Democracy and Political Economic Reform in Germany and Japan," a paper prepared for the conference on "Germany and Japan: Nationally Embedded Capitalism in the World Economy," Cologne, June 24-26.
- Kobayashi, Shigeru. 1996. *Sony wa Hito o Ikasu* (Sony Makes the Best Use of Talent). Tokyo: Nihon Keiei Shuppan-kai.
- Kodama, Fumio. 1991. *Emerging Patterns of Innovation: Sources of Japan's Technological Edge*. Boston: Harvard Business School Press.
- Koike, Kazuo. 1981. *Nihon no Jukuren* (Skill formation in Japan). Tokyo: Yûhikaku.
- Kojima, Kiyoshi. 1978. *Direct Foreign Investment: A Japanese Model of Multinational Business Operations*. London: Croom Helm.
- Kono, Hirokazu. 1997. "Ajia ni okeru Nikkei Seisan Kigyô no Katsudô to Mondai-ten" (The Activities and Problems of Japanese Manufacturing Companies in Asia). Keio University Research Center on Regional Affairs, ed., *Ajia no Butsuruyû: Genjô to Kadai*. Tokyo: Keio University Press.

- Kosai, Yutaka. 1997. "Industrial Policy in Developmentalism and in Polymorphic Liberalism: The Murakami Theses Reconsidered," in Kozo Yamamura, ed., *A Vision of a New Liberalism? Critical Essays on Murakami's Anticlassical Analysis*. Stanford: Stanford University Press.
- Knoke, David. 1990. *Political Networks: The Structural Perspective*. Cambridge: Cambridge University Press.
- Knoke, David, and Franz Urban Pappi, Jeffrey Broadbent, and Yutaka Tsujinaka. 1996. *Comparing Policy Networks: Labor Politics in the U.S., Germany, and Japan*. Cambridge: Cambridge University Press.
- Krasner, Stephen D. 1985. *Structural Conflict: The Third World Against Global Liberalism*. Berkeley: University of California Press.
- \_\_\_\_\_. 1984. "Approaches to the State: Alternative Conceptions and Historical Dynamics," in *Comparative Politics*, Vol. 16 No. 2 (January), pp. 223-246.
- Kraus, Willy. 1996. "Economic Effects of German Reunification on West and Eastern Europe," in H. Hax, W. Klemmer, W. Kraus, T. Matsuda, and T. Nakamura, eds., *Economic Transformation in Eastern Europe: A Challenge for Japan and Germany*. Heidelberg: Springer.
- Kumazawa, Makoto. 1997. *Nōryokushugi to Kigyō Shakai* (Merit-Based Management and Corporate Society). Tokyo: Iwanami Shoten.
- Kume, Gorota. 1992. "Trends and Prospects of Japanese Direct Investment in Asia: Increased Contribution to Economic Development of Asian Countries," Research Institute for Overseas Investment, No. 1 (May).
- Kume, Ikuo. 1998. *Disparaged Success: Labor Politics in Postwar Japan*. Ithaca: Cornell University Press.
- Kumon, Hiroshi. 1997. "The Automotive Assembly Industry." In Itagaki Hiroshi, ed., *The Japanese Production System: Hybrid Factories in East Asia*. Hampshire, UK: MacMillan Business.
- Kumon, Shumpei. 1982. "Some Principles Governing the Thought and Behavior of Japanists (Contextualists)," *Journal of Japanese Studies*, Vol. 8 No. 1 (winter), pp. 5-28.
- Kuroda, Masahiro. 1996. "International Competitiveness and Japanese Industries, 1960-1985," in Wagner and van Ark, eds., *International Productivity Differences: Measurement and Explanations*. Amsterdam: North-Holland.
- Kurzer, Paulette. 1991. "Unemployment in Open Economies: The Impact of Trade, Finance, and European Integration," *Comparative Political Studies*, Vol. 24, No. 1 (April), pp. 3-30.
- Kusano, Atsushi. 1995. "Shingikai wa kakuremino de aru" (The Commissions Are a Cover-up). In *Nihon no Ronsō: Kitoku Ken'eki no Kōzō*. Tokyo: Tōyō Keizai Shinpōsha: 195-220.

- Kwan, C.H. 1997. "The Rise of Asia and Japan's 'Hollowing Out' Problem," in *NRI Quarterly*, spring
- Laumann, Edward O., and David Knoke. 1986. "Social network theory," in Siegwart Lindenberg, James S. Coleman, and Stefan Nowak, eds., *Approaches to Social Theory*. New York: Russell Sage Foundation.
- Legewie, Jochen. 1999. "Economic Crisis and Transformation in Southeast Asia: Strategic Responses by Japanese Firms in the Area of Production," DIJ Working Paper 99/3, Deutsches Institut für Japanstudien.
- \_\_\_\_\_. 1998. "The Political Economy of Industrial Integration in Southeast Asia: The Role of Japanese Companies," DIJ Working Paper 98/1, Deutsches Institut für Japanstudien.
- \_\_\_\_\_. 1997. "Foreign Direct Investment, Trade, and Employment: The Role of Asia within the Discussion of Industrial Hollowing Out in Japan," working paper 97/1, Deutsches Institut für Japanstudien (DIJ).
- Lehmbruch, Gerhard. 1999. "The Rise and Change of Discourses on 'Embedded Capitalism' in Germany and Japan and their Institutional Setting," a paper prepared for a conference on "German and Japanese Capitalism," Cologne, Germany.
- Lemoine, Françoise. Undated. "Integrating Central and Eastern Europe in the European Trade and Production Network," Briefing Paper #9, Berkeley Roundtable on the International Economy (<http://brie.berkeley.edu/>).
- Lin, Zhuoshi. 1995. "Higashi Ajia no Gijutsu Chikuseki to Nihonteki Gijutsu Iten Shisutemu" (The Japanese System of Technology Transfer and the Accumulation of Know-how in East Asia), in Chen Bingfu and Lin Zhuoshi, eds, *Ajia no Gijutsu Hatten to Gijutsu Iten*. Tokyo: Bushindo.
- Lincoln, James R, and Michael L. Gerlach and Christina L. Ahmadjian, 1996. "Keiretsu Networks and Corporate Performance in Japan," *American Sociological Review*, Vol. 61 (February) 67-88.
- Linden, Greg. 1998. "Building Production Networks in Central Europe: The Case of the Electronics Industry," Working Paper 126, Berkeley Roundtable on the International Economy (July).
- Lockwood, William. 1965. "Japan's 'New Capitalism'." In William Lockwood, ed., *The State and Economic Enterprise in Japanese*. Princeton: Princeton University Press.
- Lucas, Robert E., Jr. 1988. "On the Mechanics of Economic Development," *Journal of Monetary Economics* 22, pp. 3-42.
- Mabuchi, Masaru. 1997. *Ôkurashô wa Naze Oitsumerareta no ka: Seikan Kankei no Henbô* (Why is MOF is Such a Fix? The Transformation of Politician-Bureaucrat Relations). Tokyo: Chûô Shinsho.
- \_\_\_\_\_. 1994. *Ôkurashô Tôsei no Seiji Keizaigaku* (The Political Economy of MOF Control). Tokyo: Chûô Kôronsha.

