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1990s' Japan: The Lost Decade?

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Cover Photo
The Institute of Social Science, the University of Tokyo.

Back Cover Photo
Sign at the entrance to the Institute of Social Science ("Shakai Kagaku Kenkyūjo," often abbreviated as "Shaken").

Editorial Notes
Personal Names
All personal names are given in the customary order in the native language of the person unless otherwise requested. Hence in Japanese names, the family name is given first, e.g. Toyotomi Hideyoshi, and in Western names the family name is given second, e.g. George Bush.

Long-term readers may recognize the front and back cover photos of this issue of *Social Science Japan*, as they are the same photos we used back in September 2000 for the front and back covers of SSJ Number 19. In that issue, Professor Kikkawa Takeo introduced the Institute of Social Science's institute-wide joint research project on 1990s' Japan, "The Lost Decade?," which was launched that year. In this issue of SSJ, Professor Kikkawa is back, along with four other professors of the Institute who have been working on the "Lost Decade" project, offering summaries and updates on the progress of their research. Professor Kikkawa discusses findings from his research on Japanese corporations, and Professor Nakagawa Junji describes changes in Japan's international trade policies in and after the 1990s. In a comparative light, Professor Osawa Mari compares Japanese social policy with that of other countries, from the perspective of gender, and Professor Suehiro Akira compares corporate restructuring reforms, social welfare, and family businesses in East Asia, Latin America, and Eastern Europe/Russia after the economic crises which occurred in the 1990s. Finally, Professor Tanaka Nobuyuki analyzes the state of Chinese reforms from the 1990s and thereafter. As might be expected, these reports suggest that far from being "lost," the 1990s witnessed many important economic, social, and political changes in Japan and elsewhere, while pointing out that there is still plenty of room for further reform.

With this issue of *Social Science Japan* we bid farewell to two of our editorial committee members: Professor Ishida Atsushi and Suginohara Masako. I would like to thank Ishida-Sensei and Suginohara-San for their invaluable help over the past years, and wish them the best of luck with their future endeavors!

As always, if you are not a current subscriber, but would like to receive *Social Science Japan* by airmail, please email us at ssjinfo@iss.u-tokyo.ac.jp, with the words "SSJ subscription" in the subject box, for a free subscription.

Thomas Blackwood
Managing Editor

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Japanese Corporations in and after the "Lost Decade"

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The 1990s were a difficult period for Japan, marked by economic stagnation and political convolution. More importantly, the feeling that Japan lacked the ability to carry out vital reforms became widely accepted during the course of the decade. From this perspective, the prevailing opinion is that the 1990s were not merely a "difficult decade," but a "lost decade," during which Japan missed an opportunity to reform.

One wonders, however, whether the above view is, in fact, entirely accurate. The latest institute-wide joint research project of the University of Tokyo's Institute of Social Science (*Shaken*), "The Lost Decade? Reappraising Contemporary Japan," takes this question as its point of departure. The project's overriding goal is to empirically investigate exactly what did, and what did not, take place in Japan during the 1990s, based on the understanding that this period witnessed and brought to light a remarkable number of structural changes with long-term implications.

Shaken's project is distinguished by the following three features:

- The first feature is its interdisciplinary aspect. This, of course, is demanded by the research topic, i.e. Japanese society in the 1990s, which requires a solid and comprehensive analysis. To this end, our research incorporates the perspectives of a variety of academic disciplines, including economics, management, politics, law, education, and sociology.

- The second feature is the project's international dimension. This dimension introduces the elements of correlation and comparison. Through examining the mutual effects of changes in the international framework and trends within Japan, international comparisons will be drawn, and not only with developed countries. Countries and regions that will be comparatively analyzed are Japan, America, the European Union, East Asia (including China), Latin America, and Russia and Eastern Europe.

- The third feature is its logical consistency. The project aims to construct a new explanatory framework that will be able to integrate the positive evaluation of Japanese society from the oil crises to the mid-1980s with the negative post-bubble evaluation.

The term "lost decade" was mainly used to describe the stagnation of the Japanese economy and the lackluster performance of Japanese corporations in the 1990s. Even today, more than ten years after the collapse of the bubble economy and five years after the close of the 1990s, the Japanese economy and Japanese corporations are still wandering in a labyrinth from which there does not appear to be any easy exit. One significant factor behind the protracted troubles can be traced to the fact that the true cause of the crisis of the 1990s has yet to be fully elucidated.

We have yet to see an explanatory model of the

Japanese economy and Japanese corporations that can set forth, with consistency and in an integrated manner, why and how the following three phases came about in Japan: (1) the "success" of the Japanese economy and corporations from the mid-1970s to the mid-1980s; (2) the "bubble economy" from the latter half of the 1980s through the early 1990s; and (3) the "failure" of the Japanese economy and companies since the early 1990s. In fact, of the major theoretical models that have been presented to explain phase (1), none have succeeded in explaining phases (2) or (3).

The results of examinations conducted in our research strongly suggest that the true nature of the Japanese crisis in the 1990s was not one of the economic system as a whole (or the corporate system as a whole) but rather one of the financial system (or the corporate financial system). Considering the continuation of Japan's large trade-balance surplus through the 1990s, it is highly likely that the production system remained fundamentally sound and healthy, while the financial system plunged into crisis. If so, it would be inaccurate to lump the production system and the financial system together and conclude that the Japanese economic and corporate systems were "successes" in phase (1) but "failures" in phases (2) and (3). Rather, it should be argued that the production system was a "success" through phases (1), (2) and (3), while the financial system has been a consistent "failure."

Only by adopting this original and accurate view of history does it become possible to construct a model to explain phases (1), (2) and (3) in a consistent and integrated way. From the perspective that the true nature of the crisis Japan confronted in the 1990s was one of the financial system, and that the production system remained sound during the same period, the prescription to solve the crisis is simple: reform the financial system and maintain the production system as is.

It will not be easy, however, for the Japanese economy and corporations to put the above prescription into effect. At the very least, the following four actions will be necessary for the rebirth of the Japanese economy and corporate system:

(a) Skill-building in equity finance by both businesses and banks,
(b) Overcoming the "investment suppression mechanism" which came into effect after the Oil Crisis,
(c) Shifting to an enterprise strategy combining product power with services in order to increase revenues, and
(d) Building an economically rational international division of labor with East Asian economies and enterprises.

These four actions are closely connected to one another. Actions (c) and (d) depend on action (b), and action (b) requires action (a). In other words, to achieve a rebirth of the Japanese economy and Japanese corporations, we must begin by embarking on reform of the financial system, including action (a).

Regarding the issue of precisely how the Japanese financial system should be reformed, it is important, above all, for businesses to acquire know-how in equity finance. In the post-bubble years, Toyota Motor Corp., the Ito-Yokado Co. Group (including Seven-Eleven Japan Co.), Sony Corp. and Nintendo Co. have often been cited as exceptional companies. Other than the fact that they have been successful in their main lines of business, one thing they have in common is that they all have achieved innovation in corporate finance, and acquired adequate know-how of equity finance. This means that Japan does have domestic models to draw upon for the acquisition of equity finance know-how.

