

5 OPEN, SECURE, INFLUENTIAL?

CONTEMPORARY ISSUES IN JAPAN'S

INTERNATIONAL ECONOMIC ENGAGEMENT

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Open borders facilitate economic prosperity but entail risks. Whilst the promotion of further economic openness remains a formal objective of Japanese government policy, this imperative is tempered by politically salient national security concerns that are both broad in scope and deeply complex. Since 2000, a series of diverse and significant negative events—such as terrorism, crime, disease, and economic nationalism abroad—have impacted upon the perceived risks of open borders and reliance upon international supply chains. These developments have given rise not only to demands for specific public policy and private sector initiatives in response to such perceived threats, but have also contributed to a general attitudinal climate in which policy measures to guard ‘national interests’ find ready legitimacy. Economic openness is not inevitable, being strongly contested domestically.

Japan's deep international economic engagement presents a challenging confluence of contemporary risk management issues, but these are easily appropriated by domestic protectionist interests and old-fashioned nationalists. Expansive, and heightened, national security concerns have led to Japan's scope for influencing its international environment becoming

a more explicit object of policy. Japan exhibits strong concerns about being what may be termed 'open, secure, and influential' in its international economic engagement. This chapter explores the imperatives behind, the deep tensions within, and the prospects for, these aspirations.

Japan's recently more uncertain international political environment, and its policy responses, have been well explored from conventional security perspectives. The threat of cross-border terrorism, regional tensions involving a rising China, an autarkic and paranoid North Korea, and a more self-confident Russia impact on Japanese perceptions of national security. Japan's historical concern with resource security has renewed currency with the rapid growth of China and India as rival customers for energy and raw materials, in a context of a near global resurgence in economic nationalism in relation to the resources sector. More generally, the ever-growing dependence of the Japanese corporate sector on cross-border supply chains, foreign production locations and markets make the attenuation of threats to such cross-border business operations a growing concern for Japanese firms and policymakers. Threats include political and regulatory risk, infrastructural limitations, inadequate protection of property rights, crime and corruption, and growing competition for essential business inputs (energy, basic materials, human resources, rights to technology and brands etc.). Other operating risks emanate from the physical environment, such as natural disasters, from the scale, connectivity and mobility of modern human environments—such as contagious disease and other phyto-sanitary threats—and from growing political awareness of issues of environmental sustainability.

From a business perspective, impacts of diverse negative events such as the SARS epidemic, terrorism, mad cow (BSE) disease, and natural disasters are experienced by firms directly through operational disruptions and, indirectly, through the responses—measured or otherwise—of managers, insurers, investors and regulators. From a public policy perspective, many of these cross-border risks are compounded by national rivalries, principally intra-regional. International cooperation is less than fully forthcoming for joint efforts to address cross-border risks to national welfare. National pursuit of supply chain certainty through forward integration abroad (such as through controlling equity stakes) and controls at home, collectively

may compound perceived overall uncertainty in the international business environment. Many of the contemporary international risk issues are characterised by a high level of technical complexity; with understandings shared amongst international networks of experts—often state employees—across regions. This has significant implications for the scope and nature of public policy prescriptions, the forms of international cooperation, and raises important questions about the efficacy of bilateral and regional approaches.

The international mobility of many contemporary knowledge-intensive Japanese enterprises makes salient a much broader set of policy preferences than when Japan was primarily an exporter of manufactures. For instance, foreign investment regulation (including those pertaining to cross-border mergers and acquisitions), intellectual property and corporate law regimes, product and business regulation, and tax treatment of royalties and license fees can impact as heavily on firms abroad as tariff regimes. The imperative for policy reciprocity, in turn, potentially makes these same issues contentious within Japan. Whilst change in Japan's preferred loci of negotiations—from multilateral to bilateral initiatives—attracts much attention, equally important is the shift in Japan's priority issues.

Leading Japanese enterprises potentially are significant contributors to the resolution of apparent conflicts between the imperatives for fewer barriers to international trade and more secure societies. Japanese firms are leading providers of information and communications technologies (ICTs), especially hardware, that may permit the simultaneous facilitation of desirable cross-border mobility whilst strengthening capacities for legitimate border protection. In the aftermath of 9/11 the US government has given unprecedented policy and financial support to technological applications aimed at enhancing homeland security. Applications providers, in turn, are scrambling to meet this opportunity, and to align products and systems with established corporate demands for more efficient ICT-enabled cross-border supply chains. The pursuit of 'traceability' through radio frequency identity systems (RFIDS) (also known as IC tag) and e-documentation symbolises this heady pursuit of simultaneous efficiency and accountability. Japan is, potentially, at the forefront of this technologically enabled pursuit of a secure but open society.

Consequently, Japan potentially has much to contribute internationally: commercially, through aid for capacity building; and through positive demonstration effects. Yet the scope for creative policy responses might be heavily constrained by residual structures of interests, and the heightened risk averseness and uncertainty avoidance commonly associated with mature economies, an aging demographic make-up, and perhaps with established patterns of Japanese values.¹ Efficiency with assurance (assurance of security and/or effective attenuation of unavoidable but bearable risks) is the key, still not well understood, objective.

Much of the large literature on the determinants of Japan's trade and other policies impacting on its international economic engagement looks primarily to the nation's domestic environment (for example, Mason 1992; Warren 1997). Whilst developments in the international environment are profoundly important, and have contributed significantly to policy change, such influences are generally manifested through a domestic political economy (for example, Yoshimatsu 2000, 2003). Good accounts abound of the roles of private interest politics, bureaucratic interests and turf wars and, somewhat less systematically, public interest ideas concerning national economic development, in shaping policy outcomes. They accord with a substantial international literature, both comparative and country-specific, that examines the domestic politics of trade protectionism (Odell 1990; Milner and Yoffie 1989). The role of countervailing domestic private interests in promoting foreign trade liberalisation in various countries is also well understood; as is the interdependent nature of trade policies and structures of domestic economic interests (Milner 1988; Rogowski 1989; Odell, 1990; Simmons 1994). Although these studies emphasise the concrete material interests of domestic constituencies, the important role of ideas and imperfect information as an explanatory variable is also recognised (Breton 1964; Anderson and Garnaut 1987; Machan 1992). Consumers, and sometimes even producer interests, may have an imperfect understanding of their interests (Bates and Krueger 1993).