- Machado, Kit G.. 1995. "Transnational Production, Regionalism, and National Development: The Case of the Japanese Motor Vehicle Industry in East Asia," *Waseda Journal of Asian Studies*, Volume 17, pp. 25-41.
- Maclachlan, Patricia L. 1999. "Protecting Producers from Consumer Protection: The Politics of Products Liability Reform in Japan," *Social Science Japan Journal*, Vol. 2 No. 2 (October), pp. 249-66.
- Maeda, Noboru. 1999. *Shinbijinesu Moderu ni yoru Nihon Kigyô no Tsuyosa no Henkaku: "Kagaku Gijutsu Shin Sangyô Sôzô Rikkoku Jitsugen" e no Shinariô* (The Transformation of the Japanese Firm Through a New Business Model: Toward the Realization of a Nation Built on Science, Technology and New Industry Creation), NISTEP Policy Study No. 3 (May), National Institute of Science and Technology Policy.
- Marsden, Peter V. 1983. "Restricted Access in Networks and Models of Power," *American Journal of Sociology*, Vol. 88, No. 4 (January), pp. 686-717.
- Maruyama, Yoshinari, ed. 1997. *Ajia no Jidôsha Sangyô* (The Asian-Automobile Industry). Tokyo: Akishôbo.
- Matsuoka, Katsunori. 1997. "Accord Drives Change in Asian Car-making," in *Nikkei Weekly*, April 7.
- Micklethwait, John. 1997. "Silicon Valley: The Valley of Money's Delight" (survey), *The Economist* (March 29).
- Migdal, Joel. 1988. *Strong Societies and Weak States: State-Society Relations and State Capabilities in the Third World*. Princeton: Princeton University Press.
- Miller, Gary J. 1992. *Managerial Dilemmas: The Political Economy of Hierarchy*. Cambridge: Cambridge University Press.
- Milner, Helen V. 1988. *Resisting Protectionism: Global Industries and the Politics of International Trade*. Princeton: Princeton University Press.
- Mingsarn, Santikarn Kaosa-ard. 1994. "Regional Investment and Technology Transfer in Asia: A Thai Case Study," in Asian Productivity Organization, ed. *Intra-Regional Investment and TT in Asia: A Symposium Report*. Tokyo: APO.
- Ministry of Labor. 1999. "Rodo Keizai Dôkô Chôsa, Heisei 11-nen 5-gatsu" (Labor Market Trends for May 1999), Rôdô Daijin Kanbô Seisaku Chosa-bu (June).
- \_\_\_\_\_. 1998. *Rôdô Hakusho, Heisei 10 Nenban* (Small Business in Japan, 1998). Tokyo: Japan Institute of Labor.
- \_\_\_\_\_. 1996. *Chiteki Sôzôgata Rôdô to Jinji Kanri* (Knowledge-creating Work and Personnel Management). Tokyo: Rôdô Daijin Kanbô.
- \_\_\_\_\_. 1995. *Nihon no Rôshi Komunikeeshon no Genjô* (The State of Labor-Management Communication in Japan). Tokyo: MOF Printing Bureau.
- MITI. 1999a. *Wagakuni Kigyô no Kaigai Jigyô Katsudô, Dai 27-Kai* (The Overseas Business Activities of Japanese Firms, Number 26). Tokyo: MOF Printing Bureau.

- \_\_\_\_\_. 1999b. "21 Seiki Keizai: Sangyô Seisaku no Kadai to Tenbô" (The 21<sup>st</sup> Century Economy: Issues Surrounding Industrial Policy, and Prospects for the Future), an unpublished policy report (June).
- \_\_\_\_\_. 1998a. *Wagakuni Kigyô no Kaigai Jigyô Katsudô, Dai 26-Kai* (The Overseas Business Activities of Japanese Firms, Number 26). Tokyo: MOF Printing Bureau.
- \_\_\_\_\_. 1998b. *Tsûshô Hakusho, Heisei 10-nenban* (White Paper on Trade and Industry for 1998). Tokyo: MOF Printing Bureau.
- \_\_\_\_\_. 1997. *Tsûshô Hakusho, Heisei 9-nenban* (White Paper on Trade and Industry for 1997). Tokyo: MOF Printing Bureau.
- \_\_\_\_\_. 1996. *Wagakuni Kigyô no Kaigai Jigyô Katsudô, Dai 25-kai* (Overseas Business Activities of Japanese Firms, No. 25). Tokyo: MOF Printing Bureau.
- \_\_\_\_\_. 1995a. *Tsûshô Hakusho, Heisei 7-nenban* (White Paper on Trade and Industry for 1995). Tokyo: MOF Printing Bureau.
- \_\_\_\_\_. 1995b. *Wagakuni Kigyô no Kaigai Jigyô Katsudô, Dai 24-kai* (Overseas Business Activities of Japanese Firms, No. 24). Tokyo: MOF Printing Bureau.
- \_\_\_\_\_. 1995c. *Tsûshô Sangyô Seisaku no Jûten: Heisei 8 Nendo* (Commercial and industrial policy priorities for 1996), Tokyo, internal publication.
- MITI Industrial Policy Bureau. 1996. "Kaigai Tenkai Senryaku ni kakaru Kigyô Chôsa Hôkoku" (Survey on Overseas Operating Strategies of Japanese Firms), November.
- MOFA (Ministry of Foreign Affairs). 1999. *Japan's Official Development Assistance: Annual Report 1998*. Tokyo: Association for the Promotion of International Cooperation.
- Moore, Barrington, Jr. 1966. *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World*. Boston: Beacon Press.
- Moravcsik, Andrew. 1994. "Why the European Community Strengthens the State: Domestic Politics and International Cooperation," Working Paper Series No. 52, Center for European Studies, Harvard University.
- Mori, Minako. 1999. "New Trends in ASEAN Strategies of Japanese-affiliated Automobile Parts Manufacturers." In *RIM: Pacific Business and Industries*, Sakura Institute of Research, Vol. 1 No. 43.
- Morishima, Motohiro. 1997. "Changes in Japanese Human Resource Management: A Demand Side Story." In *Japan Labor Bulletin* (November 1).
- Morozumi, Yoshihiko. 1966. *Sangyô Seisaku no Riron* (The Theory of Industrial Policy). Tokyo: Nihon Keizai Shinbunsha.
- Mukoyama, Hidehiko. 1996. "Development of Asian Small and Medium Companies and Japanese Small Business Investment in Asia," in *Rim: Pacific Business and Industries*, Vol. 1 No. 31.
- Murakami, Yasusuke. 1992. *Han-koten no Seiji-keizaigaku* (An Anti-Classical Political-Economic Analysis). Tokyo: Chûôkôron-sha. [Translated into English