Furthermore, with respect to reformation of the Japanese financial system, the answers must be applicable not only to business corporations, but also to financial institutions. In this respect, it is important to reform the financial industry and establish two main pillars: (A) universal banks with strong international competitiveness, and (B) healthy regional banks with the capacity for meticulous monitoring.

Competitive universal banks, engaged in both securities and the banking business, are needed to cater to the equity finance needs of major corporations. When the Industrial Bank of Japan (IBJ) aired a plan for a business tie-up with Nomura Securities Co. in 1998, expectations mounted about the prospect of a full-fledged universal bank emerging in Japan. However, this tie-up never materialized, and IBJ instead opted for the creation of a mega-bank through a merger with Fuji Bank and Dai-Ichi Kangyo Bank in 2002 (the result was the Mizuho Financial Group). Nevertheless, the Japanese megabanks, as they exist today, are unable to serve as parent organizations for universal banks because of their weaknesses in securities as well as in international operations. In recent years in Japan there are increasing business opportunities for universal banks against a backdrop of growing equity finance needs, as shown by the number of initial public offerings (IPO). In most cases, however, foreign-affiliated financial institutions have won these opportunities. The foreign financial institutions have also recruited a great number of highly qualified personnel from the IBJ.

Healthy regional banks are necessary to accommodate the demand for credit by small businesses as well as start-up companies. Unlike major corporations, small businesses remain highly dependent on bank borrowings as a means of funding. The same can be said of individuals creating new businesses. In order to respond accurately to these funding demands, banks need to give full play to their capabilities for meticulous monitoring, by reasonably limiting their geographical spread and ensuring an intense exchange of information with borrowers. In this respect, healthy regional banks such as 77 Bank in Miyagi Prefecture, Shizuoka Bank in Shizuoka Prefecture, 82 Bank in Nagano Prefecture, and Chugoku Bank in Okayama Prefecture may be able to serve as models. Unlike the case of internationally competitive universal banks, Japan already has domestic models for regional banks.

As made clear by the above review, when considering ways to reform the Japanese financial system, there are domestic models to draw on for business corporations with strong equity finance know-how, as well as for excellent regional banks with the capability for strict monitoring of borrower companies. However, we have yet to see the emergence of vanguard companies that can present themselves as models for a universal bank with strong international competitiveness. What is most crucial today for the revitalization of the Japanese economy and corporations is the emergence of internationally active universal banks involved in both securities and banking operations.

Japan's International Economic Policy Change in the 1990s: Contradiction or Advancement?

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Two important paradigm shifts took place in Japan's international economic policy in the 1990s. One was a shift from solving bilateral trade conflicts through negotiations to solving them on the basis of agreed-upon rules. The other was a departure from multilateral trade liberalization towards bilateral and regional trade and investment liberalization under FTAs (free trade agreements) and EPAs (economic partnership agreements).

A key episode in the first paradigm shift was the Japan-U.S. dispute on automobiles and auto parts, which culminated in Japan's resorting to the then newborn dispute settlement procedure of the WTO (World Trade Organization), in May 1995. The U.S., after suspending customs clearance procedures for Japan's luxury cars as Section 301 countermeasures, finally agreed to terminate them, mainly due to fear of defeat at the WTO. Though bilateral negotiations between Japan and the U.S. have not been eliminated since then, the two countries have come to resort to the WTO dispute settlement procedure to solve their bilateral trade and investment disputes, such as over Japan's liquor tax and its quarantine regulation of apples, or the U.S.'s 1916 Antidumping Act, or its safeguard measures on steel products in 2002, to mention a few.

Japan, as one of the "big four" core members of the WTO (the other three members being the U.S., the EU, and Canada), has a right as well as an obligation to formulate and implement its trade and investment policy according to the rules of the WTO. Settling its trade conflicts under WTO dispute settlement procedure was a natural consequence of its strong support of the WTO system. METI's (the Ministry of Economy Trade and Industry) Annual Reports on Unfair Trade Practices of WTO Members (first published in 1991) have emphasized its preference for the so-called "rule-based approach" over the "results-oriented approach" of its trading partners, the U.S. in particular.

However, this paradigm shift has been neither easy, nor consistent since 1995. In May 1995, just before the settlement of the auto/parts dispute, the four major Japanese auto manufacturers announced their "Global Plan," in which they stated their intention to purchase foreign auto parts to the extent of what the U.S. government had demanded in negotiations. Though the Japanese government denied its official commitment to the "Global Plan" in the final agreement, it was clear that the "Global Plan" was the key to the final settlement of the dispute.

Formal departure from negotiated solutions accompanied by informally negotiated deals at the initiative of private sector actors was reiterated in December 2001, when the Japan-China Welsh Onion War was finally settled. The War was triggered by Japan's initiation of the safeguard investigation of three agricultural products (Welsh onions, shiitake mushrooms, and *tatami* rushes), most of which were imported from China. Soon after Japan's decision to impose provisional safeguard measures on these products in April 2001, China raised tariffs on automobiles, mobile phones and air conditioners exported from Japan as a countermeasure. After the expiration of the provisional safeguard measures, the two governments finally reached a negotiated deal in which Japan promised not to impose definitive safeguard measures, and China eliminated its countermeasures. According to the final settlement, the two countries established the so-called Japan-China Agricultural Trade Council, consisting of representatives from both governments, producers, and traders of the agricultural products. This Council has had several meetings since then, and has functioned as an orderly marketing mechanism informally endorsed by both governments.

Thus, Japan's first paradigm shift is, in this respect, incomplete at best. Policy inertia and pragmatism in the private sector may explain this. Moreover, a similar evaluation may be made of Japan's second paradigm shift of the 1990s.

Ever since its accession to the GATT (General Agreement on Tariffs and Trade) in 1955, Japan put the utmost emphasis on multilateral trade and investment liberalization under the framework of the GATT and the WTO. It had avoided entering into negotiations for bilateral or regional liberalization, with the exception of APEC (Asia-Pacific Economic Cooperation), which it entered under the slogan of "open regionalism," with the understanding that trade and investment liberalization in the framework of APEC would be applied to non-APEC members on an MFN (most-favored nation) basis. However, in the late 1990s, Japan began to increasingly put more emphasis on trade and investment liberalization at bilateral and regional levels, and the Economic White Paper of 2000 openly announced Japan's policy shift towards concluding FTAs and EPAs with its trading partners, especially in Asia. Its first EPA was concluded with Singapore in 2001; the second was formed with Mexico in early 2004, followed by one with the Philippines in late 2004. Furthermore, at a meeting with ASEAN (Association of Southeast Asian Nations) Economic Ministers in January 2002, Prime Minister Koizumi announced his determination to establish an "Asian Community," consisting of Japan and the ASEAN member countries, which had recently expanded to include Viet Nam, the Lao Republic, and Cambodia.

It was clear that one of the major motives behind Japan's policy shift was its concern about the race towards regional integration elsewhere throughout the world. In Europe, the 1993 inauguration of the Maastricht Treaty (signed in 1992), the introduction of a common currency (the Euro) in 1999, and the EU's eastern expansion in 2004 all showed steady steps towards the creation of a "single Europe." In the Western Hemisphere, the NAFTA (the North American Free Trade Agreement—entered into force in 1994) and the comprehensive FTAA (Free Trade Area of the Americas) initiatives showed that the U.S., the most powerful supporter of the multilateral trade and investment liberalization framework represented by the WTO, had also decided to turn towards regional economic integration.