The discussion that follows in this chapter assumes an important explanatory role for both private interests, including those manifested by and through public institutions, and public interest ideas. The potentiality of political and policy entrepreneurship for reform can be readily

conceptualised in these terms; as the Koizumi administrations attested to the importance of (Mulgan 2000, 2002). Ideas have independent explanatory power in relation to policy outcomes because information and cognitive limitations are systematic, as the recent theoretical work of eminent economic historian Douglass North (2005) prioritises. Of particular relevance to this chapter is stability and change—sometimes rapid change—in the *perceived* security of private and national economic interests. North sees economic performance as principally a function of the quality of a society's institutions, broadly defined, and a principal objective of such institutions is a perpetual, and often fruitless, desire to deal with uncertainty (in the Knight-Ellsberg sense; see Moss 2002:40–43).

Open?

Early globalisation discourses about an inexorable move towards 'a borderless world', as in the title of Ohmae's (1990) influential book, were rather naïve (Wolf 2002). Despite increasing international regulatory cooperation and binding international agreements, sovereign national borders still fundamentally delineate authority in distinct economic governance systems. Certainly technological innovation has further enabled various forms of cross-border mobility, and the competitive commercial adoption of these transport and communications technologies has dramatically lowered, over time, the costs of such mobility. The direct consequence has been a dramatic quickening in the pace of growth of cross-border mobility of all factors of production: 'globalisation' as popularly discussed.

For convenience's sake, the many forms of cross-border mobility may be simply classified as involving the following types of flows: goods, services, financial and corporate transactions, information, and people. A distinction is drawn between cross-border financial flows and corporate mobility, the latter referring to cross-border shifts in legal residence of a corporate entity or to a move, or extension abroad, of the networks and hierarchies of control that firms represent. Significantly, most international mobility involves the crossing of public borders through the means of private channels, be

it via privately provided transport, communications, payments or service infrastructures. Yet, crucially, new technologies need not necessarily weaken the capacity of states to enforce borders. They will impact significantly on the means available and necessity to do so. The ready accessibility of modern border-spanning private channels creates new national vulnerabilities, and hence political imperatives for effective border enforcement. At the same time, recognition of the profound economic and social benefits of open borders creates imperatives for efficient and minimalist policing of borders.

Japan ranks quite highly in aggregate measures of globalisation, reflecting the formidable performance of its leading enterprises in global markets and its international political engagement. Dreher's (2006) KOF index of globalisation, ranked Japan 21st in 2000, although the 2007 ranking had Japan at 40th overall (Swiss Institute of Business Cycle Research, KOF 2007). The World Economic Forum's Global Competitiveness Report 2006–2007 has Japan ranked 7th; reflecting its emphasis upon endowments (such as a rigorous education system and advanced social infrastructure) rather than openness *per se* (World Economic Forum 2007).

With certain sectoral exceptions, most notably in agriculture, Japan has very low average tariff rates. Of course, formally open borders are only part of the story. It may be that beyond open borders nonetheless lie closed domestic worlds. Indeed, the formal opening to foreigners of certain industries and organisations may not be particularly threatening to established domestic interests because established practices discourage or frustrate new entrants—domestic or foreign. Japan ranked well behind the United States and Germany (as EU surrogate) in Wolf, Levaux and Tong's (1999) mid 1990s assessment of the practical openness of particular economies to foreign enterprises; metrics derived through extensive surveys of executives and qualitative assessments in relation to the three countries plus South Korea and China. Indeed, on technical barriers such as testing and certification, restrictions to entry and the like, Japan ranked least open amongst the five economies. Japan was consistently ranked third across ten attributes of foreign investment openness (Wolf et al., 1999). In the decade to 2007 there has been incremental micro-economic reform in many sectors, but it remains to be demonstrated that Japan's relative

openness in relation to NTBs has improved while, as will be seen below, there are signs of regression in relation to some forms of foreign investments.

Barriers may be attitudinal as much as regulatory or organisational. Richard Florida (2005:68) may be over-simplifying things somewhat when he argues, in his influential work on the mobility of 'creative class', that 'openness is the real motor force of economic growth'. He nonetheless raises challenging questions with his insistence that openness means much more than the absence of formal barriers to new participants, ideas and approaches. Openness also entails a substantial cultural dimension.² There are no ready comprehensive metrics when the socio-cultural dimensions of economic openness are considered. The Dreher/KOF indices are notable for the incorporation of a composite measure of social globalisation; such proxy measures of social openness being still remarkably rare given the enormous debate over the nature and social impacts of globalisation (Koster 2007). The KOF 2007 social globalisation had Japan at 54th; although methodological issues may result in a significant under-estimation of the extent of inbound information flows to Japan and convergence of tastes.

Yet strikingly, Florida's 'Global Creativity Index' ranks Japan second only to Sweden, followed in turn by Finland and the United States (Florida 2005:156). Florida's index is a composite measure based on the '3 Ts of economic growth'—technology, talent and tolerance—with Japan being particularly strong in the first two. Much of Florida's work though is predicated on concerns that the United States, in particular, is dissipating its own established strengths in those two dimensions through declining tolerance, especially in relation to the inward mobility of people, as freshly perceived threats to national security become politically salient. It is to the Japanese experience of the contemporary security-openness quandary that we now turn.

Secure?

This section first considers perceived security, security and threats as both perceived and empirical phenomena, and the scope for profound disconnects between them. Contemporary Japanese concerns about the national security dimensions of open borders fall into two broad categories, which the

following discussion deals with in turn. The first may be described generally as the risks entailed in a prosperous dependence upon cross-border transactions. These primarily relate to supply chain security, and resource security in particular, and vulnerabilities associated with reliance upon foreign production locations and markets. The second category entails threats from abroad associated with particular forms of inward cross-border mobility. To reiterate, the inflows with which such threats may be associated entail the general areas of goods, services, corporate, financial and informational flows, as well as human flows.