- and published in 1996. *An Anti-Classical Political-Economic Analysis: A Vision for the Next Century*. Stanford: Stanford University Press.]
- Murakami, Yasusuke, Kumon Shumpei, and Satô Seizaburô. 1979. *Bunmei to Shite no Je Shakai (Je Society as a Pattern of Civilization)*. Tokyo: Chûôkôron-sha.
- Muramatsu Michio, 1981. *Sengo Nihon no Kanryôsei (Postwar Japan's Bureaucratic System)*. Tokyo: Tôyô keizai shinpôsha.
- Myrdal, Gunnar. 1968. *Asian Drama: An Inquiry into the Poverty of Nations, Vol. 2*. New York: Twentieth Century Fund.
- Nakamura, Keisuke. 1996. *Nihon no Shokuba to Seisan Shisutemu (The Japanese Production System and the Organization of Work)*. Tokyo: University of Tokyo Press.
- Nakamura, Keisuke and Padang Wicaksono. 1999. *Toyota in Indonesia: A Case Study on the Transfer of the TPS (Jakarta: Center for Japanese Studies, University of Indonesia)*.
- Nakamura, Yoshiaki and Minoru Shibuya. 1995. "The Hollowing Out Phenomenon in the Japanese Industry," MITI Research Institute, August.
- Nakashima, Takamasa. 1998. "Industrial Relations and Ethnicity: The Case of MSC, a Japanese-Owned Automobile Manufacturer in Thailand," a paper for the Asian Regional Conference on Industrial Relations, Tokyo.
- Nakatani, Iwao. 1984. "The Economic Role of Financial Corporate Grouping." In Aoki Masahiko, ed., *The Economic Analysis of the Japanese Firm*. Amsterdam: North Holland.
- Nakazawa, Takao. 1997. "Ote Meikaa Kaifuku no Kage de Torinokosareru Chûshô Seizôgyô," in *Ekonomisuto*, April 29.
- Nishihara, Shigeki. 1987. *Yoron kara Mita Dojidaishi (Contemporary History as Seen From Opinion Polls)*. Tokyo: Brain Shuppan.
- Nishizawa, Jun'ichi. 1988. "We Need Creativity," *Voice* (December).
- Nikkeiren. 1996. '*Shin-jidai no Nihonteki keiei' ni tsuite no Forôappu Chôsa (A Follow-up Study to "Japanese Management in a New Era)*. Tokyo: Nikkeiren.
- \_\_\_\_\_. 1995. *Shin-Jidai no Nihonteki Keiei (Japanese Management in a New Era)*. Tokyo: Nikkeiren.
- Nikkeiren. 1969. *Nôryokushugi Jidai no Jinji Kôka (Performance Evaluation in the Era of Merit-Based Management)*. Tokyo: Nikkeiren.
- Nikko Research Center. 1991. *Analysis of Japanese Industries for Investors*. Tokyo: Nikko Research Center.
- Nishiguchi, Toshiro and Alexandre Beaudet. 1999. "Kaosu ni okeru Jiko Soshiki-ka: Toyota Gurûpu to Aishin Seiki Kasai," *Soshiki Kagaku (Organizational Science)*, Vol. 32 No. 4, pp. 58-72.
- Nishioka, Tadashi. 1998. "ASEAN ni okeru Jidôsha Sangyô no Dôkô to Wagakuni Chûshô Buhin Meikaa e no Eikyô ni tsuite" (The State of the Automobile

- Industry in ASEAN, and its Influence on Japanese SME Parts Producers), *Chūshō Kōko Repōto No. 98-1* (April).
- Noguchi, Yukio. 1995. *1940 Taisei Ron, Saraba "Senji Keizai"* (The 1940 System: Farewell to the "Wartime Economy"). Tokyo: Tōyō Keizai Shinpōsha.
- North, Douglass C. 1990. "Institutions and a Transaction-cost Theory of Exchange," in James E. Alt and Kenneth A. Shepsle, eds., *Perspectives on Positive Political Economy*. Cambridge: Cambridge University Press.
- Nukazawa, Kazuo. 1998. "Nihon Keizai: Sengo kara 21 Seiki e" *Gaikō Forum* (January), pp. 48-57.
- Odagiri, Hiroyuki. 1989. "Riekisei to Kyōsei" (Profitability and Competitiveness), in Imai Ken'ichi and Komiya Ryutarō, eds., *Nihon no Kigyō*. Tokyo: University of Tokyo Press.
- OECD (Organization for Economic Cooperation and Development). 2000. *OECD in Figures*. Paris: OECD.
- OECD (Overseas Economic Cooperation Fund). 1999. "Q&A on Asian Economic Crisis Support." In *OECD Newsletter*, April-May.
- Ogino, Hiroshi. 1997. "The Sōkaiya's Grip on Corporate Japan," *Japan Quarterly*, July-September, pp. 15-22.
- Ohmae, Ken'ichi. 1990. *The Borderless World: Power and Strategy in the Interlinked Economy*. New York: Harper Business.
- Okamoto, Yumiko. 1996. "Shuyō Sangyō no Taigai Chokusetsu Tōshi no Dōkō: Denshi/Denki Sangyō," in *NIRA Seisaku Kenkyū*, Vol. 9 No. 10.
- Okamoto, Hiroyuki. 1995. "Changing Subcontracting Relations and Risk-Sharing in Japan: An Econometric Analysis of the Automobile Industry," *Hitotsubashi Journal of Economics*, 36 (December), pp. 207-218.
- Okazaki, Keiko. 1996. "A Measurement of the Japanese Lifetime Employment System," in *Keio Business Review*, No. 33, pp. 105-115.
- Okimoto, Daniel. 1989. *Between MITI and the Market: Japanese Industrial Policy for High Technology*. Stanford: Stanford University Press.
- Okimoto, Daniel, and Yoshio Nishi. 1996. "R&D Organization in Japanese and American Semiconductor Firms," in Masahiko Aoki and Ronald Dore, eds., *The Japanese Firm: The Sources of Competitive Strength* (Oxford: Oxford University Press).
- Okimoto, Daniel I., and Gary Saxonhouse. 1987. "Technology and the Future of the Economy," in Kozo Yamamura and Yasukichi Yasuba, *The Political Economy of Japan: Volume 1, The Domestic Transformation*. Stanford: Stanford University Press.
- Okina, Yuri and Akiko Kōsaka. 1996. "Japanese Corporations and Industrial Upgrading: Beyond Industrial Hollowing Out," *Japan Research Quarterly*, Vol. 5, No. 2 (spring), pp. 45-91.



