

What has Globalization done to Japanese policy-making? — A study from a transnational perspective

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1. Introduction

Globalization is a word that is most often used to describe almost all aspects of our lives in the 1990 s.¹ The main question of this paper is the globalization effect on Japanese political economy, especially the increasing presence of non-state actors. While the concept of globalization varies widely as discussed later, this paper emphasizes one particular aspect, that is, the significance of non-state actors in international political economy, including their relationship with states. Economic policy-making, whether domestic or

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1 This key word in contemporary literature on social science in general began to appear only in the 1980 s and took its full force in the 1990 s, though George Modelski discussed 'globalization' much earlier in the context of the expansion of the European-led trading system along with political, ideological, and other influences (Modelski, 1972). For the debate of global economy, though it is far from an exhaustive list, Boyer and Drache (1996); Ruigrok and van Tulder (1995: especially chapters 6 and 7); Stubbs and Underhill (1994); Veseth (1998).

foreign, cannot neglect the influence of non-Japanese, non-state actors to various degrees. This is not to say that non-state actors are going to replace the role of state actors. Instead the paper focuses on the question of when and where non-state actors matter and how the role of the state is changing accordingly.

Studying international settings in order to understand domestic politics is a common practice in the discipline of International Relations. Globalization, seemingly the most essential force that determines the current international setting, has accelerated the process of obscuring the separation between domestic and international political economy, on which most theoretical IR frameworks are based. The academic trend was such that domestic sources of foreign policy have been more extensively studied than the impact of international forces on domestic politics (Milner and Keohane, 1996: 7-10).² Simultaneously, however, international politics is often considered a significant determinant in domestic politics. 'The second image reversed' (Gourevitch, 1978) still remains influential (Milner and Keohane, 1996: 6). As the 'g-word' prevails in the international political economy, its impact on domestic structure has attracted much attention. In practice, vast amounts of economic transactions across borders occur, including those among multinational corporations and international business alliances, which invariably

2 Many analyses of domestic explanations of international politics have been theoretically based on Kenneth Waltz's second image of international relations. Waltz (1959) argued for three levels of analysis (individual, domestic, and international) that greatly contributed to theoretical frameworks of international relations.

affect domestic policy-making in one way or another. The question is, to what extent do such transactions matter in domestic politics? Does it also change the role of the state? And if so, how?

Transnational relations, as later defined, shifts the focus from exclusively state-to-state relations, which is the core of *gaiatsu* (foreign pressure), to other kinds of cross-border transactions.³ By taking a transnational approach, this paper focuses on the involvement of non-state actors in domestic decision-making.

2. Globalization's effect on domestic politics--reintroducing transnational actors

The word globalization often appears as a description rather than an analytical concept, describing a certain phenomenon in various fields, such as interactions among states, capital and production, environmental concerns, and various social movements spread via the internet. A large list of concepts of globalization includes the globalization of financial markets, corporate strategies, technology, consumption patterns, regulatory capabilities and governance, world politics, and socio-cultural processes (Petrella, 1996 : 64-6). Even when limiting the discussion to economy alone, globalization prevails in its various aspects, such as market, capital, and production ; and the level of globalization in those aspects differs significantly depending on industrial sectors. In general, many see globalization as economic, social, and political processes occurring

3 Schoppa (1997), on the other hand, proposes that *gaiatsu* 'is nothing more than an umbrella term for a variety of such strategies', to include private actors. (p. 5)

across borders, carried not only by national governments but also by various actors who interact across borders (such as international non-profit organizations, multinational corporations, and transnational business alliances). I follow this description of globalization with an additional emphasis on the global 'rules of games' that induce various actors (state/non-state, political, economic) to participate in 'games', whether cooperative or competitive, which have rules set globally instead of nationally or locally. The result of such globalization is 'a general shift ... (that) has favoured markets and firms rather than states, and that the hegemony of one or a few states is unlikely to constitute an adequate basis for world economic order.' (Wyatt-Walter, 1995 : 75)

While globalization is a popular idea for academics, business people, journalists, and politicians, some doubt the inflated image of globalization. Naturally, it is not as simple as saying that globalization alone can explain the changes and shape of the Japanese (or any other country's) political economy in the last few decades. Nor is it the case that the globalization effect is found in the same form in other countries. The role and nature of the state is one aspect in which the advocates and sceptics of globalization differ. While some emphasize that the nation state system is no longer the only regime comprising international political economy (Strange, 1996), others reinstate the significance of state power (Weiss, 1998). The previous stage of internationalization differs in that the nation-state system itself was not questioned at the time. As a result, The term globalisation suggests a quantum leap beyond previous internationalisation stage.' (Ruigrok and van Tulder, 1995 : 119). In viewing

policy-making, state actors are primary players by definition, and the state structure determines the policy-making process. Globalization has, however, made domestic systems more vulnerable to international non-governmental organizations; domestic structure may be effected by changes in transnational relations (Katzenstein and Tsujinaka, 1995).