In Asia, particularly East Asia, regional economic integration was initially not on the agenda. However, at almost the same time that Japan announced its drive towards regionalism, the ASEAN member states, Korea, and China all made public similar policy intentions, and there have since been numerous ministerial meetings and joint statements, as well as academic conferences, dealing with the possibility of regional economic integration in Asia, under a variety of titles and frameworks, such as "ASEAN plus Three" (Japan, Korea, and China), "East Asian Community," or simply, "Asian Community."

This race towards regionalism in Asia, and particularly the efforts by China, is indubitably another driving force behind Japan's policy shift. Japan has established wide and strong economic relationships with China and ASEAN countries. The necessity to compete with, not to mention counter, Chinese hegemonic policy moves in Asia was another important motive for Japan in moving towards regionalism in Asia.

Again, however, Japan's paradigm shift in this respect is incomplete. Japan has not eliminated its decades-old policy preference for multilateralism in trade and investment liberalization. In Geneva, it is one of the most reliable supporters of the Doha Development Agenda, in spite of its timid behavior in negotiations in agricultural trade liberalization. In Paris, Japan is one of the toughest negotiators in subsidies regulation and regulatory reform initiatives.

A key challenge for Japan, therefore, is not whether to choose regionalism or multilateralism, but how to coordinate the two policies. For example, METI and

MOFA (Ministry of Foreign Affairs) need to decide how many of their personnel to devote to FTA/EPA negotiations, as well as how many to use in Doha Development Agenda negotiations and WTO dispute settlement cases. Under administrations where the priority is "small government," this is a very tough question.

Bifurcation in both policy paradigm changes is, therefore, both a reality and a challenge. As I mentioned earlier, this is a question regarding efficient human resource management on the side of the Japanese government. However, the core question is how to establish a coherent and persuasive policy framework to justify and promote Japan's current bifurcated policies. The challenge is here, and time is running out.

Comparative Social Policy Systems from a Gender Perspective

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1. A Snapshot at the Turn of the Century

The Institute of Social Science's project on "Welfare States under Globalization" has comparatively reviewed, from a gender-sensitive perspective, the characteristics of the social policy systems of major industrialized countries, and the changes that have taken place in them during the past two decades, the 1980s and the 1990s, with a focus on Japan.

Regarding job security, based on indices compiled by the OECD (Organisation for Economic Co-operation and Development) we can note three trends regarding the overall strength of protection against dismissals for regular workers, as well as in the overall strength of temporary employment regulations, starting in the late 1980s and continuing up to 2003. First, in "liberal" countries where regulations were initially weak, some modest reforms have occurred in both the temporary labor markets and in the protection of regular workers (except for the U.S. and Canada). Second, in countries with greater protection against dismissals for regular workers, namely the Netherlands, Sweden, Germany, Japan, and Norway, only the temporary labor markets were deregulated. Third, in Italy, Belgium, and Denmark, countries with moderate protection against dismissals for regular workers, only the temporary labor markets have been significantly deregulated (OECD 2004). Some remarkable consequences of these asymmetrical deregulations are an increase in the gender wage gap on the one hand, and an increase in non-regular employment of women and the young, particularly in Japan, on the other.

The proportion of part-time workers among employees in Japan in 2003 was 42.2% for women, and 14.7% for men, both figures being the third highest in OECD countries. Japan has significant gaps in working conditions between full-time and part-time workers. As companies tend to hire part-time workers simply as a cheap labor force, they receive significantly lower wages than full-time workers, even if they are assigned the same tasks as full-time workers. In the early 1990s the hourly wage for female part-time workers was 72.0% that of female full-time workers, and in 2003 it was only 65.7% (*Danjo Kyōdō Sankaku Kaigi Eikyō Chōsa Senmon Chōsakai 2004*: charts 38-2, 68-2). Compared with the full-time worker's (median) wage level, the hourly wage for part-time workers was 93.1% in the Netherlands, 92.3% in Sweden and 87.5% in Germany in 1995, and 74.5% in the UK in 2000; in the U.S., however, it is only 62.5% (1996) (OECD 1999, p. 24; Cabinet Office 2003, p. 19).

Some particularly pertinent aspects, from a gender-sensitive point of view, of income security in old age include: income replacement rates for different types of households, pension-splitting between divorced spouses, and a concrete design for survivor benefits. According to an estimation of income replacement rates[1] conducted by the Pension Bureau in the Japanese Ministry of Health, Labor and Welfare, male

1 The ratio of standard monthly old age benefits for households of pensioners who have been insured for 40 years (the longest possible time to be insured) to the average monthly regular pay for full-time male or female employees, respectively.

breadwinner households are treated most favorably in the US, with Japan second, and the UK third. In Germany, on the other hand, the income replacement rate is flat at 43%, regardless of household type, as it is in Sweden where the rate is estimated as 38%. The German and Swedish plans are simply income-related, without internal redistribution, and can be characterized as industrial "achievement/performance" types.

Second, pension-splitting between spouses at divorce was first enacted in Germany in 1976, when their Civil Code was reformed and a no-fault divorce system was introduced. In Germany, not only statutory pension benefits but also occupational as well as individual pension benefits are divided, and the principle of pension splitting was further extended by the Pension Reform Act of 2001, with the introduction of income-splitting between spouses on an optional basis, if they have been married longer than 25 years. It was not until 1999 in the UK, and 2004 in Japan, that any system of pension-splitting at divorce was introduced. In the US, there still is no pension-splitting at divorce, although a divorced person can receive a "spousal pension benefit" based on the ex-spouse's contribution (at 50% of the benefit of the insured), if they have been married for 10 years or longer.

Third, Japan clearly has the most generous widow's pension scheme in terms of entitlement, level, and continuity of benefits. Entitlement to survivor benefits is explicitly different according to gender in Japan. For a young bereaved wife, the survivor's basic pension will be granted if she has a child younger than eighteen years old, and an employee's survivor pension is granted irrespective of the widow's age or the existence of children, while a bereaved husband cannot claim a survivor's basic pension at all, nor an employee's survivor pension if he is younger than 55 years old. As for the level and the continuity of the benefit, even a very young childless widow can receive life-time benefits, based on her deceased husband's nominal 300 months' contribution, if her income was less than 8,000,000 yen the year the husband died. This overt gender disparity in the survivor's pension scheme has been in existence since 1965.

In sum, Japan and the US have old age pension schemes strongly centered on the male-breadwinner household, rewarding women for primarily being economically dependent wives, rather than for mothering (in the US) or for labor market participation (in Japan). The German scheme is remarkable in its consistency in pension-splitting between spouses and preferential measures for child care, rewarding women for mothering.