Perceived security

Central to perceived security is the presence or otherwise of sensed threats, judged abilities to avoid them, or at least attenuate their (by definition, negative) impacts, and capacities and preparedness to bear any such residual impacts. Posner (2004:120–2) explores the ‘economics of attention’ to explain the inevitably limited capacities of individuals to give attention to diverse risks and their varying probabilities; with the consequence that risks ‘available to the mind’ owing to recent occurrence gain greater attention. They have lower ‘imagination costs’ than less frequent negative events, reflecting ‘the tendency of people to attach disproportionate weight to salient, arresting events’; an insight that accords directly with psychologists’ concept of the availability heuristic (Posner 2004:122, 169). The mass media, in turn, can identify and amplify the cognitive impacts of events amongst large audiences that are typically national in orientation. Benedict Anderson’s (1983) profound insight into how nations are essentially ‘imagined communities’, given that no citizen knows more than a tiny proportion of her fellow citizens, and the role of the media in that imagining, is of direct relevance to the expansive nation of national security under consideration here. Many of the recently perceived cross-border risks that are by-product of economic openness would manifest in negative impacts on a relatively small proportion of individuals, whom it is unlikely most citizens would ever know personally. Yet through the entrepreneurship of certain actors—media, political, rent-seekers or others—the perceived threat may become politically salient.

Japan, and indeed many other nations, has experienced, since 2000, a substantial number of 'arresting events'. Moreover, it is hypothesised here that these come on top of a gradual rise in risk averseness associated with economic maturation (Moss 2002) and an aging demographic. Moss (2002:290), in a masterful study of the expansion of the role of the American state as 'the ultimate risk manager', noted that 'beginning around 1960, policymakers not only demonstrated unprecedented interest in addressing a wide range of risks facing the average citizen but also revealed a new affinity for risk management policies of all kinds'. This 'security for all' exposed the state to significant potential financial liabilities, potentially compounding moral hazard problems (Moss 2002). This is consistent with North's insight, noted earlier, that economic institutions have evolved as peoples endeavoured to deal, often ultimately fruitlessly, with uncertainty. Heightened popular risk perception could bring political pressures upon governments to attenuate perceived threats; without commensurate understandings or acceptance of the opportunity costs of trying to do so with the often blunt policy instruments available to the state.

Prosperous dependence and security

Japan's growing concerns about resource security are certainly not just perceptual; they are clearly evidenced in the sharp rises in energy and minerals prices since 2003. This has not been an entirely unmitigated bad for corporate Japan. Some firms, such as Mitsubishi Corporation, who took equity stakes in foreign resources projects in the past, have achieved dramatic capital gains and dividend returns on those stakes. Often initially taken to underpin long-term procurement contracts (effectively bond posting) or for partial control, these stakes had some of the 'forward defense' attributes noted above. Yet Japan's longer-term resource security is an overriding concern for the Japanese Government as China proactively seeks such equity stakes in the development of new resource projects. Combined with a resurgence of economic nationalism in Russia and Latin America, ongoing governance problems in Africa, renewed instability in the Middle East, and rising demand from India and other emerging economies, Japan

faces significant challenges. Disagreement with China over test drilling in disputed waters has provided a potent 'arresting event', if high gasoline prices and Middle East instability were not already enough to make resource security a broadly salient threat.

Detailed discussion of Japan's recent resource security initiatives is beyond the scope of this chapter. Suffice it to note that there is considerable public-private sector coordination for renewed 'resources diplomacy' and alternative energy projects, amongst other initiatives. For instance, key coal industry stakeholders have been involved in an extensive study with the Queensland state government and Australian industry participants to address both infrastructure bottlenecks and promote the development of clean coal technologies. Yet this also highlights a particular policy dilemma facing the Japanese Government: its championing of greenhouse gas emission reductions since its decisive hosting of the 1997 UN Climate Change negotiations brought the Kyoto Protocol into being. Japan has joined, along with China, India and South Korea in the joint Australia-US initiative, the Asia-Pacific Partnership on Clean Development and Climate, which had its inaugural ministerial meeting on 12 January 2006 (www.asiapacificpartnership.org; *The Australian*, 13 January 2006; *Yomiuri Shimbun*, 13 January 2006). This is despite other lead members seeing it as an alternative to ratification of the Kyoto Protocol.

Broader supply chain security and efficiency issues have become more important to Japan as its firms increasingly source and produce abroad for global markets, including Japan's own. It is increasingly recognised that costs associated with inefficiencies or monopoly in port and associated multi-modal transport infrastructures can dwarf the trade-reducing effects of tariff protection. This is recognised in an issues paper on the liberalisation of logistics services submitted to multilateral trade negotiators earlier in 2004 by Australia amongst others (Australia 2004b). Transaction costs for cross-border trade remain relatively high for the Asia Pacific as a whole, compared to OECD averages (Wilson 2006). Issues include port efficiency, documentation requirements, extent of IT infrastructure and interoperability throughout cross-border supply chains and the like (World Bank 2005). Japan has been an active proponent of reform and capacity-building in these areas through APEC and other regional forums although,

as shall be seen below, it remains in need of further regulatory reform and enhanced corporate practice at home.

Although observers of Japan's shift in priorities to bilateral agreements frequently refer to these as free trade agreements, Japan's preferred terminology of economic partnership agreements (EPAs) is significant, not just because it was less antagonistic towards domestic agricultural issues (Terada 2006). Nippon Keidanren, the key domestic constituency for trade liberalisation at all levels, takes seriously the wide range of non-tariff issues that Japanese negotiators have pursued concessions on. For instance, Japan's agreement with Malaysia, formally concluded in December 2005, covers investment, services trade, intellectual property issues and competition policy (*Daily Yomiuri*, 12 December 2005). Mutual recognition of regulatory standards is another significant policy preference; once that mirrors European Union developments a decade before. Some of these issues 'beyond tariffs' have a long pedigree; with matters such as tax treaties and visa rules having figured prominently in negotiations between Australia and Japan in the mid 1950s in the lead-up to their landmark Commerce Agreement of 1957 (Australia, DFAT 1997). For Japan's global firms, these basic issues matter a great deal. For instance, in February 2006 Japan and the United Kingdom agreed to a revised tax treaty that reformed source country taxation on dividend payments from a subsidiary to the parent firm abroad; including exemptions for royalty income from trademarks and patents. At the same time, reducing tax evasion was a joint objective; highlighting the desire of states to strengthen their enforcement capacities while acting to facilitate international business (*Daily Yomiuri*, 4 February 2006).