- Okita, Saburo. 1986. "Pacific Development and its Implications for the World Economy," in James W. Morely, ed., *The Pacific Basin: New Challenges for the United States*. New York: The Academy of Political Science.
- Okuno-Fujiwara, Masahiro. 1997. "Toward a Comparative Institutional Analysis of the Government-Business Relationship," in Masahiko Aoki, Hyung-Ki Kim, and Masahiro Okuno-Fujiwara, eds., *The Role of Government in East Asian Economic Development: Comparative Institutional Analysis*. Oxford: Oxford University Press.
- Okuno-Fujiwara, Pascale, Richard and Thomas P. Rohlen. 1983. "The Mazda Turnaround," *The Journal of Japanese Studies*, Vol. 9 No. 2 (summer).
- Olson, Mancur. 1982. *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*. New Haven: Yale University Press.
- Oman, Charles. 1984. *New Forms of International Investment in Developing Countries*. Paris: OECD.
- Ôtake, Hideo. 1997. *Seikai Saihen no Kenkyû: Shin Senkyo Seido ni-yoru. Sôsenkyo*. Tokyo: Yûhikaku.
- Panglaykim, J. 1983. *Japanese Direct Investment in ASEAN: The Indonesian Experience*. Singapore: Maruzen.
- Park, Woo-hee. 1992. "Japan's Role in the Structural Adjustment of the Asian-Pacific Economies," *Journal of International Economic Studies*, No. 6 (March).
- Pastor, Manuel and Carol Wise. 1994. "The Origins and Sustainability of Mexico's Free Trade Policy," *International Organization* 48:3 (summer), pp. 459-89.
- Patrick, Hugh, and Henry Rosovsky, eds. 1976. *Asia's New Giant*. Washington, DC: Brookings Institution.
- Pauly, Louis W., and Simon Reich. 1997. "National Structures and Multinational Corporate Behavior: Enduring Differences in the Age of Globalization," *International Organization*, Vol. 51 No. 1 (winter), pp. 1-30.
- Pechter, Kenneth, and Sumio Kakinuma. 1999. "Coauthorship Linkages between University Research and Japanese Industry," in Lewis M. Branscomb, Fumio Kodama, and Richard Florida, ed., *Industrializing Knowledge: University-Industry Linkages in Japan and the United States*. Cambridge, MA: MIT Press.
- Pempel, TJ. 1998. *Regime Shift: Comparative Dynamics of the Japanese Political Economy*. Ithaca: Cornell University Press.
- Pharr, Susan J. 1984. "Status Conflict: The Rebellion of the Tea Pourers," in Ellis S. Krauss, Thomas P. Rohlen, and Patricia G. Steinhoff, eds., *Conflict in Japan*. Honolulu: University of Hawaii Press.
- Polanyi, Karl. 1944. *The Great Transformation: The Political and Economic Origins of Our Time*. Boston: Beacon Press.
- Price, John. 1997. *Japan Works: Power and Paradox in Postwar Industrial Relations*. Ithaca: Cornell University Press.

- Putnam, Robert D. 1993. *Making Democracy Work: Civic Traditions in Modern Italy*. Princeton: Princeton University Press.
- \_\_\_\_\_. 1988. "Diplomacy and Domestic Politics," *International Organization* 42 (summer), pp. 427-61.
- Reich, Robert B. 1991. *The Work of Nations: Preparing Ourselves for Twenty-first Century Capitalism*. New York: Knopf.
- Research Group on New Business Creation. 1999. *Nihon no Benchaakigyô to Kigyôsha ni kansuru Chôsa Kenkyû* (A Survey on Start-up Firms and their Founders in Japan), NISTEP Report No. 61 (March), National Institute of Science and Technology Policy.
- Rtischev, Dimitry and Robert E. Cole, "The Role of Organizational Discontinuity in High Technology: Insights from a U.S.-Japan Comparison," a paper for a conference on "Business Venture Creation and New Human Resource Management in Japan, Europe and the U.S.A," sponsored by Deutsches Institut für Japanstudien (DIJ), Tokyo, October 1998.
- Rôdô Daijin Kanbô. 1996. *Chiteki Sôzô-gata Rôdô to Jinji Kanri* (Creative, Knowledge-based Labor and Human Resources Management). Tokyo: Rôdô Daijin Kanbô Seisaku Chôsabû.
- Romer, Paul M. 1986. "Increasing Returns and Long-run Growth," *Journal of Political Economy*, Vol. 94 No. 5, pp. 1002-37.
- Rowthorn, Robert, and Ramana Ramaswamy. 1997. "Deindustrialization: Causes and Implications," IMF Working Paper 97/42 (April).
- Rubio, Mauricio. 1997. "Perverse Social Capital: Evidence from Columbia," *Journal of Economic Issues*, Vol. 31, No. 3 (September).
- Sakakibara, Kiyonori. 1999. *Benchaabijinesu: Nihon no Kadai* (Venture Business: Issues in Japan). NISTEP Policy Study No. 2 (May), National Institute of Science and Technology Policy.
- Samuels, Richard. 1987. *The Business of the Japanese State: Energy Markets in Comparative and Historical Perspective*. Ithaca: Cornell University Press.
- \_\_\_\_\_. 1994. *Rich Nation, Strong Army: National Security and the Technological Transformation of Japan*. Ithaca: Cornell University Press.
- Sato, Hiroki. 1997. "Human Resource Management Systems in Large Firms: The Case of White Collar Graduate Employees." In Mari Sako and Hiroki Sato, eds., *Japanese Labor and Management in Transition: Diversity, Flexibility and Participation*. London: Routledge, pp. 104-130.
- Sato, Hiroki. 1996. "Keeping Employees Employed: *Shukkô* and *Tenseki* Job Transfers," in *Japan Labor Bulletin*, December 1, pp. 5-8.
- Sato, Hiroki, Nagano Hitoshi, and Oki Eiichi. 1996. "*Eijiresu Koyô Shisutemu ni kakawaru Shomondai ni Tsuite no Sôgôteki na Chôsa Kenkyû Jigyô Hôkokusho*" (A Comprehensive Survey and Research Project Regarding Issues

- Associated with An Ageless Employment System: A Report). Tokyo: Socioeconomic Productivity Center.
- Sato, Kazuo. 1997a. "Economic Development and Financial Deepening: The Case of Japan," *Journal of the Asia Pacific Economy*, Vol 2, No. 1, pp. 1-27.
- \_\_\_\_\_. 1997b. "Corporate Capitalism and Wealth Inequality in Japan," an unpublished paper (September).
- Satô, Susumu, and Yamauchi Tetsuo. 1994. "Shôhō Kaisei o Sakate ni Keiretsu no Kyōka Susumu" (*Keiretsu* are Strengthened Despite Revision of the Commercial Code), *Shūkan Tōyō Keizai*, December 31 (a special issue also dated January 7, 1995), pp. 68-71.
- Satô Toshiki. 2000. "Shinchūkan Taishū Tanjō kara 20 Nen" (20 years Since the Birth of the New Middle Mass), *Chūō Kōron*, May 2000, pp. 68-75.
- Saxenian, Analee. 1994. *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*. Cambridge, MA: Harvard University Press.
- Sazanami, Yoko, Fukinari Kimura, and Hiroki Kawai. 1997. "Sectoral Price Movements Under Yen Appreciation," an unpublished paper.
- Sazanami, Yoko and Wong Yu Ching. 1996. "The Determinants of Intrafirm Transactions and Intrafirm Trade of Japanese MNEs in Asia, Europe and North America," a paper written for the Keio University Keizai Gakkai (December 4).
- Schaede, Ulrike. 1995. "The 'Old Boy Network' and Government-Business Relationships in Japan," in *Journal of Japanese Studies*, 21 (2, Summer), pp. 293-317.
- \_\_\_\_\_. 1994. "The Old Boy Network and Government-Business Relations in Japan: A Case Study of Consultative Capitalism." Working Paper, University of California at Berkeley.
- Schattschneider, E.E. 1960. *The Semi-Sovereign People: A Realist's View of Democracy in America*. New York: Holt, Rinehart and Winston.
- Schmidt, Vivien A. 1998. "The Impact of European Integration on Member States' Economic and Industrial Policies: Assessing the Loss of National Autonomy and Control from Globalization and Europeanization," a paper presented at the APSA national meeting in Atlanta, September.
- Schoppa, Leonard. 1997. *Bargaining with Japan: What American Pressure Can and Cannot Do*. New York: Columbia University Press.
- Science and Technology Agency. 1996. *Kagaku Gijutsu no Shinkō ni kansuru Nenji Hōkoku, Hensei 8 Nendo* (1996 Annual Report on the Promotion of Science and Technology).
- Sedgwick, Mitchell W. 1996. "Does Japanese Management Travel in Asia? Managerial Technology Transfer at Japanese Multinationals in Thailand," Working Paper MITJP 96-04, the MIT Japan Program.
- Seike, Atsushi. 1995. "Nenkō Chingin no Jittai to Henka." In Inagami Takeshi, ed., *Nihon-gata Koyō Shisutemu yōkai Hōkokusho*. Tokyo: Ministry of Labor.