2. Routes in the 1980s: Policies for 'Building a Japanese-style Welfare Society'

How we have come to this situation is the next question. Since the early 1980s, western welfare state regimes have been challenged by a growing mismatch between existing institutions of social protection on the one hand, and new needs and risks associated with changing economic and demographic conditions such as slower growth, deindustrialization and population aging on the other. Among the several hypotheses on recent directions taken by various welfare regimes in responding to those challenges, Gøsta Esping-Andersen emphasizes their "divergence." In the first model, social democratic regimes adopted the "welfare as investment" strategy and promoted greater balance between work and family life for both women and men through public family support and vocational training (the Scandinavian route). In Anglo-Saxon regimes, deregulation in the labor market with wage erosion was promoted, and the selectivity of social services was reinforced (the neo-liberal route). Finally, conservative regimes intensified the dual ("insider-outsider") structure of the labor market, and reduced the employment rate, particularly through subsidized early retirement (the labor reduction route) (Esping-Andersen 1996, chap. 1; Esping- Andersen 1999).

According to Esping-Andersen, "Continental Europe is the clearest case of impasse" (1996, p. 24), because its labor reduction policies mean growing pension and labor costs for the shrinking number of male insiders, and the inevitable continuation of dependency on male breadwinners by women and children. The intensified insider-outsider structure itself poses obstacles to post-industrial needs for greater flexibility of labor markets and the family (Esping-Andersen 1996, pp. 79-80).

Though this view of three routes offers a convenient way to understand the different types and trajectories of welfare regimes, the Japanese case is difficult to classify. During the 1980s, the Japanese government made extensive "reforms" in all measures of social security and welfare services under the slogan of "Building a Japanese-style welfare society," thereby intensifying the big company-centered "male breadwinner" model (Osawa 1994), but importantly without reducing the labor supply. The 1990s saw the introduction of all three routes in a partial and indecisive way, as I discuss in the next section.

In reality, in the mid-1980s dual income households were outnumbering male breadwinner households in Japan, and male age-wage profiles became flat under slower economic growth. Reforms in the 1980s, however, went against both the "de-commodification" route that reduces dependency on the labor market (the employer) by establishing the security of livelihood as an individual's social right, and the "work/life balance" route that promotes equal employment legislation, individuals as the unit of assessments, and support for double income households.

It is true that the Equal Employment Opportunity Law was enacted while female worker protection clauses of the Labor Standard Law were relaxed in 1985. Japan ratified the UN Convention on the Elimination of All Forms of Discrimination against Women in the same year. The original EEOL stipulates only that employers "make efforts" to treat women and men equally in recruitment, hiring, placement, and promotion, and prohibits discrimination against women in education and training, occupational welfare, retirement, and discharge without sanctions. The Japanese EEOL adopted the weakest policy possible among various equal opportunity laws in different countries, a policy that acquiesced gender discrimination.

3. The Lost Decade

For Japan, the 1990s may have been "the Lost Decade" not only in terms of structural reform and economic growth, but also as far as social security reform is concerned. No significant moves were made throughout the 1990s to either improve the gender-based wage gap or increase the ratio of women in managerial positions. Increase in female employment has been due to the rising number of non-regular, mostly part-time, workers (Osawa 1994; Osawa 1998).

In the meantime, Japanese-style management and employment practices have gone through restructuring that was initiated mainly by management associations amid severe global competition. The heyday of the "male breadwinner" model is gone for good. Many corporations have actually revised their wage/promotion systems, and shifted to meritocracy in assessing their employees' salaries. Nevertheless, according to indices of employment performance devised by Miura Mari, Japan in the 1990s can still be considered akin to a variation of continental European countries, rather than a member of Anglo-Saxon countries. Miura emphasizes that "the Japanese version of the male breadwinner model is distinctive in the sense that the participation rates of women are high, but their wages are low," and that women as atypical workers constituting a low-wage sector "sustain the co-existence of a highly regulated labor market and high employment rates" (Miura 2001, p. 10).

Some legislation regarding the promotion of a gender-equal society, however, deserves our attention. Promoting a gender-equal society was deemed "the key" and "one of the pillars" of Prime Minister Hashimoto's Six Major Reforms (Osawa 2000). The Child/Family Care Leave Law was enforced and expanded (in 1991, 1995, 1997), and the "ILO 156 Convention regarding the equal opportunity/treatment of women and men with family responsibilities" was ratified in 1995. In 1997, with the call for deregulation of employment, "Protection Provisions for Women" were abolished from the Labour Standards Law, which led to reform and strengthening of the Equal Employment Opportunity Law (effective April 1999). The Basic Law for a Gender-Equal Society, which contained the fundamental philosophy that "no person shall be discriminated against on the basis of gender," was enacted in June 1999. These legislative measures are illustrative of Japan's possible transition towards the "work/life balance" model. This, aside from the scale of the budget and the robustness of policy enforcement, parallels the "Scandinavian route."

While hints of the Scandinavian route can be found in the above reforms, changes with regard to social security fell short of the Scandinavian strategy of "Welfare as an investment." The Long-term Care Insurance Law, enacted in December 1997 and enforced in April 2000, was the only major reform in social security in Japan during the 1990s. Despite its many problems, the introduction of public long-term care insurance can be considered a step towards the "Scandinavian route" or "work/life balance" model since it is moving in the direction of "support by the entire society" rather than relying on unpaid care provided by female members of the family. A revision made by the ruling parties in the latter half of fiscal year 1999, however, undermined the very core of the Long-term Care Insurance system even before it took effect.

In the autumn of 1999, the Liberal Democratic Party's policy chief, Kamei Shizuka, contended that long-term care insurance services could destroy "Japan's admirable (*utsukushii*) tradition of children taking care of their parents." Based on this viewpoint, the government adopted "special measures for the smooth implementation of the long-term care insurance system" in November 1999. This exempted people in the insured category Class 1 (65 years and over) from paying premiums for the first six months, and reduced their payment to 50 per cent for the following twelve months (Osawa 2000). Kamei made a further call to impose restrictions on the provision of housework services for elderly people residing with their family. As of June 2000, the Ministry of Health and Welfare adopted a policy to restrict housework assistance when providing in-home visit services (Nihon Keizai Shimbun, 20 June, 2000).

In sum, the "Lost Decade" of the 1990s saw the introduction to Japan of all three routes in a partial and indecisive way. First, Japan adopted elements of the "work/life balance" model or the "Scandinavian route" by promoting the participation of women and men in the labor force and socializing long-term care. Second, it adopted elements of the "neo-liberal route" by promoting deregulation of certain areas of the labor market. Third, it adopted elements of the "conservative route" in the sense that the restructuring of employment practices and deregulation of temporary employment further deepened the dual structure of the labor market.

4. Reforms Friendly to Working Women? Concluding Remarks

The Special Spouse Deduction was abolished in January 2004. Furthermore, according to the 2004 Pension Reform Law, it will become possible for employees' pension (the income-based portion) to be split between spouses at divorce, on an optional basis, beginning in April 2007, and the survivor's pension paid to a childless widow younger than 30 years old will be limited to a period of 5 years, instead of life-time. However, these pension reforms have again ended up as minor reforms within what remains a basically male-breadwinner type scheme.