Regarding world economy, it is easy to perceive the increase in the flow of trade, especially intra-firm transactions by multinational corporations, and the even faster growth of global capital markets that are obvious signs of globalization (Milner and Keohane, 1996 : 11-14). The globalization of production is the most direct evidence that can be detected from the growth of manufacturing FDI, and even more significant is the expansion of the international capital market. In one definition, globalization supposedly refers to the increased international mobility of capital and the growing incidence of mergers and acquisitions and strategic alliances. (Ruigrok and van Tulder, 1995 : 119).

Among various industries, however, only a few are practicing 'globalism' in all aspects of sales, production, personnel, research and development, and financing. Individual firms often seek for localization of their activities along with their 'global strategies' (Veseth, 1998). Only a handful of multinational corporations specifically target the global market instead of focusing on several local markets, and operate their production globally rather than having local production independent and separate from production in other areas. Wade (1996) gives macro-level evidence to counterclaim the globalized economy. Therefore, globalization is not a universal phe-

nomenon, but it differs depending on sectors and firms rather than on states (Strange, 1997).⁴

Global economy may be more substantial in determining the business strategies and activities in concrete terms than studying the effect of global politics on domestic politics. Political issues in one part of the world affect people in different parts of the world (Nye, 1999: 24-6). However, any significant impact of issues far away from Japan on Japanese politics is hard to see. Japan is more concerned with missiles from North Korea in terms of international security matters than the wars in Kosovo or Chechnya. In the arena of international politics, Japan seems to detach itself from external expectations (Itoh, 1998). In that sense, regional concerns are stronger than 'global' problems or problems of other regions, which affect individual countries relatively thinly. Conventional diplomacy or international politics does not seem to be easily replaced by globalization.⁵

Despite these various arguments, Japan clearly plays an important part in the change surmised as globalization. The movement of capital, people, information (the amount of electric and electronic

4 Furthermore, globalization is deepening the schism between the wealthy and the poor both within and without the state-border. Cross-border trade and investment take place among the triad, namely North America, Western Europe, and Japan, and other newly industrialized economies; while the Third World, especially Africa, is totally left out from the growth. For this reason, globalization is partial and unstable (Petrella, 1996).

5 Alternatively, US foreign security policy may require global perspectives because of the American involvement in different regions.

communications), and goods in and out of Japan have grown dramatically (Hirano, 1997 : 95-8). Especially in the economic sphere, Japan, being a superpower despite the 1990 s downturn, has a significant influence on and is being subjected to the impact of the global economy. The fact that Japan's position in international politics is less important than its economic power reflects the way Japan is involved in globalization. Fukai (1997) describes the influence of systemic change (globalization) on Japanese domestic politics, including the loosening of the 'iron triangle', namely the power coalition of political, administrative, and business elite. In place of the old-time, hierarchical structure that gave order and immobility to various business sectors, a new dichotomy between winners and losers has appeared in some areas, which is deemed a direct consequence of globalization.

Policy-making is also affected by this trend of globalization. In the context of the Japanese political economy, external influences from abroad have been considered one of the most important factors. *Gaiatsu* is a term usually used in conjunction with state-level interactions. Studies of *gaiatsu* tend to evolve around the US trade policy towards Japan, while private economic interest groups in the US are the driving force of such state actions (Schoppa, 1997 : 8 ; Calder, 1993). Schoppa (1997) emphasizes the importance of understanding how foreign pressure operates within the Japanese political economy, though his approach focuses singularly on bilateral relations and is indifferent to factors such as the compatibility of the Japan-US bilateral negotiations with the multilateral WTO regime. Schoppa faults most works on *gaiatsu* for treating it as one of many

factors that determine Japanese policy, making an analogy with the black box model. I am not trying to contest the importance of opening the black box; instead I suggest to add another factor in the policy-making process on top of domestic and international pressures, which is the transnational factor. While Schoppa introduces 'synergistic strategies' to Americans, he nevertheless stresses that domestic pressure is fundamentally different from international pressure. However, the existence of transnational actors whose nationality is not clear-cut makes the strict differentiation between domestic and foreign pressures difficult.