- Seisansei Kenkyûjo. 1997. "Nihon no Seisansei Nobiritsu Kaifuku mo Suru Izen 11-i" (Despite a recovery in its rate of productivity increase, Japan remains #11), *Kenkyûjo "Seisansei Kenkyû"*, Vol 23 (October).
- Seki Mitsuhiro. 1999. *Ajia Shinjidai no Nihon Kigyô* (The Japanese Firm in the New Asian Era). Tokyo: Chûô Kôronsha.
- \_\_\_\_\_. 1997. *Kûdôka o Koete: Gijutsu to Chiiki no Saikôchiku* (Beyond Hollowing Out: Technology and Regional Restructuring). Tokyo: Nihon Keizai Shinbunsha.
- \_\_\_\_\_. 1993. *Furusetto-gata Sangyô Kôzô o Koete* (Beyond the Full-Set Industrial Structure). Tokyo: Chûôkoronsha.
- Sekimoto, Tadahiro. 1996. "21 Seiki no Zaikaijin ni Tsugu" (Heralding the Arrival of the Businessman of the 21st Century." *Bungei Shunjû*, Vol. 74, No. 11 (September), pp. 94-104.
- Sender, Harry. 1996. "The Sun Never Sets," *Far Eastern Economic Review* (February 1), pp. 46-50.
- Sheard, Paul. 1994. "Interlocking Shareholdings and Corporate Governance in Japan," in Masahiko Aoki and Ronald Dore, eds., *The Japanese Firm: Sources of Competitive Strength*. Oxford: Oxford University Press.
- Sheridan, Kyoko. 1998. "Japan's Economic System," in Kyoko Sheridan, ed., *Emerging Economic Systems in Asia: A Political and Economic Survey*. St. Leonards, Australia: Allen and Unwin.
- Shimokawa, Koichi. 1997. "Restructuring Helps Power Auto Revival," *Nikkei Weekly*, April 14.
- \_\_\_\_\_. 1995, "Confronting Hard Times in the Japanese Automobile Industry: The Restructuring Strategy," *Keiei Shirin* (Hosei University), Vol. 32, No. 2 (July).
- Shiozaki, Yasuhisa. 1999. "Changes in Politics," a speech given to a conference on "Crisis and Aftermath: The Prospects for Institutional Change in Japan," at the Asia/Pacific Research Center, Stanford University, May 3.
- Shiraishi, Takashi. 1997. "Japan and Southeast Asia," in Peter Katzenstein and Takashi Shiraishi, *Network Power: Japan and Asia*. Ithaca, Cornell University Press.
- Shôkô Chûkin. 1995. "Chûshô kikai kinzoku kôgyô bungyô kôzô jittai chôsa hôkukusho: Dai-go kai."
- Skocpol, Theda. 1998. "Civic America, Then and Now," an unpublished paper, Harvard University (June).
- Small and Medium Enterprise (SME) Agency. 1998. *Chûshô Kigyô Hakusho, Heisei 10-nenban* (Small Business in Japan, 1998). Tokyo: MOF Printing Bureau.
- Small and Medium Enterprise (SME) Agency. 1997. *Chûshô Kigyô Hakusho: Heisei 9-nenban* (Small business in Japan 1997). Tokyo: MOF Printing Bureau.
- Small and Medium Enterprise (SME) Agency. 1996. *Chûshô Kigyô Hakusho, Heisei 8-nenban* (Small Business in Japan, 1996). Tokyo: MOF Printing Bureau.

- SME Policy Research Group. 1999. *Chūshō Kigyō Seisaku Kenkyūkai Saishū Hōkoku* (The Final Report of SME Policy Research Group), MITI (May).
- Smith, Wendy. 1993. "Japanese Management in Malaysia," *Japanese Studies*, Vol. 13 No. 1, pp. 50-76.
- Singh, Kulwant, Joseph Putti and George Yip. 1998. "Singapore: Regional Hub," in George Yip, ed., *Asian Advantage: Key Strategies for Winning in the Asia-Pacific Region*. Reading: Addison-Wesley.
- Sonoda, Hidehiro, 1999. *Tōshi Bunka* (Urban Culture). Tokyo: Iwanami Shoten.
- Steffensen, Sam K. 1998. "Informational Network Industrialization and Japanese Business Management," *Journal of Organizational Change Management*, Vol. 11 No. 6, pp. 515-529.
- Steinmo, Sven, and Kathleen Thelen and Frank Longstreth. 1992. *Structuring Politics: Historical Institutionalism in Comparative Analysis*. Cambridge: Cambridge University Press.
- Stewart, Charles T., Jr. 1985. "Comparing Japanese and U.S. Technology Transfer to Less Developed Countries," *Journal of Northeast Asian Studies*, Vol. 4 (spring).
- Strange, Susan. 1996. *The Retreat of the State: The Diffusion of Power in the World Economy*. New York: Cambridge University Press.
- \_\_\_\_\_. 1988. *States and Markets*. New York: Blackwell.
- Suehiro, Akira. 1998. "Social Capabilities for Industrialization in Asia: Government Policies, Technology Formation, and Small Business," a paper for the Institute of Small Business Research and Business Administration, Osaka University of Economics (March).
- Sugeno, Kazuo and Suwa Yasuo. 1997. "Labour Law Issues in a Changing Labour Market." In Mari Sako and Hiroki Sato, eds., *Japanese Labour and Management in Transition: Diversity, Flexibility and Participation*. London: Routledge, pp. 53-78.
- Sumita Shōji. 1997. *Yakunin ni Tsukeru Kusuri* (Medicine for Public Officials). Tokyo: Asahi Shinbunsha.
- Sunada, Toru, Kiji Michiko, and Chigira Makoto. 1993. "Japan's Direct Investment in East Asia: Changing Division of Labor and Technology Transfer in the Household Electric Appliance Industry," a monograph for the MITI Research Institute (March).
- Suzuki, Kazunori. 1997. "Inter-corporate Shareholdings in Japan: Their Significance and Impact of Sales of Stakes," an unpublished paper for the London Business School, December 10.
- Suzuki, T. 1977. *Shōhō to tomoni ayumu* (Retrospective on the Commercial Law). Tokyo: Shōji-hō kenkyūkai. [cited by Hideaki Miyajima in Lonny E. Carlile and Mark C. Tilton, eds., *Is Japan Really Changing Its Ways: Regulatory Reform*