In July 2004, the National Police Agency reported that the suicide figures for 2003 had exceeded 30,000 for six consecutive years. Over 70% of the cases were men, with an estimated 10,000 cases involving men in their 40s and 50s. Considering that the total death toll by traffic accidents during the same year was below 9,000 incidents, the suicides of so many middle-aged and ageing men who are "sole breadwinners of their households" is indeed alarming.

The curve of the suicide figures is known to run surprisingly parallel with that of the unemployment rate. And yet, the female rate of suicide has stayed relatively unchanged for the last two decades despite increasing unemployment. Serious recession and uncertain employment prospects, which are plausible causes of the rising suicide rate, seem to hit middle-aged and older males the hardest.

In fact, the burden of the male provider has not eased much despite an increasing number of double-income households. This is because many wives work part-time with low wages, and even curb their annual income in order to remain eligible for tax/social insurance premium exemptions. Besides, in many companies, only shorter-hour, low-paid positions are available to women in their late 30s and older. Equal treatment for atypical workers is quite difficult to attain in the Japanese version of the male breadwinner model, since the sector of low wage female atypical workers is the very cornerstone of the regime.

Thus, not only is the Japanese version of male breadwinner model, like the continental European welfare states, "coming into conflict with the emerging needs of a postindustrial economy" such as greater labor market flexibility and women's demand for and need of economic independence (Esping-Andersen 1996: 68), it also finds itself locked into a negative spiral of women's inability to gain economic independence and men's growing inability to maintain the family, vividly conveyed by the 10,000 middle-aged and older men who take their own lives each year.

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East Asia in a Globalizing World: Economic Crisis, Family Business, and Welfare Capitalism

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In 2000 the Institute of Social Science established a research team on "Comparative Studies of Liberalization, Economic Crises, and Social Restructuring in Asia, Latin America and Russia/Eastern Europe" as part of the ISS joint research project, "The Lost Decade?," focusing on the following three major areas: economic liberalization policies and their relevance to economic crises, corporate restructuring reforms after crises, and social policies, including social security systems, in crisis-hit countries.

Research on the first area, economic liberalization policies and their relevance to economic crises, has been carried out in collaboration with Professor Nakagawa Junji's group ("Managing Development and Transition in a Globalizing World"), which is comparing the ways of managing development and transition in the three major regions in our study. Between 2001 and 2004 our joint work has produced the following reports: *Comparative Studies of Liberalization, Economic Crisis and Social Restructuring in Asia, Latin America and Russia/Eastern Europe: Part I New Perspectives on Critical Issues* (in Japanese), edited by myself and Komorida Akio, ISS Research Series No. 1, December 2001; (2) *Comparative Studies of Liberalization, Economic Crisis and Social Restructuring in Asia, Latin America and Russia/Eastern Europe: Part II Chronology*, edited by myself and Nakagawa Junji, ISS Research Series No. 2, March 2001; (3) "Special Issue: ISS Symposium on Managing Development and Transition in a Globalizing World" in *The Journal of Social Science*, Vol. 52, No. 5, March 2001; and (4) *Managing Development and Transition in a Globalizing World (II): Corporate Behavior*, edited by Nakagawa Junji, ISS Research Series No. 13, March 2004. Moreover, our joint team plans to publish a book, including work by foreign contributors, from Routledge Press later this year.

Regarding the second area of research, corporate restructuring reforms after crises, we originally planned to study corporate restructuring reforms focusing on the Anglo-American concept of "good corporate governance," which had been introduced to the crisis-hit countries. However, we soon realized that it was difficult to find sufficient numbers of corporate governance specialists in Latin America and Eastern Europe. Thus, in 2002, we reorganized our study team and changed our research focus to the "Comparative Study of Family Businesses in a Globalizing World: East Asia and Latin America," in collaboration with the Institute of Developing Economies (IDE—also known as *Ajiken*). This team, chaired jointly by myself and Hoshino Taeko of IDE (a visiting professor of ISS at the time), has published two books from IDE: (1) Hoshino Taeko, ed., *Hatten Tojōkoku no Famiri Bijinesu: Shiryōshu* (Family Businesses in Developing Countries: Data Collection), March 2003; and (2) Hoshino Taeko, ed., *Famiri Bijinesu no Keiei to Kakushin: Ajia to Raten Amerika* (Management and Innovation of Family Business: A Comparative Study of Asia and Latin America), November 2004. This team continues to pursue research on this topic, and later this year plans to publish a book titled "Top Executives in Family Business: Asia and Latin America."

Interest in this topic, "family business in East Asia and Latin America," is long-standing. Large-sized family businesses, together with state enterprises and multinationals, are often considered essential contributors to the industrial development of developing countries. However, the conventional view insists that the role of family businesses inevitably diminishes in the process of the growth of the national economy and the development of stock markets. For instance, regarding corporate evolution, after examining the ownership structure and management style of the largest 200 non-financial firms in the United States, Berle and Means hypothesized on the tendency of managerial firms to steadily replace family firms in advanced countries in direct relation to the development of a stock market, the separation of ownership and management, and the sophistication of corporate law (Berle, Adolf A. and Gardener C. Means, *Modern Corporation and Private Property*, 1932). Alfred D. Chandler, Jr. (*The Visible Hand: The Managerial Revolution in American Business*, 1977; *Scale and Scope: The Dynamics of Industrial Capitalism*, 1990) also claimed that the rise of industrial capitalism had promoted a shift in dominant corporate organizations from individual firms or family firms to modern industrial firms, which were principally characterized by the development of a hierarchical managerial system and the rise of salaried managers.

Contrary to these conventional arguments, family businesses in both East Asia and Latin America seemingly continue to play a vital role in economic development. In spite of the fact that these countries have already entered the stage of industrial capitalism, family businesses have not only survived, but continue to develop and expand their business bases into a variety of industries, including technology-intensive industries. As illustrated, for example, by *chaebols* (zaibatsu) in South Korea and big family businesses in Thailand, family businesses remain the dominant form of corporate organization, even among listed companies in local stock markets, and serve as key players contributing to the upgrading of industrial structure in the countries concerned. If so, why and how can family-owned firms survive and continue to expand their business activities? This is a major question for us in connection with the changes in corporate activity after the crises.

Our provisional answer is that owners of family businesses have continuously worked to surmount serious limitations in management resources which they face in developing and expanding their business activities. These limitations include the shortage of investment funds for new projects, a limited supply of human resources, and insufficient accumulation of production technology and market knowledge for new products. Facing these constraints, family businesses have tended not only to utilize retained family earnings, but also to mobilize fresh money from local stock markets or from international financial institutions to overcome the shortage of investment funds. Furthermore, they have been active in promoting managerial reform, including the recruitment of able professionals from outside the family, to meet increasing demands for professionalism in management. Finally, when advancing into a new type of industry, they have often introduced cutting-edge technology and necessary knowledge through second- or third-generation family members who have been educated abroad, or otherwise from foreign partners in joint ventures. Thanks to such self-sustained efforts, they have succeeded in transforming their managerial style into a more modern one, clearly distinguishable from a traditional managerial style based on closed and exclusive control of ownership and management.