State decision-makers are highly sensitive to exogenous factors including *gaiatsu*, while non-state actors have invested much effort to increasing their level of participation and influence in policy processes. The transnational approach emphasizes these activities of non-state actors in the international arena. Borrowing Risse-Kappen's definition, transnational relations are regular cross-border interactions of which at least one party is not a representative of the state, such as government, nor an intergovernmental organization (Risse-Kappen, 1995: 3). In correlation with this definition, transnational actors usually mean non-state actors that operate in more than one country and thus transcend any specific nationality.⁶ Typically, they are multinational corporations (MNCs)⁷ or interna-

6 International non-governmental organizations (INGOs) are the most typical transnational actors, though they usually do not include profit-making organizations.

7 I will later come back to the argument of MNCs and transnational corporations (TNCs).

tional non-profit organizations such as the Red Cross, Amnesty International, Green Peace, and other environmental groups.

The significance of transnational actors in the globalized world is widely recognized. Kamo (1997) points out that we must consider the behavioural change of transnational actors in the context of the new global order after the end of the Cold War, since he perceives globalization as part of the structural rather than the cyclical change of the world structure. Business leaders acknowledge that corporations have been quicker to respond to the world structural change than politicians and bureaucrats (Fukai, 1997: 122-6). Together with the activities of non-profit organizations such as environmental groups, business corporations and other non-state actors have an important role in revising the current situation, described with keywords such as 'post-Cold War' and globalization.

Globalization has reintroduced authorities other than states: Strange (1996) gives examples of international authorities in a wider sense in the areas including telecommunications, insurance, and accountancy. Within the state structure, on the other hand, transnational actors influence the state regulations to lessen their effectiveness (Krasner, 1995: 267-76), although states do play a role in re-regulation (Vogel, 1996). While the Japanese government has supervised such industries with the policies of 'national champion' (in the case of telecommunications) or 'convoy system', in which hierarchical order among firms were kept so that bankruptcy should be kept as low as possible, globalization of capital, market, and production makes governmental control ineffective.³

One of the systemic approaches, 'new mediaevalism', also views

transnational actors as a crucial factor. Technological advancements have eroded the control that the state can resort to over its territory, which leads to an interesting comparison between the mediaeval and post-Cold War periods (see examples given by Krasner (1995)). New mediaevalism is a system of overlapping authority and multiple loyalty (Tanaka, A, 1994 ; Bull, 1995). Despite great differences between the contemporary and mediaeval periods, the fact that the nation state does not monopolize power and that different actors play significant roles in rule-setting, as well as participating in various events in the political economy, describes both eras.

As the globalization effect differs among different areas and sectors, the degree of significance of transnational relations also depends on domestic structure (Risse-Kappen, 1995 : 6, 19-28). While there are some extremists who consider that nation states are no longer important (Ohmae, 1995), most academic debates maintain that states are still relevant. The question is how far non-state actors have gained influence over issues that used to be under the exclusive power of the state. The transnational approach is one way to observe the balance between the state and non-state actors. Reflecting those transnational perspectives, the next section considers how Japan accommodates for globalization, and how that in turn affects the policy-making process and structure.

8 Regarding the 'little or no bankruptcy' policy, there are studies which reveal that there is no concrete evidence that Japanese banks let firms fail less than US banks. See Ramseyer, 1994.

3. Policy-making in Japan

When considering the Japanese policy-making structure, the question of Japanese uniqueness emerges without fail. While there is a school which underscores Japanese uniqueness – most notably revisionism – it is also pointed out that the transformation of the Japanese economy is part of the process of the convergence of the world economy.

Those who are almost frantic about the globalization effect tend to see the national economies converging, particularly to the American model of capitalism and market economy. The rise of deregulation arguments in Japan as well as elsewhere is one sign. Ernst and Ravenhill (1999) discuss that convergence occurs selectively even in an industry with fierce global competition, and yet predict that in the future the tendency towards convergence will be stronger.

