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THE JAPANESE POWER GAME: WHAT IT MEANS FOR AMERICA
by William J. Holstein. Charles Scribner's Sons, New York, 1990.
339 pp. \$22.95.

RUDY GUYON*

William Holstein's book, *The Japanese Power Game*, provides rich reading for Pacific Rim-minded souls who would make sense out of the incestuous dealings at the top of Japan's corporate and political hierarchies, where billion dollar deals are made, and nothing is ever truly what it seems to be. As *Business Week's* man in Tokyo for many years, author Holstein had the connections to dig deeply into the interactions between Japanese politicians, bureaucrats, and executives, and produce a picture that diametrically opposes most press accounts of the 1989 Recruit Scandal over influence-buying in the Japanese Diet.

The western press lauded the verve with which Japanese politicians, prosecutors, and media attacked corruption among the powerful in Japan, who had made and accepted many millions of dollars in political contributions. These attacks brought down a government and led to numerous arrests and resignations among political and corporate elite. Holstein takes a deeper look at government and media response to the Recruit Scandal and makes a persuasive case that the "corrupt" officials most tainted by the scandal were precisely those men who would have opened up the telecommunications market in Japan to real American-style competition, the men who threatened the powers that be in Japan.

Holstein thus argues that nothing in Japan is as it seems: the victory against political influence buying, when seen from within Japanese society, represented no more than the victory of the empowered over the challengers, and it was the challengers in the Recruit Scandal who represented America's best economic interests.

The story becomes particularly amazing when Holstein describes the reaction by the Japanese media. For months Japanese opposition politicians and journalists spoke and wrote of little but the scandal. Everyday presented a new headline as the trail of corruption inched deeper and deeper into the Liberal Democratic Party power structure in the Japanese Diet. Then, suddenly, the investigation that brought down so many powerful politicians

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stopped, two months prior to the next Diet election. The press ceased to write about influence buying in the diet. Former Prime Minister Nakasone was not arrested for his involvement. The Recruit Scandal was over, but the system of political influence buying was largely untouched. Though the opposition parties made major gains in the election, soon, the Liberal Democratic Party was securely in control again.

Holstein writes of one tragic character who seems emblematic of the power game as it is played in Japan. Prime Minister Takeshita was forced to resign because his secretary received Recruit stock shares on Takeshita's behalf. The secretary, Ihei Aoki, disgraced in Japanese society for allowing his superior Takeshita to be disgraced, committed suicide by slashing his wrists and legs, and hanging himself with a necktie. Holstein found as a suitable epitaph one sentence that Aoki penned shortly before his death, "Behind the scenes of this peaceful democracy are the same bloody power struggles to the death that were waged time after time by medieval warlords."

Holstein's book should be placed among the revisionist literature that seeks to redefine western notions of Japan. He shows how the Recruit Scandal and other modern political battles fall within the general patterns of Japanese group power sketched out in books such as Dutch journalist Karel Van Wolferen's *The Enigma of Japanese Power* (New York, Vintage, 1990, 504pp.).

Like Van Wolferen, Holstein argues that the Japanese system of government is incapable of reforming itself. The Japanese will always behave as Japanese, and not as westerners. Increasing economic power has allowed the Japanese return to traditional practices with deep feudal roots, complete with political and economic fiefdoms, and allegiance to lords. Holstein paints a vivid picture of the Japanese power game using the Recruit Scandal as his chief, but not only, backdrop to show how economic decisions are made in Japan.

Holstein utilizes his insights into Japanese power to address the question of whether Americans can hope that the Japanese will ever start managing their economy in a way that will relieve the trade imbalance and the decline of American industry. His answer is that, without an intelligent American response, nothing will change. Japan has a different kind of capitalism than Americans do: private ownership with state guidance and goal-setting. America must realize that the Japanese play to win, and that the status quo economic relationship between Japan and America is intolerable. An American response is necessary to diminish the trade surplus and create a balanced trading relationship. While the United States formerly was able to overlook trade frictions that arose between the two different systems, Holstein states that the balance of interests has

shifted; and now, Americans must concern themselves with economic differences between America and Japan.