At the failed Cancun ministerial meeting Japan placed great importance on the 'Singapore issues' of multilateral investment rules, trade facilitation measures (such as customs and trade procedures), transparency in government procurement and common competition policy rules (WTO 1998, 1999; Tanaka 2004). Investment provisions, along with competition issues, were strongly opposed by developing countries and yet were Japan's highest priority. Such a policy preference was consistent with the interests of Japanese enterprises operating abroad. Yet the 'Singapore issues' could also serve as a shield against criticism for the failure of multilateral

negotiations over the refusal of Japan and the EU to make substantial concessions on agriculture. One senior Japanese official has since effectively acknowledged this while asserting that all countries sought to use the intractable Singapore issues in such a fashion (Tanaka 2004). The politics of the 'old trade issues' remain intractable in sensitive sectors in Japan, Europe and the United States, and are the main reason for stalled multilateral negotiations.

Salient inbound risks

Most types of cross-border inflows into Japan are currently perceived by at least some policymakers and commentators as presenting distinct risks to national welfare. Tough new anti-money laundering provisions have seen tighter controls imposed on both the international operations of banking service providers in Japan, and new identification verification requirements for domestic cash deposits. Only cross-border information flows are generally seen in a thoroughly benign light. Interestingly, Japan is distinguished from many other nations by its lack of protectionist measures in media contents—especially broadcast and cinema markets (although foreign control of a broadcaster is prohibited and the Japanese language affords a degree of natural protection in the case of contents). Risks associated with imports of goods, foreign investment bringing corporate control, and the presence of foreigners entail particularly salient issues.

Goods mobility

Contraband is always of concern, not least given the proximity of Japan's neighbours and the astonishing track record of North Korea's involvement in the cross-border smuggling of drugs. Enhancement of Japan's shipping interdiction capacities has been pursued through joint military and policy training with the United States and Australia in particular. Smaller scale anti-smuggling measures are also important. Enforcement of a total import ban on North Korean products, imposed in response to nuclear and missile tests, resulted, for instance, in arrest of a Chinese merchant-ship crew in late March 2007 for falsely declaring North Korean clams as of Chinese origin (Kyodo/*Daily Yomiuri*, 1 April 2007).

International concern about cross-border shipping as a terrorist vector has arisen given the huge volume of cargo and ship movements, with much of the seaborne shipping being under flags of convenience, and the complex interface of port operations and various domestic transport and other infrastructures (Barnes 2004; Australia, DFAT 2004). As of 1 July 2004 maritime shipping has been subject to new security measures—the International Ship and Port Facility (ISPS) code—mandated by the International Maritime Organisation (IMO) in cooperation with the World Customs Organisation (WCO). It addresses basic shipping security and is entailing significant compliance challenges and costs for the global industry (Barnes 2004). Far more onerous however are the United States' voluntary measures, the Container Security Initiative (CSI) and the Customs-Trade Partnership Against Terrorism (C-TPAT). The latter envisages a security and prescreening regime for entire supply chains and would place US customs officials in foreign ports (OECD 2003). It requires close working relationships between firms, host governments and US agencies and has potentially significant implications for cross-border trade. The concerns for Japan are currently more pertaining to the imposts on Japanese exporters and shippers to the United States, and less upon Japan's own import clearance regime. US developments nonetheless provide a significant reference point for Japan's own border security initiatives, as is clearly seen in the case of passenger movements discussed below. The US approach to security essentially has two dimensions: 'pushing the border out' and 'profiling out', the latter being aimed at concentrating limited resources for inspection and monitoring upon cross-border movements that may entail the highest risk (Riley 2005:589).

Japan is in a relatively strong position as a potential lead developer, implementer, and international supplier of advanced technology-based e-border and cross-border supply chain management systems that may help to resolve the seeming contending imperatives for more efficient cross-border flows and for enhanced border security. Japan is richly endowed with private sector providers of information and communications technology-based (ICTs) hardware and applications, such as Hitachi Ltd, with its advanced hardware infrastructure capacity and leading place in the rapidly growing RFID IC-tag business. The latter is central to advanced

inventory management and supply chain traceability systems. Japanese firms are also leading providers in scanning and sensor technologies, data storage architecture and so many other relevant high technology applications. There is an ostensibly supportive policy environment, under such banners as e-Japan and a 'ubiquitous computing society', since at least the time of the Mori government in 2001, yet in practice public sector agencies involved in border enforcement could do much more. Given the cross-border nature of perceived threats, the international government-to-government coordination challenges are immense if even just some of the potential of ICT applications (for trade efficiency with border security) is to be realised.

Given the pattern of Japan's trade, and the primacy of the Asia Pacific in its firms' production networks, regional coordination will be crucial and the most efficient locus of negotiation and cooperation in relation to international trade security. Trans-shipment is a striking feature of regional goods flows, and multi-location production in industries such as consumer electronics is so common, that a mainly bilateral approach within the Asian region to the issues will be insufficient. Japan has been a strong supporter of recent initiatives in APEC in relation to counter terrorism (APEC 2003a), including strengthening the APEC Counter Terrorism Task Force. Simultaneously, APEC adopted a regional trade and financial security initiative within the Asian Development Bank to support projects related to port security and other measures to guard against the economic and social costs of terrorism (APEC 2003a). The APEC leaders' statement of November 2005 addressed counter-terrorism measures, including voluntary tests of airport vulnerabilities. Yet APEC still remained mindful of its founding mission to facilitate trade and regional economic integration; adopting a statement of resolve to realise simplified customs procedures whilst strengthening border security (*Daily Yomiuri*, 17 November 2005).