- and the Japanese Economy* (Washington D.C.: Brookings Institution Press, 1998).]
- Suzuki, Yukio. 1996. "Fukkatsu suru Nihon Kigyô no Kokusai Kyôsôryoku" (The Resurging International Competitiveness of Japanese Firms), *Zaikai Kansoku* (Nomura Research Institute, May 1).
- Szymkowiak, Kenneth. 1996. "Necessary Evil: Extortion, Organized Crime, and Japanese Corporations," an unpublished dissertation, University of Hawaii at Manoa.
- Tabata, Hirokuni, 1987. "Gendai Nihon no Rôshikankei to Kokka" (Industrial Relations and the State in Contemporary Japan) in Fujita Isamu, ed., *Ken'i-teki Chitsujo to Kokka*. Tokyo: University of Tokyo Press.
- Tachibanaki, Toshiaki. 1998. *Nihon Keizai Kakusa: Shotoku to Shisan kara Kangaeru* (Japan's Economic Gap in terms of Income and Assets). Tokyo: Iwanami Shinsho, 1998.
- \_\_\_\_\_. 2000. "Kekka no Fubyôdô' o Doko made Mitomeru ka" (To What Extent Will We Tolerate the Disparity in Outcomes), *Chûô Kôron*, May 2000, pp. 76-82.
- Takahashi, Hiroaki. 1996. "Activities of Japanese Machinery Makers in Southeast Asia," in *NRI Quarterly* (Winter).
- Takahashi, Masahiro. 1997. "Ajia ni okeru Chiiki no Kokusai Nettowaakuka Shiron" (An Essay on Creating an International Network in Asia), in *Keizai Keiei Kenkyû* (March).
- Takenaka, Heizo. 1996. "Reference Report to Part II." In Fukukawa Shinji, ed., *Japan in the 21st Century: Flourish or Fade?* Tokyo: Global Industrial and Social Progress Research Institute.
- Tamura, Ei. 1996. "Wagakuni Seizô Kigyô no Kaigai Tôshi no Genjô to Kongo no Hôkô ni tsuite" (The Current State and Future Direction of Foreign Investment by Japanese Manufacturing Firms), *Chûshô Kôkô Geppô*, November, pp. 16-22.
- Tate, John Jay. 1995. *Driving Production Innovation Home: Guardian State Capitalism and the Competitiveness of the Japanese Automobile Industry*. Berkeley: Berkeley Roundtable on the International Economy.
- Taylor, Mark Z. 1995. "Dominance Through Technology: Is Japan Creating a Yen Bloc in Southeast Asia?" in *Foreign Affairs* (November/December).
- Tejima, Shigeki. 1997. "Hitotsu no Henkakuki kara Arata na Henkakuki e: Gurôbarizeishon, Riijonarizeishon, Torirenma; Ajia no Tôshi Ukeirekoku no Gaishi Seisaku/Sangyô Seisaku" (From One Change to Another: Globalization/Regionalization, Trilemma, and the Foreign Capital and Industrial Policies of Asian Countries Receiving Investment), *Kaigai Tôshi Kenkyûjohô* (January).

- \_\_\_\_\_. 1996. "Japan's Foreign Direct Investment at the New Stage of Globalization and its Contribution to the Asian Pacific Region," in *Research in Asian Economic Studies*, Vol. 7B.
- Temin, Peter. "Is it Kosher to Talk about Culture?" *Journal of Economic History*, Vol. 57, No. 2 (June).
- Thelen, Kathleen, and Ikuo Kume. 1999. "The Future of Nationally Embedded Capitalism: Industrial Relations in Germany and Japan," a paper prepared for the conference on "Germany and Japan: Nationally Embedded Capitalism in the World Economy," Cologne, June 24-26.
- Thompson, E.P. 1971. "The Moral Economy of the English Crowd in the Eighteenth Century," *Past and Present* 50 (February), pp. 76-136.
- Thornton, Emily. 1997. "More Cracks in the Social Contract: Strapped Companies Turn More and More to Part-Time Workers," *Business Week*, October 13, p. 18.
- Tilton, Mark. 1998. "Regulatory Reform and Market Opening in Japan." In Lonny E. Carlile and Mark C. Tilton, eds., *Is Japan Really Changing its Ways? Regulatory Reform and the Japanese Economy*. Washington, D.C.: The Brookings Institution.
- Tokuhsa, Yoshio. 1997. "Shokigyôka, Autosôzuka de Nihon Kigyô no Gijutsuryoku Kôjô o," *Ekonomisuto*, November 4, pp. 75-76.
- Tokunaga, Shojiro, ed. 1992. *Japan's Foreign Investment and Asian Economic Interdependence*. Tokyo: University of Tokyo Press.
- Tokyo Chamber of Commerce. 1996. *Wagakuni Seizôgyô no Kyôsôryoku Saikyoku-ka ni Mukete* (Toward the Reinforcement of Competitiveness in Japanese Manufacturing), a report of a chamber committee on competitiveness (October).
- Toyonaga, Mami. 1998. "Change in the Structure of Employment in the Japanese Electric Machine Industry: Do Asian Affiliates Affect Headquarters Employment?" an unpublished paper for the Japan Institute of Labor's "Asian Regional Conference on Industrial Relations," Tokyo.
- Tsuru, Kotarô. 1995. "The Japanese Market Economy System: Its Strengths and Weaknesses." Tokyo: LTCB International Library Foundation.
- Tu, Jenn-hwa. 1997. "Taiwan: A Solid Manufacturing Base and Emerging Regional Source of Investment," in Wendy Dobson and Chia Siow Yue, eds., *Multinationals and East Asian Integration*. Ottawa: International Development Research Centre.
- Ueda, Tatsuzô. 1996. "Kinyû Shijô no Henka to Chûshô Kigyô" (SMEs and Changes in the Financial Market). In Tatsumi Nobuharu and Satô Yoshio, eds., *Shin Chûshô Kigyô-ron o Manabu*. Tokyo: Yûhikaku.
- Uehara, Masashi. 1999. "Japanese Companies Gave Most Aid to Thai Joint Ventures in Crisis," *Nikkei Weekly* (June 14).