However, both the introduction of economic liberalization policies and the outbreak of financial crises had a large impact on family businesses in East Asia (including Southeast Asia) and Latin America. Due to government protection of domestic industries, as well as government intervention in the market, foreign firms, including multinationals, had not been strong competitors, but rather acted as good partners in helping family businesses expand their business opportunities. After the government began deregulation and liberalization in the financial sector, the industrial sector, and foreign direct investment (FDI), however, local firms immediately faced direct challenges from foreign firms, even in domestic markets. In addition, currency and financial crises led local firms to financial difficulties, due to the increasing burden of foreign currency loans. As a result, some family business groups were forced to collapse, while others were taken over by foreign partners or foreign newcomers. Those family businesses which survived the crises were also forced to streamline or downsize their diversified businesses into a small number of fields, and exploit their real competitive advantages in the international market.

In addition to the increasing economic power of foreign firms, family businesses also face strong pressure for corporate reform, based on the Anglo-American standards of good corporate governance, initiated by the local governments just after the crises. In exchange for rescuing their credit, the IMF and the World Bank requested the crises-hit countries to force business-owner families to implement a set of fundamental changes in the management of their companies listed on local stock markets. Corporate reforms adhering to the concept of good corporate governance include: information disclosure to outside investors, the protection of minority shareholders' right, the appointment of independent directors of the board, the empowerment of the shareholders' meeting, the establishment of independent auditing committees, and the introduction of new accounting systems. Thus, if they hope to gain access to fresh money from the stock market, family businesses must restructure their management styles in accordance with global standards of corporate governance.

These two factors, enhanced competition with foreign firms due to economic liberalization and compulsory corporate reform after the crises combined to bring about the bi-polarization of existing big family businesses into a group of survivors and a group of losers. Over the past decade, many leading family business groups have disappeared from the business arena in both East Asia and Latin America. Which elements are essential to the bi-polarization of family businesses? What characteristics do the survivors/winners share? What type of family business will survive in a liberalized economy, as well as in a globalizing world? Can we foresee the end of the era of family businesses, and a new era of salaried managers (managerial capitalism) coming up in East Asia and Latin America? Finding the answers to these questions is the principal task of our joint ISS and IDE research team. Both the book we published in 2004 (mentioned above), focusing on innovation in family business, and our forthcoming book, which will discuss the rise of salaried managers in recent times, offer part of our answers to these questions.

Finally, our third area of focus is social protection policy, which has become more important after the crises in the three major regions of East Asia (including Southeast Asia), Latin America and Eastern Europe. Social protection policies here not only mean public social policies undertaken by governments, but also include other significant non-public schemes for social protection, such as company-based social security systems (*kigyōnai fukushi*), and community-based social safety networks. In order to tackle these topics, we invited specialists in the field of social security from various universities and institutions, including IDE specialists on the Latin American social security system, a researcher from the Nissei Research Institute, economists from the National Institute of Population and Social Security Problems, and young scholars from various universities who have been closely watching social policies in China, Taiwan, South Korea and Eastern Europe.

Our two-year joint research produced *Higashi Ajia no Fukushi Shisutemu Kōchiku* (The Structure of the Welfare System in East Asia) edited by Kamimura Yasuhiro and myself as a part of the ISS Research Series in October 2003. This report introduces recent notable developments in state-led social security systems, including nation-wide debates on the welfare-oriented state, national pension schemes, national healthcare insurance schemes, and employment insurance schemes in East Asia. The report includes three papers on South Korea, three papers on Taiwan, two papers on China and one paper on Thailand. In addition to these country-specific papers, the report also includes a paper focusing on the policy agenda of the IMF and the World Bank on the social security system in crisis-hit Asian countries, and a commentary on the East Asian experiences by an expert on the Latin American social security system.

Just before publishing this report in 2003, our team organized another research group to focus on company-based social security systems, in East Asia in particular. This is because, in the process of conducting our literature survey, we found serious limitations in the scope and approach of existing studies on East Asian welfare systems. For instance, while Japanese scholars specializing in social security problems have begun to pay attention to new developments in social policies in East Asia in recent years, they seem to have failed in explaining the real reasons why the governments of East Asian countries have switched their policy target from the promotion of economic growth to the establishment of welfare states over the past decade. Although such scholars provide useful information concerning the development of social security systems in the region, they tend to focus much more on its legal and institutional development, rather than on the domestic socio-political backgrounds behind the rise of the debate on the welfare state. If these scholars hope to further develop their research on this topic, it is not enough, in our view, to simply organize an academic group of experts on social security systems. They should also seek out collaboration with scholars who have accumulated substantial knowledge concerning the region or country.

Likewise, Western scholars have also oversimplified the social security system in the region as an "East Asian welfare model," being characterized by weak and limited involvement of the state compared to the Western experience. With no strong evidence, they simply conclude that East Asian countries have had neither the political motivation nor the social necessity to develop a government-sponsored welfare system until recently, for the following reasons: "economic growth and full employment have been the main engines of welfare," "productive welfare has been the goal," "welfarism has been shunned", and "the family has been accorded a key welfare function" (Holliday, Ian and Paul Wilding eds., *Welfare Capitalism in East Asia: Social Policy in the Tiger Economies*, 2003, Chapter 7).

A similar discussion is found in Gøsta Esping-Andersen's work, *The Three Worlds of Welfare Capitalism* (1990). Esping-Andersen emphasizes the Confucian ethic-based family system as a key factor inhibiting the development of a welfare state in East Asian countries. But we cannot find any strong evidence to support his discussion in his book or in other papers discussing the East Asian case. Like Holliday and Wilding's book, a work edited by M. Ramesh and Mukul G. Asher (*Welfare Capitalism in Southeast Asia: Social Security, Health and Education Policies*, 2000) points out the importance of policies implemented by a "developmental state" which puts first priority on economic growth rather than social security. At the same time, they remark on the complementary roles of both the family and the private sector under a poor government-sponsored welfare system.

When discussing characteristics of an East Asian welfare model, many scholars have noted these two elements of family-based (or sometimes, community-based) mutual assistance and company-based social security systems. However, there are no reliable studies to confirm such hypotheses on the basis of well-organized field research on family structure (i.e., examining who takes care of aged persons in a society, etc.) and company-based social security systems in careful comparison to Western countries. The conclusions of many current studies seem to have been obtained from general impressions and images of East Asian society, rather than field research. For this reason, we decided to organize a new team to conduct comprehensive research on company-based social security systems in East Asia, in particular in conjunction with the new wave of active debates on welfare capitalism.

In order to tackle this task, we started a special project consisting of three different groups of scholars: a group of experts on East Asian social security systems (South Korea, Taiwan, Singapore, and Japan); a group of area study-based economists and political scientists in China, Thailand, Malaysia, Indonesia and Singapore; and a labor economist in the case of Japan. This project is currently designing a cross-country questionnaire on various items associated with company-based social security systems, including: pension schemes, retirement allowances, healthcare insurance, subsidies to employees' family members, food and clothing provisions, and country-specific items regarding such things as religion, etc. After conducting intensive field research for two years, we hope to provide a concrete picture of the company-based social security systems in each country, and then put together data to construct a tentative theoretical framework to explain commonalities and differences in the welfare systems of East Asian countries.