Holstein sees no inevitable decline in Japanese economic strength, such as that described by editor for the *Economist*, Bill Emmott, in his book, *The Sun Also Sets: The Limits to Japan's Economy Power* (New York, Times Books, 1989, 292pp.). Emmott asserted that Japanese trade surpluses would disappear as the Japanese westernize and become less productive, as savings rates drop due to the population aging, and as foreign service industries take back some Japanese profits. Emmott's book painted a rosy scenario of market forces correcting the major trade imbalances between America and Japan.

Holstein provocatively asserts that Emmott did not take seriously enough Japan's manufacturing and industrial prowess, ignored the trends of increasing Japanese surpluses, and postulated an unlikely westernization of Japanese politics, especially improbable in light of Holstein's Recruit Scandal analysis. Holstein supports his view that Japan will not inevitably decline by pointing to Japanese strengths in the auto, high-tech, aerospace and financial industries that seem unlikely to fade away. Holstein contends that the Japanese will not stop competing, and they seem poised to reap profits and continue to flood international markets with investments over the next decades.

Not only are the Japanese formidable competitors, Holstein argues, but also they have become quite adept at protecting their corporate interests at the highest levels of American decision-making. Since 1984, Japan has been the largest spender on lobbying in the United States, often employing well-connected ex-U.S. government officials. The Japanese also use economic leverage on American companies dependent on Japanese parts or technologies, and on states dependent on investment. Corporate philanthropy and research funding to American universities also carry influence. Holstein, like Pat Choate in his book, *Agents of Influence* (New York, A.A. Knopf, 1990, 295pp.), does not blame the Japanese for using the American system, he blames Americans for letting the Japanese use the system so that U.S. government policy decisions sometimes reflect Japanese corporate interests rather than the American commonwealth.

Holstein argues that the Japanese ability to influence American policy has no equivalent counterpart in Japan. There is no reciprocity in regards to investment opportunities, and government and media access, for instance. Americans do not have reciprocal access to influence Japanese corporations, as Holstein contends the Pickens-Koito battle over stockholder representation amply illustrated.

Americans who do business with the Japanese in Japan must

tread lightly or face ostracism. Individual American journalists who criticize Japan too successfully may find themselves the victim of Japanese retaliation, in the media, or otherwise. For an example that occurred after Holstein wrote his book, Pat Choate lost his position as vice president with TRW after his strident book *Agents of Influence* was published, amid speculation and denials that TRW was pressured to dismiss Choate in order to protect its business relations within Japan.

Very troubling to Holstein is the lack of American access to Japanese decision-makers in government or to public opinion. The Japanese media rarely presents the American point of view, and American demands on the Japanese are often lopsidedly portrayed by the Japanese media as Japan-bashing. This irritates the Japanese people, and does not lead to public debate on the merits of American claims. But all criticism of Japanese economic practices cannot simply be lumped together as Japan-bashing and dismissed. While the Japanese have the right to set their own policies within Japan, the tremendous and increasing degree of interdependence between Japan and America necessitates that American interests be allowed to influence Japanese decision-making, just as the Japanese wield influence here.

The lack of reciprocity in the relationship with Japan demands action by America, concludes Holstein. Americans must learn to appraise the economic relationship in more sophisticated ways. The Japanese perceive competitors as both friend and enemy at the same time. In Japanese society rivals cooperate and compete simultaneously. Holstein believes America should adopt this posture, and both admire and fear the Japanese. We should understand them as our adversary in order to develop a cooperative relationship with which America can live and remain strong.

Holstein warns against radical protectionism and managed trade as solutions to U.S. economic problems. As President Bush acknowledged last year, the Japanese could hurt us deeply if we acted too harshly. They could withdraw investment and destabilize securities markets, skirt import restrictions by off-shore production in third countries, and harm American industries already too dependent on Japanese parts and goods.

