from the United States, it was certainly more in the economic than the security field: since these turning points, Japan has drawn even closer militarily to the United States, up to and including Koizumi Jun’ichiro’s policies today, as Drifte’s point about Japan’s hedging strategy with China indicates.

If Ito’s approach views foreign policies as rational responses to such seismic systemic shifts, an alternative view might trace the evolution of foreign policies and see Japan’s foreign policy as manifesting continuity based on application by Japanese leaders of the Yoshida Doctrine’s management of the alliance dilemma to specific and changing circumstances. With the latter approach, we would find not only reactions to systemic shifts brought about by major U.S. shifts in policy but also consistent strategy—the major turning points of the 1970s, as well as others subsequently, would become shifts in the environment and opportunities to which Japanese leaders reacted by adapting the principles of the Yoshida Doctrine to the new context using new means. Although not a major, explicit theme in Drifte’s analysis, the Yoshida Doctrine is mentioned more often than in Ito’s work, and in the beginning of the book he notes that it was “the conceptual as well as material backbone of the strategy of engagement, once Japan had normalized relations with the PRC” (p. 21). Drifte’s systemic shift is the gradual and complicated one of China’s rise as a military and economic power and Japan’s evolving response over time, not Ito’s sudden and time-limited Sino-American rapprochement, and thus his approach tends to echo the alternative view because he also identifies continuities in strategy (thus Japan’s “engagement policy”) within the gradual change. He sees the dysfunctional, as well as functional, aspects of both the continuity and the adaptations when confronting China’s particular situation and leadership perspectives.

Drifte’s approach has its own limitations. Because of the long-term evolution of the phenomenon he is studying, evidence for a shift must be pieced together from the myriad and convoluted vagaries of the relationship with no clear conceptual outcomes. Ito’s four models of triangular relations, although primarily descriptive and post facto conceptual, at least provide a theoretical consciousness and elegance to his argument. Drifte’s ad hoc use of the standard liberal, realist, and constructivist models, and his argument that they are inevitably intertwined in any explanation of the reality of the Japan-China relationship, however validly critical and reassuringly pragmatic, cannot have much of a theoretical or heuristic impact because it offers no systematic alternative or hybrid concept. And occasionally, impromptu stereotypical psychocultural interpretations that cannot be substantiated are thrown into the mix (e.g., pp. 16, 152, 171). Also, because the relationship and its shift are still evolving, the evidence presented is sometimes outdated, with data from pre-2000 (e.g., pp. 148–49), and only brief, cursory, and vague references, for example, to recent important phenomena such as the “trade war” between Japan and China in 2001 (e.g., pp. 150–51), the North Korean problem (e.g., p. 161), and China’s and Japan’s more recent complex rivalry for a free trade agreement with the Association of South East Asian Nations.

Neither of these books will be seen as seminal work on Japan-China-U.S. relations or on the theory or development of international relations of the Asia-Pacific or as a definitive treatment of its subjects. They are, however, good empirical studies that provide well-researched, detailed analyses of different kinds of changes and policy shifts in the triangular relationship. Ito’s, with appropriate caveats for this single-case determinism of subsequent events, is a well-done contribution on the Sino-American rapprochement with China and its consequences for Japan. Drifte’s may well have a place as a prescient and important volume tracing the development and origins of the ambivalent but increasingly competitive relationship of China and Japan, and the policy dilemmas inherent in it, subjects that will undoubtedly receive much more attention in the future. Many chapters of these books will be useful for class use, by both the professor and the students.


Reviewed by
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If you slept through the 1990s and missed all of the news about Japan’s economic problems—the implosion of the bubble economy, the stagnant growth, the political turmoil after the split of the Liberal Democratic Party, the Asian financial crisis, the banking crisis, and the government’s attempts to pull the economy out of a debt and deflation dive—Maswood’s book offers a concise and readable chronology to get you up to speed. The story is not a happy one, and it doesn’t yet have an ending, but it makes fascinating reading nevertheless.