Will Chinese Reforms Accelerate?

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In the latter half of the 1980s, China permitted the transfer of national land usage rights, and in the early 1990s it reorganized state-owned companies into corporations. Through these two measures, the Chinese government became the largest landowner-bourgeoisie in human history, and succeeded in accelerating economic development, a mere half-century after the revolution in which the Chinese people had overthrown landowners and bourgeoisie, and established a state of farmers and workers.

The Communist Party of China should not be criticized for this, however, and Deng Xiao Ping should not be condemned as a traitor of the Revolution. Recent history, beginning with the Tiananmen Square Incident in 1989, the fall of the Berlin Wall, Eastern European countries' secession from socialism, and the collapse of the Soviet Union in 1991, undeniably posed an unprecedented crisis for the Chinese Communist Party. In fact, Deng is now praised in China as a person of distinguished service, who protected Chinese socialism in the face of this crisis.

In fact, whether Deng has protected socialism or betrayed it is not entirely clear. He himself has defined the new, reformed China as a "socialist market economy." To the question of whether that means socialism or capitalism, Deng presents a detached attitude, claiming that it doesn't matter. Such are the manners of an old Chinese style "gentleman." Jiang Zemin, who took the post of leader of the Communist Party after the Tiananmen Square Incident, is surely another example of this type of "gentleman."

As the old-guard cronies who insisted on maintaining the traditional socialist structure and opposed Deng's reforms of the 1980s were called "conservatives" in China, the new cronies of the 1990s were called "neoconservatives." Put simply, the primary difference between a "conservative" and a "neoconservative" depends on whether or not one wishes to maintain socialism. Neoconservatives no longer deny the necessity for reform in and of itself. What they are opposed to is Westernization and globalization, and they insist on the protection of China's unique and rich culture and spirit. However, the reforms which China aimed for in the 1990s were precisely what the neoconservatives were against, i.e. globalization, with the goal of joining the WTO, and neoconservatives criticized these reforms, either indirectly or in part. This neoconservativism was strongly reflected in the Jiang Zemin Administration.

When the Bush Administration was established in the United States in 2000, neoconservatives gained power under his rule, and many assumed that neoconservatives would increase in China at the same time. However, when Hu Jintao took the baton from Jiang in 2002, he expressed a position that was somewhat removed from the neoconservatives, giving many reformers hope that under the new administration China might accelerate reforms towards globalization, but so far such results have not been realized. With the formation of the Hu

Administration in 2002, China abolished several strict regulations which had been in effect until then, and enacted a law allowing the use of foreign funding to reform state-owned enterprises. Furthermore, the administration expressed that it would allow the establishment of incorporated foreign firms, although so far, this has only been allowed in exceptional cases. Although these two measures were highly anticipated as symbols of the new move towards the globalization of China's economy, we have yet to hear any news which suggests that the Chinese economy is, in fact, becoming more globalized. At the time the law was enacted, the mass media—both domestic and foreign—speculated that major American and European companies would want to establish corporations in China right away, but since then such news has been all but forgotten. The reformers' inflated expectations, therefore, are miserably shrinking.

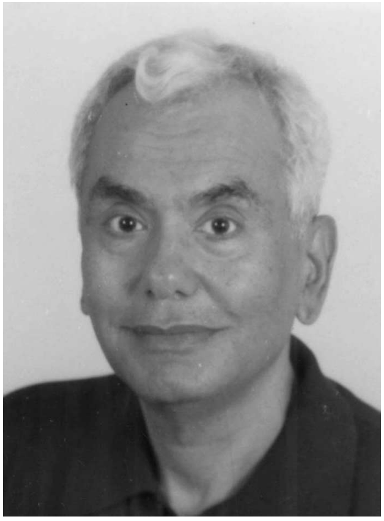
Jiang Zemin's 1997 visit to the U.S. was especially important for China, in light of their goal of joining the WTO. As the Jiang Administration had been facing criticism for being weak on the protection of human rights and democratization, Jiang needed to improve his image somewhat. The administration needed to at least give the impression that it was making serious efforts to improve the political situation in China. So, it made an advertisement, and for material, it chose to focus on what is furthest from the center of political reform: village committee electoral reforms. The Carter Center (sponsored by former U.S. President Carter) cooperated in the reform, and the stage production of the advertisement was flawless. Although, thanks to the advertisements, the democratization of Chinese village "mayoral" elections attracted the attention of people around the world, village committees are in fact only autonomous organizations of farming villages, and to say that the chairman of the committee is "mayor" is somewhat misleading.

On the other hand, even though it is would be hard to say that the Chinese government's intention was entirely noble, the farmers who, for the first time in their lives, experienced this democratic election were very excited, and the democratization of farm village elections spread rapidly across China. The influence of these elections even spread to the elections of local party officials and to the *real* mayoral elections, and put the Party into a panic. In 2002, the year after China joined the WTO, the Party sent out a notice to put an end to the rural electoral reforms. Apparently, they had lost their utility value to the Party. This is a typical pattern of the present state of reforms currently under way in China.

The main reason that the Hu administration, from which the promotion of reform was so highly anticipated, has not been able to meet expectations is primarily due to the aggravation of problems in impoverished farming villages. Although former Prime Minister Zhu Rongji is infamous for suggesting that China should simply sell stock on the Hong Kong market and invest the profits in farming villages, no matter how rich the Chinese government became, it would be quite a challenge to make 800 million farmers well off financially. The problems of farming villages pose a considerably more formidable challenge to reform than neoconservatism. Although the reformers who had such high hopes for the Hu administration complain that reforms would have been carried out much more quickly if only the neoconservatives had not interfered, in all likelihood reforms would have suffered setbacks regardless of the neoconservatives, depending on how the problems of farming villages were dealt with. Whether the Communist Party of China, which has now transformed itself into a huge landowner and capitalist, is going to remain an ally of farmers or not, is about to be tested.

Free Trade Areas in Asia: A Political Economy Perspective

Khairy Tourk



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> "Owing to the enervating climate of Asia, its (barbaroi) inhabitants are not fitted by nature for leadership."—Socrates [1]

> "The likelihood that Asian countries will be divided and ruled by the West or frequently hit by crisis seems quite high...If East Asia does not want to be divided and ruled as in the colonial days and in the more recent past...we (Asians) need to form some types of regional cooperation of our own...Let's have (a) common agenda rather than continuing to be divided and ruled."—Sakakibara Eisuke [2]

Preferential trade and investment arrangements include: reductions in quantitative and qualitative trade barriers, deregulation, and investment liberalization. Preferential trade arrangements comprise regional trade agreements and bilateral free trade pacts. The 1997 South East Asian financial crisis provided a major reason for Asian nations to seriously consider the formation of Free Trade Areas (FTAs) in the region. It would be misleading, however, to treat Asian attempts at economic integration as a mere reaction to the 1997 crisis. The formation of FTAs in Asia is intimately related to the process of modernization in the region. The struggle for modernization in all Asian countries has invariably involved close interactions with vastly powerful hegemons. This was true under Pax Britannica in the 19th century and equally true after 1945 under Pax Americana.