Holstein denies that racism underlies his call for a response to Japanese investment in the United States, when no such call is made when the British or Dutch invest. He reasons that critical issues of economic imbalance and different systems of culture and ideology need to be addressed by America and Japan; these great differences do not exist between America, Holland, and the U.K.

One critical issue of culture that demands American attention is the export of Japanese values that accompanies their foreign in-

vestment. Japanese values transferred to America offer some benefits but also other unwanted intrusions. Certainly, Japanese labor management practices exported to America create harmony where unproductive discord existed, and the Japanese focus on long term security and economic growth rather than on quick profits should be emulated by American corporations. But, the Japanese treat minorities and women differently than whites and men, generally exclude American executives from decision-making positions, and centralize decision-making in Tokyo and Osaka. These are all troubling practices that threaten to install unadmirable Japanese values into pockets of American society.

Americans may also wonder whether Japanese fatalism will make inroads into American idealism, as Japanese economic power in America increases. The Japanese invoke the phrase, *Shikata ga nai*, which means, "it cannot be helped," to explain why something unpleasant or unseemly cannot be changed, such as why the political contribution system exposed in the Recruit Scandal exists to this day. *Shikata ga nai* expresses powerless resignation that an individual can do nothing to change the course of Japanese society, which is so much larger, more powerful, and more important than any one human life. This reflects the intense socialization of the Japanese to respect hierarchies of power in the name of culture. American society may not want to follow this lead.

Moreover, Holstein suggests that Japanese *keiretsu* threaten American ideals of diversity and pluralism. *Keiretsu*, enormous industrial structures to which American business has nothing comparable, are associations of groups of Japanese businesses, each of which have small-stake cross-holdings in the others. The groups are organized around a central bank and trading company, with members from a variety of other industries. The Mitsubishi *keiretsu*, for example, controls three times the financial resources of Citibank, the largest American bank. *Keiretsu* typically develop vertical supply chains incorporating member companies at most or all levels. Members tend to buy from other members, distorting free trade. In other words, members often buy because of group relationship instead of price competition. So, the benefits of *keiretsu* economic growth tend to stay within the *keiretsu*, and do not extend to American businesses even if they offer competitive prices, unless American businesses sell out and become part of the *keiretsu*. American law has not yet effectively addressed this issue.

The practice of buying within the *keiretsu* illustrates a basic value difference between America and Japan. The American sense of fair play is troubled when companies outside the *keiretsu* do not receive the same chance at doing business with member companies. The Japanese, on the other hand, see closed *keiretsu* markets as a source of security and peace of mind. The Japanese want the peace

of mind secure markets bring, but this threatens American values of diversity and pluralism, for limits economic opportunity only to group members, and thus excludes outsiders.

Holstein notes substantial differences in patterns of investment between American and Japanese firms that suggest Japanese foreign investment produces fewer benefits in America than American investment produces in foreign countries. While American corporate investment tends to result in technology transfers to local industry and to stimulate the growth of local suppliers, the Japanese are less willing to sell technology, use local suppliers, or turn over responsibility to local managers. The *keiretsu* shows how Japanese investment tends to displace American producers, rather than create business for them.

For all of these reasons, Holstein's argument counters the free market position that investment is investment, therefore unquestionably positive, whether it is made by Japanese or Americans. Therefore, he contends that American investment is better for America than Japanese investment.

Holstein also derides the position that advocates no concern over Japanese imports due to the price benefits to the consumer. This is too simplistic because, while lower prices are beneficial to the consumer, American jobs lost as American industries go under may offset any price benefit.

Holstein argues that we have crippled ourselves with too much Adam Smith ideology about pure free markets. Holstein issues a challenge to Milton Freidman-esque pure free-marketeers. America cannot eliminate all restrictions in the marketplace when Japan clearly plays differently. This would be the triumph of ideology over the real world.