- United Nations. 1998. *World Investment Report 1998: Trends and Determinants*. New York: United Nations.
- Urata, Shujiro. 1996a. "Japanese Foreign Direct Investment and Technology Transfer to Asia," Discussion Paper Series No. 4, APEC Study Center of Waseda University and the Institute of Developing Economies, Tokyo (March).
- Urata, Shujiro. 1996b. "Japanese Foreign Direct Investment in Asia: Its Impact on Export Expansion and Technology Acquisition of the Host Economies," a paper prepared for the international workshop on "Foreign Direct Investment, Technology Transfer, and Export-Oriented Development in Developing Countries," in Maastricht (November).
- Uriu, Robert M. 1996. *Troubled Industries: Confronting Economic Change in Japan*. Ithaca: Cornell University Press.
- Uzzi, Brian. 1996. "The Sources and Consequences of Embeddedness for the Economic Performance of Organizations: The Network Effect," *American Sociological Review*, Vol. 61 (August), pp. 674-98.
- Van Evera, Stephen. 1997. *Guide to Methods for Students of Political Science*. Ithaca: Cornell University Press.
- Van Wolferen, Karel. 1989. *The Enigma of Japanese Power*. London: MacMillan.
- Vestal, James. 1993. *Planning for Change: Industrial Policy and Japanese Economic Development, 1945-90*. New York: Oxford University Press.
- Vogel, Steven K. 1999a. "The Re-organization of Organized Capitalism: How the German and Japanese Models are Shaping Their Own Transformation," a paper prepared for a conference on "German and Japanese Capitalism," Cologne, Germany.
- \_\_\_\_\_. 1999b. "Can Japan Disengage? Winners and Losers in Japan's Political Economy," *Social Science Japan Journal*, Vol. 2, No. 1 (April), pp. 3-21.
- \_\_\_\_\_. 1996. *Freer Markets, More Rules: Regulatory Reform in Advanced Industrial Countries*. Ithaca: Cornell University Press.
- Wade, Robert. 1990. *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. Princeton: Princeton University Press.
- Waltz, Kenneth. 1979. *Theory of International Politics*. Reading: Addison Wesley.
- Watanabe, Chihiro, and Martin Hemmert. 1998. "The Interaction Between Technology and Economy: Has the 'Virtuous Cycle' of Japan's Technological Innovation System Collapsed?" in Martin Hemmert and Christian Oberlander, *Technology and Innovation in Japan: Policy and Management for the Twenty-first Century*. (London: Routledge).
- Watanabe, Machiko. 1996. "Jidōsha Sangyō" (The Automobile Industry) in *NIRA Seisaku Kenkyū*, Vol. 9 No. 10.



- Watanabe, Osamu. 1987. "Gendai Nihon Shakai no Ken'i-teki Kôzô to Kokka" (The Structure of Authority in Contemporary Japanese Society and the State). In Fujita Isamu, ed. *Ken'i-teki Chitsujo to Kokka*. Tokyo: Tokyo Daigaku Shuppankai.
- Watanabe, Shigeru and Yamamoto Isao. 1992. "Corporate Governance in Japan: Ways to Improve Low Productivity," *NRI Quarterly*, Vol 1, No. 3 (winter), pp. 28-45.
- Watanabe, Toshio. 1996. "Higashi Ajia no Naka ni Tokeyuku Nihon" (Japan is Melding into East Asia). *Asuteion*, Autumn (No. 42).
- Weber, Max. 1946. "Class, Status, and Party," in Hans Gerth and C. Wright Mills, ed., *Readings from Max Weber*. New York: Oxford University Press.
- Weidenbaum, Murray and Samuel Hughes. 1996. *The Bamboo Network : How Expatriate Chinese Entrepreneurs Are Creating a New Economic Superpower in Asia*. New York: Free Press.
- Weiss, Linda. 1998. *The Myth of the Powerless State*. Ithaca, N.Y.: Cornell University Press.
- Whittaker, D.H. 1997. *Small Firms in the Japanese Economy*. Cambridge: Cambridge University Press.
- Williamson, Oliver E. 1975. *Markets and Hierarchies: Analysis and Antitrust Implications*. New York: Free Press.
- Winters, Jeffrey A. 1996. *Power in Motion: Capital Mobility and the Indonesian State*. Ithaca: Cornell University Press.
- Wlodek, Aniol, et al. 1997. "Returning to Europe," in Peter J. Katzenstein, ed., *Tamed Power: Germany in Europe*. Ithaca: Cornell University Press.
- Yahata, Shigemi, "Small and Medium-size Enterprises Moving Offshore," in *Japan Labor Bulletin* (May 1), pp. 5-8.
- Yamada, Bundo, and Kenji Okumura. 1997. "Information Technology, Globalization, and the Strategic Management of Technology," in Denis Fred Simon, ed., *Techno-Security in an Age of Globalization*. Armonk: ME Sharpe.
- Yamagishi, Toshio. 1999. *Anshin Shakai Kara Shinrai Shakai e* (From an "Assurance-based Society" to a "Trust-based Society"). Tokyo: Chûôkôronsha.
- \_\_\_\_\_. 1998. *Shinrai no Kôzô* (The Structure of Trust). Tokyo: University of Tokyo Press.
- Yamamoto, Taketoshi. 1989. "The Press Clubs of Japan," *Journal of Japanese Studies*, Vol. 15, No. 2, pp. 371-88.
- Yamamoto, Tetsuzo. 1996. "Kikai Buhin Sangyô" (Machinery Parts Industries). In *NIRA Seisaku Kenkyû*, Vol. 9 No. 10, p. 24-26.
- Yamamura, Kozo. 1999. "Germany and Japan in a New Phase of Capitalism: Confronting the Past and the Future," a paper prepared for a conference on "German and Japanese Capitalism," Cologne, Germany.

- \_\_\_\_\_. 1997. "The Japanese Political Economy After the Bubble: Plus Ça Change," in *Journal of Japanese Studies*, Vol 23, No 2 (summer), pp. 291-331.
- \_\_\_\_\_. 1986. "Japan's Deus ex Machina: Western Technology in the 1920s," *Journal of Japanese Studies*, 12, pp. 65-94.
- \_\_\_\_\_. 1982. "Success that Soured: Administrative Guidance and Cartels in Japan," in Kozo Yamamura, ed., *Policy and Trade Issues of the Japanese Economy: American and Japanese Perspectives*. Seattle: University of Washington.
- Yamamura, Kozo, and Jan Vandenberg. 1986. "Japan's Rapid-Growth Policy on Trial: The Television Case." In Gary Saxonhouse and Kozo Yamamura, eds., *Trade Issues of the Japanese Economy: American and Japanese Perspectives*. Seattle: University of Washington Press.
- Yamashita, Shoichi, and Takeuchi J., Kawabe N., and Takehana S. 1989. "ASEAN Shokoku ni okeru Nihonteki Keiei to Gijutsu Iten ni kansuru Keieisha no Ishiki Chôsa" (Survey of Japanese managers on Japanese-style management and technology transfer to ASEAN countries), *Hiroshima Economic Studies*, Vol. 10 (March).
- Yamawaki, Hideki. 1984. "Tekkôgyô" (The Steel Industry), in Komiya Ryutarô, Okuno Masahiro, and Suzumura Kôtârô, eds., *Nihon no Sangyô Seisaku*. Tokyo: Tokyo University Press.
- Yanagihara, Toru. 1987. "Pacific Basin Economic Relations: Japan's New Role?" *The Developing Economies*, 25:4 (December), pp. 403-420.
- Young, Michael K. "Judicial Review of Administrative Guidance: Governmentally Encouraged Consensual Dispute Resolution in Japan," *Columbia Law Review*, Vol. 84 (May), pp. 923-83.
- Zenkoku Kinzoku Kikai Rôdôkumiai. 1997. "Tekisei na Kakaku to Kôsei na Torihiki no Jitsugen o Motomete; Kigyô Jôkyô to Torihiki no Jittai ni kansuru Chôsa Hôkokusho" (Seeking Proper Prices and Fair Trade: The Survey on Corporate Conditions and Transactions), February 2.
- Zenkoku Shitauke Kigyô Shinkô Kyôkai (ZSKSK) 1997a. *Datsu Shitauke-gata Kigyô e no Keiei Senryaku: Jirei Bunseki to Sûryô Bunseki ni yoru Teigen* (A Management Strategy for Post-Subcontracting Enterprises: A Proposal Based on Case Study and Quantitative Analysis), March.
- Zenkoku Shitauke Kigyô Shinkô Kyôkai (ZSKSK). 1997b. *Shitauke Kigyô ni kansuru Q&A* (Questions and Answers about Being a Subcontractor) (March).