Journalists have been covering this story for over a decade, and for just as long analysts and commentators have been offering their instant reactions to the most recent developments in the saga of Japan’s struggle to break out of its prolonged slump. The challenge for anyone writing a book-length study of Japan’s economic problems is to take a step back from the daily headlines and offer coherent answers to two questions: how much progress has Japan made in dealing with these problems, and how can we make sense of the pattern of its response? Maswood does a much better job with the first of these questions than with the second.
Mawson resists the temptation to offer us a strictly negative or positive evaluation of Japan's response and instead gives us an appropriately nuanced view. He argues that in the early years of the decade (up until 1997, to be specific), Japanese bureaucrats and politicians, the nation's banks, and the business community all failed to grasp the seriousness of the economic challenges they faced. They at the end the postbubble recession as a natural corrective following a period of overexuberance, and although they were aware of the volume of bad debt that had been created by the implosion of the stock and real estate bubbles, they expected much of this to be made good when the economy rebounded. Rather than confronting the problems in the banking system or the underlying sources of this problem in the structures of the economy, they chose to wait and hope that a recovery in the markets would cure the nation's ills.

In the period since 1997, after the Asian financial crisis and the failure of several large financial institutions, he sees evidence of a more concerted effort to deal with the nation's economic problems. He credits the Ministry of Finance for the vision behind its Asian Monetary Fund (AMF) initiative in the months after the Asian financial crisis began. He credits Prime Minister Obuchi Keizo and the ruling and opposition political parties for agreeing on a plan to deal with the banks’ bad debt problems in the fall of 1998, in time to avoid a financial crisis. And he credits some of Japan's large companies for biting the bullet and initiating restructuring plans, in some cases by bringing in foreign managers.

Mawson is too attentive to detail, however, to leave us with a narrative that takes a simple "V" shape: decline until 1997 and a positive response ever since. He describes set backs and flaws in each of the three areas he singles out for some praise. The Asian Monetary Fund initiative, he notes, was virtually strangled at birth by American opposition — though it has since reemerged in the form of bilateral currency swap agreements between Association of Southeast Asian Nations (ASEAN) countries, China, Japan, and Korea.

The bank reforms of 1998 did not solve the nation's banking problems but rather postponed the day of reckoning. He discusses how the approach focused on weak banks without doing anything to deal with the problem of weak borrowers, thus requiring the government to revisit the issue repeatedly in the period since 1998. In the area of corporate reforms, he credits firms such as Nissan for acting boldly to restructure operations and return to profitability, but he describes how many other firms have taken a more "timid approach" (p. 80), relying on attrition to shrink the size of their workforce and doing very little to refocus on the firms’ most profitable operations.

While Mawson is to be commended for offering us such a subtle evaluation (one that most mainstream analysts of the Japanese economy would agree with), the same nuance complicates the task of making sense of the pattern of Japan's response. Why has Japan responded where it has and not responded where it hasn't? As suggested by the title of the book, Mawson's answer lies in the concept of "crisis." He sees the 1990s as the latest iteration in a crisis-and-response pattern in Japan's history that dates back at least as far as the Meiji Restoration.

"Japan has always been a poor reformer, changing only after a sharp shock to the system," he writes (p. 8). The Tokugawa bakufu failed to appreciate the magnitude of the European challenge until the arrival of the Black Ships, but once this crisis got the nation's attention, Meiji reformers responded effectively. Similarly, Japan's prewar leaders steered the nation into a devastating war, but in the aftermath of this huge crisis, the architects of Japan's economic miracle responded admirably.

In line with this historical pattern, he writes, "the Asian financial crisis of 1997, as mediated through large-scale bankruptcies in Japan, had a similar if less enduring impact on Japanese policy-makers and facilitated the long-delayed process of reform and restructuring" (p. 8).

The first problem with this emphasis on the Asian financial crisis (AFC) as the trigger of Japan's oft-proclaimed Third Great Reform is that this event — which did the most damage to the economies of Thailand, Indonesia, and South Korea — did not have an impact back in Japan that was in any way comparable to that of the Black Ships or defeat in World War II. According to economic data he himself cites, the AFC reduced Japanese economic growth by just 0.3 to 0.4 per cent (p. 120). No one was killed, and very few even lost their jobs as a result of the AFC, making it hard to believe that this "crisis" could have had an impact in any way comparable to the two earlier ones in the 1850s and 1940s.

Second, even if we bundle the AFC with the failure of several large financial institutions late in 1997 and call this the "crisis," it is not clear the combination had the dramatic effects ascribed to it by Mawson. For some Japanese observers, the AFC and the large bank failures were evidence of the dangers of economic liberalization. The events did lead most to accept that the economic slump Japan faced was deep, but the main reaction of the Obuchi administration — which Mawson singles out for praise — was to loosen the spigots of pork-barrel politics. Obuchi appointed some blue-ribbon commissions that called vaguely for structural reform, but very few steps in this direction were taken on his watch. In 2000, many Japanese (and foreign observers) still clung to the hope that Keynesian stimulus or inflation-targeting could get Japan out of its deflationary crisis without requiring it to adopt structural changes worthy of the title "Third Great Reform."