Due to the large inequality in bargaining power between Asian nations and the important trading powers, for decades these nations have been subjected to frequent economic pressures. Given the long history of uneven bargaining power between developing Asian nations and hegemons, it is appropriate to consider the formation of FTAs in the region not as a singular event but as part of a continuum aimed at redressing historical inequities.

Under the liberal trade system of Pax Britannica and Pax Americana international relations were based on realpolitik. The trade system under Pax Britannica was not conducive to modernization. Most Asian nations were unable to industrialize because of their inability to impose protective tariffs. Pax Americana, on the other hand, gave many Asian nations an opportunity to industrialize. It was in Washington's self-interest to see that pro-west nations in Asia modernized their economies to prevent them from

1 Socrates' quote taken from A. D. A. Dekat Angelino, 1931. *Colonial Policy, General Principles,* Vol.1. The Hague : Martinus Nijhoff. p. 223.

2 Sakakibara Eisuke, 2001. "The Asian Monetary Fund-Where do we go from here" in *Proceedings of the International Conference on Globalization* Kuala Lumpur, Malaysia : Institute of Strategic and International Studies, pp. 5, 6.

falling to communism. By allowing Japan and its neighbors to follow a policy of export-promotion in a multilateral trade regime, underpinned by the purchasing power of the huge American market, Washington played a constructive role in the region's modernization. A byproduct of this policy was that over the years the Asian nations have been able to expand trade relations among themselves. This will prove quite advantageous in the formation of Asian FTAs.

After the Plaza Accord in the mid 1980s there was a rise in the power of American domestic pressure groups (i.e. Wall Street investors), which succeeded in making their narrow-minded agenda a top government priority. These groups were able to control the Treasury Department, and through it made the IMF put pressure on developing nations to prematurely liberalize their capital accounts. This proved detrimental to the Asian economies, and caused the 1997 financial meltdown.

The IMF has always been an instrument of American foreign policy. In the post-1945 economic order, Asian nations were completely excluded from having any voice in global financial affairs. Westerners control both the World Bank and the IMF. Asian nations, unlike their counterparts in Europe, were not allowed to determine their own economic agenda. Washington has consistently vetoed attempts to establish any forum that concerned itself with an Asian-initiated economic agenda.

To remedy the above inequities, nations in the region are presently clamoring to form FTAs. The South East Asian crisis was a catalyst that replaced the pre-1997 apathy with a collective determination to find a common vision. There is now a need to counter the emergence of powerful trading blocs such as the EU (1993) and NAFTA (1994). Asian nations, especially with the rise of China, are now realizing that they can attain more of their goals by acting together than by going separate ways.

Neoclassical economics, however, does not look with favor on FTAs. In international trade theory, the conventional thinking is that the multilateral global approach, as represented by the trade liberalization agreements in successive WTO rounds, is the best approach to achieve global free trade. The regional approach is considered second best. Those who worry that regional trade agreements may hinder the achievement of the ultimate objective of global free trade base their argument on the assumption that the larger the regional trade area, the greater its market power and the higher its optimal tariffs and export taxes. According to this view, the regional approach could lead to the formation of large trade blocs which conduct free trade among its members but reduce it with the rest of the world.

I argue, however, that this need not be true if the concept of bargaining power is explicitly introduced to the analysis. If the world is divided into large trading blocs with more or less equal bargaining power, then it would be difficult for a specific bloc to exercise market power. The desire of Asian nations to improve their bargaining position, through FTAs, vis-à-vis NAFTA and the EU does not necessarily mean a reduction in trade with these blocs.

The benefits to the Asian region of forming FTAs are expected to be larger than in other trading blocs in two specific ways: through a significant increase in their bargaining power and through substantial improvements in the quality of policy making. The first benefit would bolster Asian countries' abilities to resist outside pressure and to preserve Asian models of industrial organization. The second benefit is a byproduct of cooperation among FTA member countries in information sharing, learning from each other and, in the very long run, harmonizing their macroeconomic policies. On the political front, the creation of FTAs means that each nation has a stake in their partner's economic interests, thus reducing political frictions. FTAs have also the potential of serving as a regional security framework.

The institutional, economic, and political challenges facing the region, however, are immense. There is a lack of institutional structures serving the cause of integration. On the economic front, the huge disparity in the levels of economic development among Asian nations must be abridged, and the productivity gap between the world class manufacturing sector and other sectors needs to diminish. The financial sector must be strengthened in order to achieve a higher rate of return on the substantial Asian savings. Liberalizing the financial sector while maintaining the basic features of Asian industrial organization is a matter that requires a delicate balance, as well as deft policy making.

There are also the painful memories of the past which must be honestly faced. This is particularly true for Tokyo and Beijing. The two nations should settle past historical issues and prepare themselves for the day when both will jointly carry the mantle of leadership in the region. There is far more that unites Japan and China than divides them. Specifically, deep economic ties are becoming a powerful and uniting characteristic of the two giants. The long-term prospects of the American economy make it incumbent on Asian policy makers to plan for the day when the US is no longer the first among equals. This is a great opportunity, but it can be seized only if Tokyo and Beijing become engaged in the task. It was Galileo, in the sixteenth century, that proved Socrates' physics wrong. In this century, Asia's likely success in integrating its economies is almost certainly going to prove the First Teacher wrong again, this time regarding the supposed inability of Asians to be masters of their own house.

In short, economic forces are pushing the nations in the region to embrace the cause of modernization under conditions that in the long run would help to promote stability and peace. The policy measures undertaken by Asian nations after the 1997 crisis paints a picture of guarded optimism. Notwithstanding the rivalry between Tokyo and Beijing, small countries in the region have been able to bridge the differences between the two powerhouses of Asia. There is now definite willingness to draw on the Asian values of patience, flexibility, relations of trust between policy makers, and personal networking in order to achieve necessary compromises. If this spirit is to continue, this bodes well for the future of Asian integration and to the rise of a vigorous trading bloc that will be able to negotiate with existing ones from a position of equality.

ISS Contemporary Japan Group at the Institute of Social Science, University of Tokyo

The ISS Contemporary Japan Group serves as a forum for researchers on Japan to receive critical feedback on their work. Researchers visiting Tokyo who would like to make a presentation are invited to contact Professor Ishida Hiroshi (ishida@iss.u-tokyo.ac.jp) for more information. Meetings are open to everyone.

The Politics of Postal Savings Reform in Japan

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Thursday, December 16, 2004

A hallmark of the Koizumi Administration has been the prime minister's attempt to privatize Japan's postal services, including the government-backed postal savings system. In this talk Professor Amyx examined the political economy of postal savings reform in Japan, with a focus on solving two puzzles. The first was the extraordinary delay in reforming the nation's postal savings system in a significant way, despite the emergence of reform trends in postal savings systems around the globe since the 1980s. The second puzzle related to why, after such a long delay, the most extreme form of reform--privatization-- has been adopted as an objective of the Koizumi administration. The talk examined the role played by key actors with vested interests in issues of reform at different points in time across the postwar period, highlighting the emergence of newly salient actors and conditions in recent years. By comparing the Japanese path to reform with reform paths taken elsewhere, the talk also shed light more generally on the role of politics in the operation of financial systems in different countries.


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