As noted above, Japan has been a strong supporter of regional initiatives to enhance port and other supply chain infrastructure and efficiency in the Asia Pacific region. Yet Japan itself has been in need of port reform, streamlining of documentation requirements, and more electronic enabling of the export-import function amongst both businesses and agencies. Japan

has lagged well behind both leading European economies, as well as efficient open Asia Pacific economies such as Singapore. Japan's direct port charges are among the highest in the world and diminish both Japan's competitiveness as an export production location and its market accessibility for foreign-made goods (Tanaka 2004). Compliance with the full US agenda on port and logistics security could significantly compound these costs, as would any future Japan-specific security initiatives. Prime Minister Abe sought to address some of the port inefficiencies late in 2006, announcing a series of reforms, including more efficient documentation and 24-hour operations for certain facilities.

Cross-border goods trade may substantially increase the risk of cross-border flows of biohazards—to people, to economically and socially important agriculture, and to species diversity. Consequently, sensitive trade issues, at multilateral, regional or bilateral levels, are increasingly concerned with the contested science of threats. Quarantine matters, and related consumer protection issues, have had a strongly bilateral dimension, reflecting the usual pattern of direct shipment of perishables. This is also partly because restrictions often arise under existing administrative arrangements and can be reformed without new legislation. However, such issues would be resolved more easily if countries were to follow scientifically rigorous risk assessment and management practices that enjoy multilateral standing.

Japan's response to identification of a single case of Bovine spongiform encephalopathy (BSE) (or 'mad cow disease') in the United States in December 2003 is illuminative of the complex domestic political economy of phyto-sanitary measures. An immediate ban on US beef was imposed, which remained in effect until December 2005, when Japan concluded a bilateral deal with the United States that applied much tougher restrictions than applied in the United States.³ Japan had demanded a comprehensive BSE-testing program for all herds in the United States (*Japan Times*, 9 July 2004). A ban on US beef was re-imposed in early 2006 after a shipment from the United States was found to contain backbone material, but was then lifted in July after official Japanese inspections of certified US export processing plants (*Daily Yomiuri*, 31 March 2007). Japan's initial ban had

a dramatically negative impact on Japanese beef importers and end users such as the large *gyudon* (beef bowl) chain Yoshinoya, having ended a trade worth US\$1.4 billion in 2003 (*Daily Yomiuri*, 31 March 2007).

Although Japanese beef producers gained some modest short-term benefits from the ban, ironically more significant was the boost to the reputation of Australia as beef provider as Japanese users featured it in their advertising. Japan's own BSE cases presented a challenge to the existing bureaucratic politics of agricultural policy as it clearly pitted domestic producers' interests against the cause of consumer protection, placing bureaucrats and legislative supporters of producer interests in a difficult position. Anticipating official granting of safety status to US beef by the UN World Organisation for Animal Health (OIE) in May 2007, the US Agriculture Secretary called on Japan to ease its restrictive provisions for US beef imports swiftly (31 March 2007). The issue brings to the fore the issue of Japan imposing more stringent standards than international organisations, taking up the counsel of international communities of experts, have adopted.

Services

Japan's general progress on services liberalisation has been well explored elsewhere, as has such reform's capacity to stimulate economic growth more generally (see, for example, Mattoo, Rathindran and Subramanian 2006). Motoshige Itoh has recently identified public services, health care, food services and education as areas where reform remains difficult, but is needed. The call by private sector members of a government panel for 'open skies' aviation deals and 24-hour operations at Haneda (Kyodo/*Daily Yomiuri*, 29 March 2007) touched on a sensitive area of infrastructure in which national security concerns can readily be deployed in defense of established interests. In late March 2007, a Construction and Transport Ministry advisory panel issued a report to the Government recommending strict measures—regulatory and firm-based—to prevent foreign investors having significant shareholdings in Japan's three major international airport operators. Narita International Airport Corp., Chubu Centrair International Airport Corp. and Kansai International Airport Co. are to be privatised through public floats. The report declared that: '[i]t is

necessary to prevent foreign entities from obtaining control and investment funds from conducting hostile takeovers' as the airports constitute 'social infrastructure indispensable to the nation's economic activity and citizens' life' (Kyodo/*Daily Yomiuri*, 29 March 2007).

Corporate mobility

As this case suggests, inbound corporate mobility—principally captured statistically through figures on inward FDI and mergers and acquisitions involving foreign firms—continues to provoke insecurities in Japan. This is despite powerful positive examples provided by the likes of the Renault-Nissan corporate alliance that revitalised the once-ailing Japanese automaker (Ghosn and Ries 2005). Merger and acquisition activity involving Japanese firms abroad actually outstripped that involving foreign firms in Japan in 2004 and 2005 and, overall, inward FDI into Japan is strikingly low by comparison with other OECD economies.

Hostile corporate control events, once exceedingly rare in Japan, have become more common (Milhaupt 2005; Nottage 2006). The Japan Ministries of Economy, Trade and Industry (METI) and Justice released guidelines for defensive measures against hostile takeover bids in 2005, around the rather nebulous notion of 'corporate value', which they saw as something analytically distinct from shareholder value (Whittaker and Hayakawa 2007:20). Subsequent legislative changes to company law in May 2006 gave incumbent managers more latitude to enact takeover defences. This was principally because of more liberal provisions relating to the issue of special class shares, new rights plans that would exclude a bidder, and the use of 'golden shares' (Whittaker and Hayakawa 2007:21).

A 2006 Nikkei survey revealed that some 70 per cent of responding executives were considering adoption of takeover defences (*Nikkei Weekly*, 29 March 2007). NTT and airlines have defences in place, primarily directed at foreign investors seeking control (Kyodo/*Daily Yomiuri*, 29 March 2007). Striking too is the support that the managements of targeted firms can draw from sections of the mass media; itself a recent loci of controversies over unsolicited bids for corporate control by domestic industry outsiders, principally from new media/internet entrepreneurs. In 2005–6 Japan was transfixed by the hostile move on Fuji Television by

internet firm Livedoor and its controversial then-president Takefumi Horie. The role of the US investment banking institution, Lehman Brothers, in providing finance to Livedoor attracted critical scrutiny from both populist politicians and some media commentators.