Even after the economy slipped into negative territory again in 2001 and the Japanese traded in the ineffective leader Mori Yoshiro for the dashing Prime Minister Koizumi Jun'ichiro, it was still not clear that Japan had reached the "crisis" stage: the unemployment rate peaked at 5.5 per cent
(and has since fallen below 5.0 per cent); the nation’s large auto and electronics firms managed to avoid bankruptcy and large-scale involuntary layoffs; the top four commercial banks stayed above the insolvency line; deflation continued, but at a moderate pace that could not yet be called a “spiral”; and public debt was growing, but investors continued to willingly invest in Japanese government bonds at very low interest rates.

If it remains premature to declare Japan “in crisis,” it is similarly too early to argue that Japan has begun responding with the kind of urgency we saw in Meiji or postoccupation Japan. Maswood’s own review of Japan’s reforms identifies numerous areas in which reform rhetoric has not been matched by action.

For all of these reasons, this book is likely ahead of its time. When one of the Big Four banks fails, deflation deepens, large industrial firms file for bankruptcy, unemployment spikes up, and interest rates on government bonds surge in anticipation of hyperinflation, then Japan will finally have experienced a “crisis” worthy of equating to the two earlier episodes. At that time, the government will have to act aggressively in response. The big question for Japan, which Maswood cannot answer because Japan has not yet answered it, is whether it can act in anticipation of this crisis.

**Picking Winners? From Technology Catch-up to the Space Race in Japan.**


**Reviewed by Phyllis Genter Yoshida**

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Saadia Pekkanen endeavors to determine if the postwar Japanese government relied primarily on political or on economic criteria to choose which industrial sectors to favor. Do governments make their selections based on the potential for knowledge spillovers and technology-led economic growth? Or, do governments base their selections on political considerations, e.g., supporting a given industry will get votes?

In her book, Pekkanen takes on and tests aspects of classical trade theory and endogenous policy theory. She rebuts those who argue that the economically troubled 1990s revealed that postwar Japanese industrial policy was unsuccessful and thus irrelevant as a developmental or policy model. Indirectly, she also raises important issues about the effect of both the international environment and industrial competitiveness on a government’s ability to select and implement different types of trade and other industrial policies (TIPS).

She uses quantitative and qualitative measures of the causal effect of TIPS to conduct her study. For her econometric analysis, she selects eight TIPS as dependent variables to measure the industrial selection process across 12 industrial sectors at a two-digit SIC level of aggregation. The eight TIPS are net subsidies, net transfers, tax rates, Japan Development Bank loans, subsidized borrowing, tariffs, quotas, and R&D subsidies. Her independent variables are growth, value-added, wages, spillover potential, votes, _amakudari_, _dantai_, lobbying amount, and TIP legacies. She supplements her econometric analysis with qualitative industry case studies of the 12 industrial sectors.

Pekkanen’s careful analysis successfully demonstrates that Japanese patterns of industrial selection were determined more by the economic potential of an industry than by political factors. She shows only two TIPS “captured” by political criteria, tariffs and subsidized borrowing, a result that is not surprising as these two TIPS are among those most easily used by politicians to subsidize and support individual companies. However, her conclusions, as she herself clearly states, must be seen in the context of the strong consensus among politicians, bureaucrats, and industry in postwar Japan on the absolute need to remain and become internationally competitive by moving into higher value-added sectors and by stimulating technology-led economic growth.

Pekkanen’s analysis makes its biggest contribution to relevant economic theory by developing and applying a quantitative measure to show the importance and consistent use of economic rather than political criteria in selecting industries to support. She also contributes to existing literature through her excellent use of econometrics to compare and evaluate which selection criteria mattered more across all industries—not just one—in the postwar period. In doing so, she takes a complicated and difficult question that scholars have not often attempted to address quantitatively, and successfully tests it. For theorists, the results of her analysis support those aspects of new international economics that, unlike classical trade theory, suggest there are strategic sectors in which wealth may not be competed away or level out over time among nations because of the importance accorded to economies of scale, the advantages of experience, and the potential for innovation (p. 11). This conclusion furthers our understanding of, and perhaps provides justification for, the use of TIPS to improve the international competitive position of domestic industries. The cross-sectoral analysis in chapter three also contributes to existing literature by providing new insights into which criteria were the most important in selecting industries to receive TIPS. While she successfully and correctly chooses to use cross-sectoral