Alternatively, some focus on the existing national diversity despite the globalization effect on domestic structure. Weiss argues that state-denial as a corollary of globalization is a fundamentally Anglo-American institution (Weiss, 1998:3). Berger and Dore (1996) collect arguments that recognize convergence as well as those that insist on national divergence, including the Japanese examples for both. Many studies of Japanese multinational corporations find that they are different from those of other national origins, thus highlighting national diversity among transnational businesses (Mason and Encarnation, 1994).

The diversity of such arguments suggests that some sectors and areas of the Japanese political economy strongly retain their national characteristics, while other sectors indicate the signs of con-

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vergence towards the so-called 'global standard'. Therefore, this paper hypothesizes that the issue-area in which transnational actors have more influence are heading towards convergence, whereas other issue-areas that have little involvement from transnational actors may maintain national diversity, at least for the time being.

Domestic structure--arena for transnational actors

A domestic system is like a lens that refracts the influence of transnational actors: different domestic systems receive transnational actors in a different way. The traditional explanation of the Japanese domestic system is that the iron triangle of bureaucrats, politicians, and big businesses dominate policy-making. Therefore, transnational actors must face the Japanese bureaucracy in the process of penetrating the domestic system. In this sense, the state seemingly remains in a position to determine a significant part of the domestic system.

On the other hand, studies of the Japanese political economy, including numerous case studies, have revealed that bureaucrats are not as dominant in the policy-making structure as often thought, even though one does not deny that bureaucrats are important actors in the Japanese political economy as a whole.⁹ In recent

9 Approaches to the Japanese political system are usually categorized into three groups: elitist model, pluralism, and corporatism. Tsujinaka (1997) argues that while the Japanese system used to move towards corporatism (that he called corporatization) in the 1970s and the 1980s, it has now been shifting more towards pluralism since the end of 1980s.

years, despite the loud cries for deregulation from both within and without the country, Japanese bureaucracy is only very gradually releasing its power. Furthermore, market liberalization necessitates re-regulation, thus enabling the bureaucrats to remain influential (Vogel, 1996). Boyer and Drache emphasize the importance of the state as a regulator of markets, since 'a market is only viable in the context of the larger social and political order.' (Boyer and Drache, 1996: 8) 'A country's industrial strategy is...the determining factor in doing well in the global economy rather than the so-called 'market forces' operating out of control.' (Boyer and Drache, 1996: 23) In this regulatory respect, the state *does* matter in economic activities, and globalization is changing the state's role, but not snatching it up from the state to give it to the market.

In the policy-making process, bureaucratic, political, and economic elite are essential decision-making actors. I use the term decision-making in the sense that decisions should include those by the state as well as by private corporations to the extent that such decisions are significant determinants in the Japanese political economy as a whole. Although the series of scandals since the end of the 1980s have seriously damaged the image of the bureaucrats and it was hoped that administrative reform would curtail bureaucratic power, a significant part of the policy-making remains in the bureaucracy. The Ministry of Finance (MOF)¹⁰ and the Ministry of International Trade and Industry (MITI) maintain supervisory func-

10 The Financial Supervisory Agency, a splinter from MOF, took over the function of regulating the financial sector in 1998.

tions over economic activities. The Basic Law on Administrative Reform of June 1998 did set up the schedule for the restructuring of the bureaucratic agencies, but it has been criticized since it hardly curtailed the jurisdiction of the bureaucracy.

While some argue that the political turmoil since 1993 has given bureaucrats in policy-making even more discretion than before, there are attempts to strengthen the politicians' roles in policy-making to restrain bureaucratic power. Politicians, especially *zokugijin* (tribe politicians) in the LDP before 1993, have been considered to be the main actors in the policy-making process. Regarding the new entrants in the policy process, Fukai (1997) collected opinions from policy-makers (though her collection of interviews excluded politicians) that the dominant policy network in Japan has gone through a transformation in the 1990 s. The participation of labour became more visible when the Social Democratic Party joined the coalition government with the LDP, *Rengo* (Japan Trade Union Confederation) managed to unite the major labour unions, and its leader acquired a more active role in politics. In practice, however, the SDP failed to present a coherent political party, and *Rengo* could not resolve internal divisions. Therefore, the influence of labour on Japanese policy-making remains limited.

The third group, the business elite, consists of a strong interest group and is considered to be part of the power structure of Japan. Kubota (1996 : 52-3) stated that the big business system in Japan, namely *zaikai*, tends to function as a stumbling block for foreign firms to penetrate into the Japanese system. He pointed out the continuity aspect of the Japanese system as a challenge to the argu-

ment that Japan is experiencing a radical change.