The American investment fund, Steel Partners Japan Strategic Fund (Offshore), has been a lightning rod for criticism of the role of foreign investors. Steel Partners launched unsolicited bids for several firms, including Yushiro Chemical, Soto Co. and Myojo (*Forbes*, 29 March 2007). The bids all failed, but were nonetheless profitable as Steel Partners were able to sell down partial stakes in the firms at substantial premium, following alternative 'white knight' bids solicited by the boards of the targeted firms. In the case of Myojo, it was absorbed by larger domestic rival Nissin. Yet Steel Partners' move on leading brewer, Sapporo Holdings Ltd, ran into interesting difficulties, where its board won approval from a majority of shareholders for defensive measures (*Nikkei*, 29 March 2007; *Forbes*, 29 March 2007). These shareholders included a considerable number of individual investors, who may have foregone short-term capital gain as a consequence.⁴ Appeals to attitudes concerning the distinctive attributes of Japanese firms, and an element of economic nationalism, seem to have been effective for management.

The Fuji–Livedoor dispute and Steel Partners cases have prompted intense discussion in Japan about markets for corporate control, shareholder value norms, and their appropriateness or otherwise in Japan. The *Yomiuri Shimbun*, a leading conservative daily, editorialised vociferously against such non-Japanese practices, vulture-like hedge funds, and a culture of so-called 'mammonism'. The antipathy to foreign ownership and control evidenced in the Construction and Transport Ministry advisory report on privatisation of major airports, cited earlier, was strikingly at odds with Japan's professed objectives in international negotiations. To date, such multilateral negotiations have shown no prospects for success while those at the bilateral level have involved partners that were unlikely to be significant sources of direct investment to Japan.

People mobility

The dual themes of openness and security, and potential tensions between them, are readily observed in policy developments and public discourse

over the presence of foreigners in Japan, on both temporary and longer term bases. Whilst the entry of foreigners in Japan has long been associated—probably quite excessively—with the risk of crime, several violent crimes and instances of pickpocket and burglar gangs in the early 2000s compounded such fears. The events of 9/11, and the United States' subsequent adoption of a strict advance passenger movement alert systems, fingerprinting on arrival, profiling, and its push for wide adoption 'smart' biometric passports, have significantly changed Japanese policy dynamics on migration controls. Taking a lead from the new US measures, Japan passed legislation implementing many similar measures. Whether the new ICT applications are utilised to simply enhance the efficiency of border policing—at the expense of the comfort of foreigners travelling to and from Japan—or whether they also offer benefits to the affected will be a significant test of the resolve of policymakers to realise secure but relatively open borders. ICT applications have the potential to simplify significantly the currently arcane alien registration system, as well as applying for visa extensions that currently entails considerable inefficiency and frustration for applicants.

In Japan, as elsewhere, SARS was a potent 'arresting event' in relation to the perceived risks of international mobility. Concerns about cross-border transmission of disease are not limited to inbound foreigners, given the high international mobility of Japanese. Health issues are inevitably regional and multilateral given the multidirectional mobility of people across borders. The threat of a pandemic, with devastating direct social as well as economic costs, entails profound technical and policy complexity. Clumsy anticipatory responses themselves may have profoundly negative economic impacts. The APEC Leaders' and Ministers' meetings in Bangkok (APEC 2003a, 2003b) endorsed the Health Security Initiative in the wake of SARS and of a US-Singapore initiative to create a regional emerging disease intervention centre in the latter. In November 2005, APEC members in Busan agreed to the establishment of a list of 'available and funded' experts on bird flu and like influenza pandemics, to a joint desktop simulation exercise testing readiness, and to building capabilities for rapid responses to pandemics in their early stages. The statement pledged members 'to effective surveillance, transparency, and openness and close

domestic, regional and international coordination and collaboration' (*Daily Yomiuri*, 20 November 2005). Around the same time, the G7 also agreed to closer cooperation on the bird flu threat (*Daily Yomiuri*, 20 November 2005). Significantly, APEC members also committed to information exchange on border screening procedures and controls, with a view to minimising adverse impacts on trade and travellers (*Daily Yomiuri*, 20 November 2005).

It is a formal object of policy to promote substantial growth in inbound international student, researcher and specialised labour mobility. Motivations for this include their potential role as an impetus to the invigoration of the organisations that host them, synergistic effects leading to the creation of new knowledge resources, and longer-term linkages that might enhance Japan's international influence. Somewhat controversially, Japan's Economic Partnership Agreement with the Philippines created a precedent for concessions on access for professional service providers. The agreement allowed for a quota of nurses from the Philippines, subject to professional qualifications and Japanese language requirements being met.

New concerns about guarding knowledge resources from theft by foreign employees and visiting researchers have become publicly salient. In 2004, the Ministry of Education, Culture, Sports, Science and Technology (MEXT) issued a formal advisory to universities about access to certain sensitive technologies by foreign researchers and students. Media attention focused in early 2007 on the particular case of a Chinese employee at Toyota-related firm, Denso, which was found to have copied a large number of component blueprints. Popular concerns about Chinese espionage—official and industrial—were much heightened by the suicide of a Japanese diplomat in China after he reportedly was entrapped through a romantic liaison. In March 2007 significant media attention was being given to the case of a Maritime Self-Defense Force petty officer who was found to be in possession of a hard disk containing advanced Aegis destroyer radar data after police searched his home following an allegation that his wife, a Chinese national, was in violation of immigration law (*Yomiuri Shimbun*, 31 March 2007). Subsequent reports suggested that long-standing data mishandling at a training centre had, in fact, led to a number of unapproved SDF staff being in possession of the data.