**WALTER HATCH****CV/ page one****Publications**

- “Regionalization Trumps Globalization: Japanese Production Networks in Asia,” a chapter in Richard Stubbs and Geoffrey R.D. Underhill, eds., *Political Economy and the Changing Global Order*, Oxford University Press, 1999.
- “Grounding Asia's Flying Geese: The Costs of Depending Too Heavily on Japanese Capital and Technology,” *NBR Briefing*, National Bureau of Asian Research (April 1998).
- “A Looming Entry Barrier: Japanese Production Networks in Asia” (with Kozo Yamamura), *Analysis*, National Bureau of Asian Research (February, 1997).
- “Foreign Direct Investment in China: Miraculous or Misdirected?” *Executive Insight*, National Bureau of Asian Research (December 1996).
- *Asia in Japan's Embrace: Building a Regional Production Alliance* (a book with Kozo Yamamura), Cambridge University Press, 1996.
- “Vietnam's Place in Japan's Regional Production Alliance,” a chapter in Barbara Duffield, editor, *Vietnam and Japan: Japanese Investment and Aid Strategies in Vietnam*, Victoria, BC: University of Victoria Press, 1995.
- A review of Gregory Noble, “Collective Action in East Asia,” for *Pacific Review*, forthcoming.
- A review of Rene Belderbos, “Japanese Electronic Multinationals and Strategic Trade Policies,” for *The Journal of Japanese Studies*, winter 2000.
- A review of Peter Katzenstein and Takashi Shiraishi, eds., “Network Power: Japan and Asia,” for *The Journal of Japanese Studies*, summer 1998.
- A review of Osamu Katayama, “Japanese Business into the 21st Century,” for *The Journal of Japanese Studies*, winter 1998.
- A review of Masaru Yoshitomi, ed., “Foreign Direct Investment in Japan,” for *The Journal of Asian Studies*, fall 1997
- A review of Wolf Mendel, “Japanese Foreign Policy in Asia,” for *The Journal of Japanese Studies*, summer 1997.

**Papers/Presentations**

- “Exporting the State: Japanese Administrative and Financial Guidance in Asia,” September 1999, for the American Political Science Assoc. annual meeting, Atlanta.
- “Change for the Sake of No Change: The Domestic Consequences of Japanese Regionalization,” December 1997, for the Contemporary Japan Group, Institute of Social Sciences, University of Tokyo, Tokyo Japan.
- “Protecting Embeddedness: What Happens at Home When Japanese Production Networks Move into Asia,” November 1997, for the Keio University Economics Society annual conference, Chiba Japan.
- “Embedded Power: Japanese Production Networks in Asia,” June 1997, for the Anzen Kagaku Kokusai Seijihan (Security Studies/International Politics Group), Kyoto Japan
- “Facing Japanese Competition in Asia,” February 1996, for a conference on Japanese investment in Asia, sponsored by the Woodrow Wilson Center in Washington D.C.
- “Asymmetrical Interdependency,” August 1995, for a conference on Taiwan on the Eve of the 21st Century, sponsored by the University of Washington and National Taiwan University

**WALTER HATCH****CV/ page two****Teaching Experience**

- Lecturer, Poli Sci and International Studies, "The Political Economy of Regionalism"  
University of Washington, summer 2000
- Lecturer, Asian studies, "The Political Economy of Japan"  
University of Washington, spring 2000
- Lecturer and teaching assistant, "Japanese Civilization" and "The Japanese Economy"  
University of Washington, winter 2000 and autumn 1999
- Lecturer, political economy, "Japan in Asia: Investment, Aid, and Trade"  
International Education of Students (IES, Chicago), Tokyo, Summer/Fall 1998
- Lecturer, political science, "International Relations of East Asia"  
Temple University Japan, Spring 1998
- Teaching Assistant, Asian studies/economics: "The Japanese Economy,"  
University of Washington, Spring 1996 and Spring 1994
- Instructor, humanities: "The Pacific Century: Asia in the Modern World"  
Seattle Central Community College, Fall 1992-Spring 1994
- Teaching Assistant, Asian studies/political science: "Japanese Politics"  
University of Washington, Winter 1992
- Teaching Assistant, Asian studies: "Introduction to Japanese Civilization"  
University of Washington, Fall 1991
- Instructor, humanities: "Oral History"  
Seattle Central Community College, Fall 1979-Spring 1980

**Education**

- PhC (Political Economy), University of Washington, 1996
- MA (International Studies), University of Washington, 1992
- Falcon Certificate (intensive Japanese), Cornell University, 1978
- BA (History, honors), Macalester College, 1977

**Awards**

- Tamaki Foundation Fellow, 1999-2002
- Fulbright Graduate Research Fellow (Japan), 1996-1998
- Hall-Ammerer-Washington Research Foundation Fellow, 1995-1998
- Japan-US Friendship Commission research grant, 1994-95
- Tamaki Foundation fellowship, 1994-95
- Masuda Foundation grant for research in Japan, summer of 1994
- Book Award (for being the top graduate from the Jackson School), 1992
- Foreign Language Area Studies (FLAS) fellowship, 1991-92

**WALTER HATCH****CV/ page three****Other Work Experience**

From April 1998 to September 1999, Hatch served as managing editor of *Social Science Japan Journal*, an internationally refereed journal produced by the Institute of Social Science at the University of Tokyo and published by Oxford University Press. Earlier (1978 through 1990), he worked as a journalist, including a brief stint as a stringer for CBS News (summer, 1980) and a longer period of service (1985-90) as political and business reporter for the Seattle Times.

**Language Ability**

Hatch reads and speaks Japanese – a skill that allowed him to translate an article (“Rigidity and Inefficiency in Public Works Appropriations”) from Japanese to English for the summer 1995 issue of *The Journal of Japanese Studies*; and another (“The Critical Limits of the National Community: The Ryukuan Subject”) for the fall 1998 issue of *Social Science Japan Journal*.

**Current Status**

Tamaki Fellow

(Jackson School of International Studies, University of Washington)

PhD Candidate

(University of Washington)

**Personal**

Hatch was born July 22, 1954 in Seattle, Washington. He is married to Mikiko Amagai and has three children (Kenji; Maya; Teshika).

Home Address:

12346 36th Ave. NE

Seattle, WA 98125

Work Address:

Jackson School of International Studies

Thomson Hall, Box 353650

University of Washington

Seattle, WA 98195-3650

Telephone: (206) 417-6615; FAX: (206) 685-0668

Email: [whatch@u.washington.edu](mailto:whatch@u.washington.edu)