Notwithstanding globalization, which implies radical changes in many aspects of the Japanese political economy, these actors comprise the core of the policy-making structure in Japan; thus, the relationship that transnational actors form with these actors is the key for the former to penetrate into the decision-making process in Japanese political economy.

Penetration of transnational actors

The way transnational actors influence those decision-makers are various. Pressure from international organizations is usually aimed directly at the government. International organizations compose one category of transnational actors, though the members of such an organization are often state-representatives.¹¹ The World Trade Organization (WTO) and its negotiations and decisions, for example, are very important in trade policy-making. The WTO decision of 1996 on Japanese liquor tax, for example, forced the Ministry of Finance to implement tax-system reform.

Another important group of transnational actors is multinational corporations (MNCs). According to the studies of international business/management, definitions of MNCs shifted their focus over time. In the 1960s and 1970s, the emphasis was on the internationalization of production. Japanese companies extending their

11 On the other hand, international non-governmental organizations (INGOs) are increasingly important and active participants in decision-making for issues such as human rights and the environment.

production facilities abroad at the time were mostly small- to medium-scale manufacturers and deemed less global in their management compared to their western counterparts. Instead, significant portions of international business by Japanese companies were in the hands of export-oriented companies (as opposed to those who produced in foreign countries) and trading houses. Since the 1980 s, however, MNCs have been companies that own or control value-adding activities in more than one country (Westney, 1999 : 20). Transnational corporations (TNCs), on the other hand, 'are enterprises which own or control value-added activities in two or more countries. The usual mode of ownership and control is by...FDI, but TNCs may also engage in foreign production by means of cooperative alliances with foreign firms.' (Dunning, 1993 : 1) This paper does not differentiate such MNCs and TNCs in order to concentrate on the question of the impact those corporations have on the Japanese political economy.¹²

Japanese MNCs at home are already part of the decision-making system, but in addition to that, their cross-border activities and 'new diplomacy' (Stopford and Strange, 1991) which they culti-

12 While it is fairly common to use the terms MNCs and transnational corporations (TNCs) interchangeably (Dunning, 1993 : 4), some emphasize the location of actual power which controls the corporations, rejecting the 'multinational' concept as creating an illusion of equality among sites for cross-border corporations (Strange, 1996 : xiii). Yet other definitions of 'global', 'multinational', and 'transnational' enterprise are used, as they are different stages of the 'transnationalization' of business (Ruigrok and van Tulder, 1995 : 138-9).

vate with the host governments of their overseas businesses, are also important factors in Japanese policy-making. In other words, foreign direct investment (FDI) that would create jobs abroad helps those Japanese firms have a good relationship with the host government and the local community; thus, Japanese firms gain additional leverage in foreign economic policy making.

Ernst and Ravenhill stated that '*Globalization* is shorthand for the rapid increase in transnational flows of trade and factors of production that has led to a growing inter-penetration of national economies' (Ernst and Ravenhill, 1999 : 38). Their studies deal with production networks in the Japanese electronics industry, and find that the 1990s have seen the deepening of localization in those companies. Foreign subsidiaries gained more autonomy from their parent headquarter in Japan, the ratio of local supply has increased, and the ratio of reinvestments from Japanese affiliates is now much higher than US and European counterparts. The more Japanese subsidiaries gain independent operations, the less the activities of Japanese MNCs can be applied to governmental guidance from home. Instead, their own business strategies may replace the industrial policy led by MITI.

In order to penetrate into the Japanese market, foreign MNCs may choose specific corporate strategies, such as international corporate alliances and foreign direct investment, which would increase their influence on Japanese domestic policy-making. The inward flow of FDI in 1998, however, was 1340 billion yen,¹³ com-

13 11 billion US dollars at the rate of 120 yen to 1 dollar. Same rate for the following.

pared with the outward FDI in the same year of 5217 billion yen (\$43 billion). Accumulated Japanese FDI in 1998 was worth 31.2 trillion yen, whereas foreign firms accumulated only 3 trillion. This imbalance suggests the weak presence of foreign firms in Japan. Therefore, the function of foreign MNCs in Japan is totally different from those in developing countries.