In recent years there have been explicit official policy statements in relation to the contribution that long-term foreign residents and permanent migrants may make to Japan, both in terms of addressing specific skills shortages and contributing to the general problem of Japan's rapidly aging demographic profile. In fact, as Dr Robert Feldman notes, the economics of an aging society in Japan are so severe that they cannot be resolved primarily through inward migration (Feldman 2004). Domestic human resource productivity must play the primary role, although he notes that foreign human resources—through either management know-how or simply an infectious desire to work and achieve—may help stimulate that. Yet many Japanese firms are still a long way from changing human resource recruitment and promotion systems that would allow Japan to attract and retain the international human resources mooted in official policy statements. In a positive vein, there was strong media interest in 2006 data showing that more than one in a dozen marriages in Japan were to foreign citizens, with a ratio of nearly one to eight in the Tokyo region. This may prove to be an impetus to discussion about Japan's growing diversity and what it means for national interests.

Influential?

In a system of sovereign nation states, threats to national interests originating beyond national borders can be addressed only through appeals to the mutual interests of foreign public and private actors where present, or through exercising influence over them. Japan's scope for international influence in relation to the issues discussed above has two dimensions. Firstly, reflecting the technical complexity and the consequent importance of communities of expertise, is the open question of Japanese influence in these specialist international circles. That also gives rise to consideration of the international standing of Japanese universities and other research institutions, and to the issue discussed above of what are the appropriate loci of international negotiation on particular issues impacting on, or arising from, economic integration. Secondly, broader issues of Japan's 'soft power' arise. That, in turn, raises the continuing domestic and international political difficulties surrounding Japan's modern history in the region, as

well as how the politics of domestic interest groups may impact adversely on Japanese influence abroad.

Specialist influence

The previous section noted the complexity of many of the contemporary perceived threats to national welfare associated with Japan's international economic engagement. This complexity has two dimensions: inherent technical difficulty and then the complexity entailed in designing, implementing and assessing policy responses to it. Relevant policy communities have a distinct demography, reflecting networks and clusters of expertise that span organisational types and, in specialist academic circles at least, national borders. Frequently, members of these policy communities will have strong shared norms that may shape the set of conceivable policy options (Atkinson and Coleman 1992).

An illuminating instance of the dynamics potentially involved here is provided by Japan's July 2003 defeat in a WTO Dispute Settlement Body ruling on a case brought by the United States against Japan for its ban on American apples.⁵ Japan utilised quarantine provisions to prevent the imports on the grounds of a risk of the apple blight disease being transmitted to domestic apple production. The panel report did not accept that Japan had established such a risk as it was obligated to do under the agreement on phyto-sanitary measures adopted at the conclusion of the Uruguay Round. A review of the transcripts of the final hearings is illuminating in showing how risk issues were dealt with by the expert witnesses and how the Japanese case appeared not to be informed by those established risk assessment and management concepts (WTO 2003).⁶ Yet the considerable size and status of the Japanese delegation in attendance testifies to the importance that was placed on the WTO panel report by Japanese policymakers (WTO 2003) One of the expert witnesses in the case concluded that the original SPS agreement had specified the Principle of Managed Risk which should have led signatories to establish a formal risk management policy and, by implication, appropriate capacities to realise it (WTO 2003).⁷

Recent supply crises involving the beef, poultry and pork industries might be transformed into a positive force over the longer term if there is

effective state-private sector collaboration within Japan and with suppliers abroad to implement mutually accepted risk management methodologies and tracing technologies. Greater consumer confidence can be invoked, to the benefit of foreign and Japanese stakeholders in such international supply chains. Moreover, states have a significant capacity to attenuate or compound the disruption to international supply chains entailed in critical incidents, not only through border controls but also through their control of major medical, scientific and analytical capacity as well as state authority itself. Many firms and other private institutions, for instance, relied solely on the official advices issued by home governments and international agencies on basic matters such as staff travel after the outbreak of SARS and heightened concerns about terrorism. While international regulatory cooperation, under the aegis of multilateral, regional and bilateral initiatives, has certainly been enhanced in recent years, there is still a long way to go before a true 'international policy community' can be said to exist. The Japanese civil service needs enhanced risk assessment and management capacities as well as more personnel with the skills set necessary to function as effective long-term interlocutors with their counterparts in relevant foreign agencies.

Japan's 'soft power' and regional challenges?

Complex external threats, especially arising through and because of transnational private organisations, require the cooperation of many foreign individuals, diversely situated organisationally, to address them. Nye (2004) argues for the importance of 'soft power' in a nation being able to secure that cooperation. METI (2003a, 2003b) has recently made much of the role of exports from Japan's cultural industries in enhancing the nation's 'soft power'—'Brand Japan' in Foreign Minister Aso's words—and the positive economic 'ripple effects' to other Japanese industries and organisations abroad.⁸ Japan's official FTA strategy statement asserted, rather blithely, that resulting economic linkages would give 'rise to a sense of political trust among countries that are parties to these agreements, expanding Japan's global diplomatic influence and interests'⁹ (MOFA 2002).

Japan's standing as a net exporter and major beneficiary of the multilateral trading system means it risks dissipating international influence in protecting uncompetitive domestic producers in remaining protected sectors. World Bank research revealed significant gaps between the perceived openness and efficiency of particular national business environments—as measured in influential surveys such as that by AT Kearney—and realities as judged by World Bank analysts (World Bank 2004). This suggests an important role—of an essentially public goods nature—for the effective national projection to international business communities, and the media and public agencies relating to them. The Japan Export Trade Organisation (JETRO) has long been well-resourced and committed to such a function, yet the broader lesson remains that perception management is imperative.

Japan's greatest economic and political challenges lie in engagement with emerging China. As the discussion above attests, an emergent China is a significant consideration in a number of Japan's established and emerging security concerns, broadly defined. Japanese exports and investment to China have surged (*Asian Wall Street Journal*, 23–25 July 2004:A3). China presents significant competition to Japan in raw materials and energy markets, as well as in related shipping and other business services. China is very relevant to contemporary Japanese cross-border crime and public health concerns. While Japan's official FTA strategy flagged a vision of future mutual economic partnership between Japan, China, Korea and ASEAN, a 'wait and see' policy on an FTA with China was enunciated (MOFA 2002). Achieving a comprehensive FTA with China would be immensely difficult, with a pre-requisite being an effective official dialogue that goes well beyond the recent thaw in official relations with the ascension of Shinzo Abe to the prime ministership.