FDI is not the only measure of the transnationalization of a firm. Crystal (1999) argues that in the context of the service industry, international corporate alliances are more or less the only practical way of gaining market access abroad. In his description, it appears that international corporate alliances do not necessarily prevent domestic firms from taking a protectionist attitude, while they simultaneously establish friendly relationships with foreign firms.

In contrast, Hiwatari (1995) suggests that strategic alliances may replace the state in the role to managing trade friction. In the Japanese context, corporations establishing international alliances expect to mitigate trade friction, though this is not always the case. (See the section 4.)

While the general overview above suggests that transnational actors matter in economic policy-making, the following two sections consider sectoral differences in the level of participation by transnational actors in policy-making.

4. Trade and industrial policy for the automobile sector

The automobile industry in Japan has generally maintained its international competitiveness throughout the 1990s despite the recession, although the division between winners and losers among

domestic competitors was clearer than ever. The industry's strength in coping with the globalization of markets, production, and capital derives from the development of transnational relations that individual manufacturers cultivated. State policy-making is not irrelevant yet the once popular, mercantilist view of MITI does not explain the dynamics of the industry of the 1990 s.¹⁴

Domestic politics

Although Mair's analysis of Honda focused on the aspect of business strategy, the complicated nature of the relationship between the industry and the state was reiterated (Mair, 1997). Industrial and trade policy for the automobile sector is in the hands of MITI, even though various studies have questioned the degree to which MITI determined the shape and post-war success of the Japanese automobile industry.

Looking at individual policy-making processes, however, the independent activities of the industry, such as launching foreign direct investment, are significant components of the policy process.

14 The seminal work on MITI by Chalmers Johnson applies to the period up to the recovery from the Oil Shock in the 1970 s (Johnson, 1982). Although his work has been tremendously influential in the studies of Japanese industrial policy and the wider political economy of Japan, it has also been criticized for its overemphasis on MITI's role. Inoguchi and Iwai (1987 : 3, 5) suggested that Johnson reflected too much on MITI officials' lamentation and nostalgia over the era up to the 1960 s when MITI controlled the overall industry via capital allocation. Also, see Okimoto, 1989.

Each Japanese firm that has built manufacturing facilities in host countries usually establishes solid relations with the foreign governments. Such transnational relations between Japanese private firms and foreign governments are crucial factors in questioning MITI's initiatives.

With the assumption that export is the key for industrial development, T. Tanaka (1994) asks if it was the economy of the scale or the entrance of new competitors which enabled the Japanese automobile manufacturers to export. At the inceptive period of the Japanese automobile industry in the 1950s, the government (MITI) did not contribute to increase the manufacturers' ability to export; MITI preferred fewer manufacturers, thereby controlling the domestic competition. MITI was more co-operative in nurturing the economy of scale for the two giants, while encouraging domestic mergers for medium-sized firms.

Despite MITI's preference, the medium-sized firms such as Honda and Mitsubishi led in technological innovation and succeeded in expanding their size and market share without direct support from the government. MITI's initiative in automobile policy has been further questioned, as the MITI-Toyota war was rumored since 1992 (Noguchi, 1993).

On the other hand, Tanaka's analysis shows that the most important period for the development of the Japanese automobile industry (the 1960s) experienced the enlargement of the scale of firms, while the new entrants or accelerated competition within the domestic market seemed to take place in other times. While MITI tried to pursue the industrial structure with two giants (Toyota and

Nissan), other manufacturers resisted such governmental policy and sought for international alliance with US manufacturers who, in turn, wanted to penetrate into the Japanese market (Hiwatari, 1995 : 174-5).

Transnational relations at work on policy-making

Foreign direct investment was the most significant factor in establishing transnational relations between Japanese manufacturers and foreign governments. The US automobile exports to Japan grew, as the US government lobbied strongly with US auto manufacturers in pressuring the Japanese government to open its market. The large portion of such US exports, however, consists of products from Japanese transplants in the US. Simultaneously, such Japanese cars made in the US have been exported to the European market. France and other member states of the European Community had a quota system for Japanese car imports ; thus, the US government had a stake in selling such cars as American cars so that the restriction did not apply to them (Mair, 1997 : 85-6). Therefore, the interest of the Japanese automobile makers is represented by not only MITI but sometimes even US trade officials who are usually fierce foes at US-Japanese trade conflicts.

Regarding their operation in Europe, Japanese automobile manufacturers launched FDI in the European Community in the late 1980 s, largely as a response to the Single Market Programme. In addition, prior to the Plaza Agreement of 1985, FDI was not economically viable due to the exchange rate, which set yen low. That situation changed in the mid-1980 s. The level of the Japanese

capital flowing out in the shape of FDI can be described by saying that the 1980 s were centred on the recycling of Japanese trade surpluses (Petrella, 1996 : 70)

Britain was the most popular destination among EC countries for Japanese manufacturers. Along with technical reasons such as language, labour cost, and infrastructure, Japanese auto-makers were attracted to the investment chance in Britain because of the British government's promotion of inward FDI. Britain's Department of Trade and Industry encouraged Japanese companies to build factories ; but local governments, especially in economically depressed areas, were also enthusiastic about the opportunities to increase jobs. Since part of the reason for FDI was to alleviate trade friction, Japanese manufacturers tried to become 'local' even in a social context, involving themselves in community activities.

More importantly, pressure from other EC members (especially France) made the manufacturers raise the local content of their products. Prior to the 1992 Single Market Programme, France had a 3 per cent quota for Japanese cars in its automobile market.¹⁵ When Nissan began production of Bluebird at its Sunderland factory in 1986, with annual production capacity of 100,000, France warned that those cars contained less than 80 per cent of locally-

15 Italy, Spain, and Portugal also had national quotas set by their respective governments, while Britain's Society of Motor Manufacturers and Traders had a gentlemen's agreement with the Japan Automobile Manufacturers Association to limit the Japanese market share to 11 per cent. Other EC member countries did not have official restriction on Japanese car imports.

produced parts, and thus treated them under the import restriction applied to Japanese cars. The British government strongly opposed such treatment, arguing that the rule of origin did not depend on the local content criteria and that an agreement between a transnational firm and the host government determines the percentage for local content. In this case, as the previous custom among EC countries, the British government and Nissan agreed to 60 percent local content in making the 'British' Bluebird. While the dispute was brought to the EC level, it was resolved with a 'voluntary' decision by the Japanese manufacturers to raise the local content as the French demanded.¹⁶

Such an alliance between the British government and Japanese firms helped MITI at the international negotiations with the EC Commission to decide how to treat Japanese imports after 1992, which was documented in the Elements of Consensus between Japan and the European Community in 1991.

Business alliances also redraw the dividing line of the nationality of interests. As the major markets (North America, Western Europe, and Japan) are mature and saturated, there are increasing numbers of cross-border corporate alliances as a way to survive. Recent cases include the merger of Nissan and Renault in March 1999. Both companies have been closely linked to the state (especially Renault having been state-owned), and the deal inevita-

16 In addition to Renault's merger with Nissan, France now receives FDI from Toyota, which indicates a significant change in the French automobile policy in the second half of the 1990 s.

bly involved the state decision-makers. It is speculated that the main reason for Renault's decision was that the former acquired MITI's word that Nissan should not go bankrupt. In this sense, MITI remains crucial in determining the industrial structure. Compared to the 1970 s, however, when MITI opposed to the deal between Mitsubishi and Chrysler (the plan was revealed in 1969), the fact that MITI approves and even encourages foreign ownership of Japanese automobile company is a great change and signifies the involvement of transnational relations in policy-making.

Also, an international corporate alliance is one way to increase the economy of scale for the participating firms. While the government tried to enlarge the size of the corporations via domestic mergers in the 1960 s, and domestic firms did not respond, it seems that it is the globalization effect, enhancing the international competition in the 1990 s, that motivated mergers to increase the economy of scale. In this sense, the industrial policy-making is shifting from purely domestic considerations towards including transnational factors.

5. Financial sector

As shown in the second section, finance is considered as the most globalized sector, to which national governmental control has eroded most prominently. Japan also pursues deregulation for its financial market, which is in accordance with one of the definitions of globalization (Ruigrok and van Tulder, 1995 : 139).¹⁷ The finan-

17 Ruigrok and van Tulder cite the definition by Charles-Albert

cial Big Bang, named after the British financial liberalization in the 1980 s, has been launched, though the depth of the reform is widely questioned.

Consequential influence, however, need be distinguished from actual participation in policy-making. The financial crisis which swept over Southeast Asia in July 1997 influenced the Japanese financial sector severely. The crisis, however, did not make policy, but required policy response. On the other hand, rating agencies such as Standard & Poor and Moody are likewise not policy-makers, but have a more direct impact on policy-making, as the reputations those rating agencies create for individual companies may determine the strategy of the latter.