The contemporary cross-border risk agenda can only be addressed through international cooperation and negotiation, the loci of which must be driven by the nature of each of the issues at stake. It must also be recognised that the scope for trade-offs will vary greatly depending on the nature and number of parties at the table; the level of the international game impacts on the domestic political calculus for governments. In their review of the state of the Australia-Japan bilateral relationship, de Brouwer and Warren (2001) concluded that while the locus of negotiations over

the removal of tariffs and other major formal trade barriers should be at the multilateral level, important trade facilitation initiatives could nonetheless be pursued at the bilateral and regional level. Some of the issues at the interface of trade and security will inevitably be first dealt with at a bilateral level—albeit with the United States rather than the countries with which Japan pursues free trade agreements.

Conclusions

Established structures of producer, legislative and bureaucratic interests have interacted historically to present apparently formidable barriers to a major change in Japan's foreign economic policy preferences. Nonetheless, the Japanese economy, through both long established dynamics of policy liberalisation and private sector initiative, has become deeply integrated into the Asia Pacific regional and global economies. Key Japanese constituencies for further economic openness abroad—such as the Keidanren and its leading members—could do much more though to articulate the benefits of openness at home. In particular, the positive contribution that foreign investors, in free markets for corporate control, might make to corporate value in Japan needs to be prioritised.

Japan is sufficiently endowed with technical expertise to make a significant contribution to resolving the apparent dilemmas of national economic openness and security. The suite of contemporary risk issues, ranging from terrorism to disease and including immigration and crime, has made 'border protection' highly political salient in many countries. Some political entrepreneurialism tapping community concerns in Japan is inevitable. As in past political controversies over the costs and benefits of trade and FDI, there is a crucial role for independent rigorous assessments of the real risks presented by cross-border movements of goods and people and the opportunity costs of heavy-handed restrictions. Japan's past spurious defences of non-tariff barriers on risk grounds are the stuff of legends. Japanese trade policymaking needs to be informed by a sense of the fragility of state credibility and yet the potency of state reputation in restoring confidence in the wake of a critical incident.

As Yoshimatsu in this volume and other authors have shown, bureaucratic turf wars on 'traditional' trade issues in Japan remain rife, underpinned as

they are by private interest politics and institutional inadequacies that make strategic policy initiatives difficult both to formulate and to implement. With effective political leadership, the new security, risk and border protection agendas could provide an impetus to inter-agency coordination and strategic planning. This would not only see the issues dealt with more effectively, but might also provide some scope for transcending particularistic interests in favour of national interest-maximising trade policy preferences. Ideally, leading civil servants would use the technical complexity and new analytics of the risk issues involved to take on a 'bureau shaping' role. Dunleavy (1992) recognised that this was fundamental to executive actors in Anglo-American societies becoming drivers of bureaucratic reform itself and broader economic reform. Without that leadership, entrenched protectionist interests might appropriate the new currency of cross-border risk to frustrate some of the market liberalisation initiatives arising from bilateral and, one hopes, multilateral negotiations.

Notes

- 1 It is not the intention of the author to extrapolate from the influential work of Hofstede (2001) on comparative values, in which Japanese were found to exhibit relatively very high levels of 'uncertainty avoidance' (as he used the term) on average, to the political economy of cross border mobilities. Much more conceptual and comparative empirical work would be required before any such conclusions could be drawn.
- 2 In Florida's (2005:72) words: 'Since every human being has creative potential, the key role for culture is to create a society where that talent can be attracted, mobilised and unleashed. All of this turns on an expansive, open, and proactively inclusive culture... Open culture is a spur to innovation, entrepreneurship, and economic development'.
- 3 US standards require the removal of brains, spinal cords, backbones and other risk material from cattle aged 30 months or older, while the more restrictive Japanese provisions imposed a 20-month age threshold. That agreement was nonetheless controversial in Japan (*Daily Yomiuri*, 31 March 2007).
- 4 The Sapporo poison pill and related defence measures nonetheless required annual reaffirmation by shareholders, suggesting that management needs have at least some regard for shareholder value.
- 5 Japanese agriculture bureaucrats and legislative backers seem determined to strengthen their hand *vis-à-vis* major food suppliers such as the United States and Australia on phyto-sanitary issues wherever possible. In 2005 the ministry announced a new project, and associated public consultation process, to examine the environmental and economic impact of introduced species.

- 6 The US submission wryly observed of Japan's much-emphasised distinction between 'direct' and 'indirect' evidence of a risk, with the latter being sufficient to justify restrictive measures, that what mattered of evidence was 'whether it was scientific' (WTO 2003:24).
- 7 The advising expert was Dr Ian Smith, Director-General of the European and Mediterranean Plant Protection Organisation in Paris. He noted that submissions in the apple case, as in some others, had focused solely on the Principle of Minimal Impact. Yet the Principle of Managed Risk created as part of the International Standards on Phyto-sanitary Measures states that 'because some risk of introduction of a quarantine pest always exists, countries shall agree to a policy of risk management when formulating phyto-sanitary measures'. Coupled with Standard No. 11 that stated 'since zero risk is not a reasonable option, the guiding principle for risk management should be to manage risk to achieve the required degree of safety that can be justified and is feasible within the limits of available options and resources'. Smith concluded that 'on the basis of this principal it should be possible to manage risks which are open to some uncertainty' (WTO 2003:220).
- 8 The 'soft power' concept was first developed by Joseph Nye and has recently been applied to discussions of the United States in particular in the wake of September 11 and the Iraq conflict. Popular and official interest in Japan's soft power was provoked by an article in *Foreign Policy* by MacGray (2002) on Japan's 'gross national cool'. The general 'brand state' notion was proposed by van Ham (2001) in an equally influential article in *Foreign Affairs*.
- 9 Moreover, it was declared that FTAs would 'increase Japan's bargaining power in WTO negotiations' without clarifying how or to what ends such leverage, if it was in fact attained, might be deployed (MOFA 2002).

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