G 7 meetings among finance ministers are also significant determinants in the Japanese financial policy-making process. However, because G 7 is an intergovernmental institution, it does not qualify as a transnational actor according to the definition above. The Bank for International Settlements (BIS), in contrast, is a transnational actor and has direct impact on the policy-making process. Its standard for banks to facilitate an 8 per cent capital-debt ratio, for example, was the most crucial determinant for the troubled Japanese banks to change their expansion strategy and retreat from international markets. For this aspect, a rule set by a transnational actor determines banks' behaviours to the extent that such a tran-

Michalet that globalization is 'the deregulation of national financial markets and the subsequent internationalization of capital flows.'

snational actor regulates the banks in place of the state. In this sense, the policy process has partially shifted to the transnational actor from the state.

The Japanese financial sector expanded its operation abroad in the 1980s, but the burst of the bubble economy forced many banks to retreat from their overseas operations. While the internationalization of Japanese banks received much hype in the second half of the 1980s, it now seems that the convergence of the Japanese banking industry to a global standard never took place. The non-performing loans they made during the bubble economy have so far prevented Japanese banks from becoming truly transnational.

In terms of the regulation policy towards the banking sector, until the collapses of major Japanese banks and security firms (such as Yamaichi Security and Long Term Credit Bank), MOF took the policy of the convoy system, by which the least competitive company would not go out of business; thus, the order and hierarchy within the industry was maintained. In contrast to the close supervision by MOF of Japanese banks, foreign banks and security firms have much less contact with MOF officials and participate little in policy-making.

Therefore, despite the globalization of the capital market, Japanese financial policy-making has involved little transnational relations, which reflects the level of the globalization of the Japanese financial sector.¹⁸ In contrast, the Japanese manufacturing sector

18 Katzenstein and Tsujinaka (1995: 86) argue that the Japanese domestic structure is the reason for the long delay in financial reform in adjusting to financial globalization elsewhere.

has experienced globalization in a way that firms, at least the successful ones, have established transnational relations with foreign governments and pursued international corporate alliances that in turn become transnational actors to influence domestic policy-making. In fact, a micro-level study revealed that it is not only Japanese banks, but to a certain extent their North American and Western European counterparts, that 'have tended to follow (and facilitate) rather than to precede the internationalisation of industrial firms, but at a considerably lower level of internationalisation.' (Ruigrok and van Tulder, 1995 : 167).

6. Conclusion

The contrast between the banking and automobile sectors indicates an answer to the question stated in the introduction. Transnational relations do matter to domestic policy-making, but to what extent they matter depends on various issue areas.

Regarding the financial sector, Japanese banks have converged less to the global economy and developed less of a transnational network than some manufacturing businesses. Further liberalization of the financial institutions and the effect of the Big Bang may prompt their transnationalization. Even though Japanese banks are withdrawing from international operations, they are nevertheless highly volatile to the movements of international market. While competition with foreign banks, even within the Japanese market, has stimulated the Japanese banking sector, and the MOF's financial policy reflected such competition, transnational actors have thus far not seemed to participate in policy-making.

On the other hand, the manufacturing sector, which contains a high proportion of exporting, shows a deeper involvement by transnational actors in the policy-making process. Industrial policy is mostly in the hands of MITI, while industrialists themselves have their own private business strategies that influence the state policy. The government's policy reflects the reality to which private business actors are directly exposed rather than the government taking the initiative in deciding the industry's direction. Taking the case of the Japanese automobile manufacturers that launched foreign direct investment towards the European Community in the late 1980s, the relationship they established with the host governments was one of the most essential determinants in MITI's trade policy-making.

The new diplomacy, typically found in the manufacturing sector, seems to have subdued traditional diplomacy. In the area where this new diplomacy is active, policy-making inevitably involves transnational relations. Transnational policy-making here means that the relationship Japanese business corporations have established with foreign actors (state or non-state) influences the domestic policy-making process. In the above comparison, it seems that the more the sector has adjusted to globalization, the deeper they involve transnational policy-making.

In conclusion, non-state actors, especially transnational actors, are influential in certain areas of Japanese policy-making. What is often described as globalization can be seen in considerably different forms depending on sectors. Focusing on transnational actors is one way to understand such differences.

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