Holstein accuses the Bush Administration of dismantling sound industrial policy initiatives that respond to the Japanese challenge, such as eliminating government-sponsored HDTV research in order to avoid an industrial policy that "picks winners." Refusal to "pick winners" usually accompanies any free market stance that argues against a government role in economic development. Holstein retorts that when government uses its powers to create conditions for U.S. industry to develop, this is certainly not "picking winners," but rather, sound management of market conditions to encourage the growth of industry. This type of government involvement is exactly what the Japanese do so successfully, and it certainly has not harmed the ability of Japanese corporations to compete in world markets or against other Japanese corporations.

Holstein, in his most apt criticism, joins the chorus of revisionist voices such as Clyde Prestowitz's in *Trading Places: How We Allowed Japan to Take the Lead* (New York, Basic Books, 1988,

365PP.), when he declares that America currently has an industrial policy, but that it is incoherent. American agencies, when they do act to nurture industrial growth, do not coordinate their plans, and frequently, remain stuck in debate about whether to become involved at all. Holstein feels that America should protect American industries just long enough to strengthen themselves and ensure their survival, and then let competition work.

In short, Holstein advocates that the U.S. government and American business should create an industrial policy based on a realistic appraisal of Japanese business practices. America's understanding of Japan needs to be upgraded and incorporated into a coordinated, rational industrial policy that realistically meets the Japanese economic challenge.

Holstein specifies concrete goals for his industrial policy. America must correct its trade imbalance. America should regulate takeovers of American business, and use administrative guidance to insist on higher U.S. content, higher U.S. investment, and more extensive U.S.-based research and development by foreign traders. States must stop giving better investment deals to foreign corporations, as an incentive to invest, than the state would give to an American corporation. The federal government should address complex issues like *keiretsu*. American individuals should think about their broader effect on diminishing American competitive strength before cashing in and selling out to a Japanese buyer.

The overriding point of Holstein's critique is that if Japan persists in single-minded economic nationalism, it is foolish for the U.S. to ignore Japan's decidedly different approach to international trade. America must balance out the equation, and respond with its own economic nationalism, a response he calls economic patriotism.

Holstein's economic patriotism has four tenets. First, Americans need to see how their individual actions fit into a broad national strategy. Second, American business, labor, government, and education should emulate the Japanese by coordinating and developing American teamwork. Third, Americans must maintain an independent industrial capability even while becoming more deeply enmeshed in the world trading order. This includes weaning America from its addiction to Japanese capital, and not allowing entire American industries to disappear, as happened with VCR manufacturers. Lastly, he advocates that when there is a choice of products of similar quality and prices, consumers should buy American products first, foreign products with high American content next, and only thereafter, turn to imported goods. Holstein's basic plan pragmatically addresses many crisis points that American corporations face in regard to the Japanese challenge. Americans do need heightened consciousness about international trade competition. Better coordination among American business, government,

labor, and education could only produce more rational and effective government policy. America should maintain independent industrial capability to preserve self-control of our government and our values. If American consumers buy American-made products, more money and jobs stay in America, to our benefit. The Japanese themselves adhere to policies such as these. Holstein simply wants to teach Americans to selectively borrow these ideas from Japanese culture, just as the Japanese so successfully borrow from other cultures.

Ultimately, the reader's sympathy to Holstein's prescription may well depend on ideology. Holstein has seen that the Japanese have created an economic export machine that is now the envy of the world, and that the Japanese have made capitalism more efficient by government intervention selected to make industrial growth better directed to key niches. Holstein insists that the reader approach the Japanese experience pragmatically as a learning endeavor. Learning from the Japanese does not mean copying their methods by rote. But it does entail freedom from a pure free market bias.

The Japanese Power Game: What It Means for America, does what Holstein sets out to do in the title. He gives a concrete discussion of Japanese culture, politics and power, then tries to formulate an American response to the significant trade frictions between the U.S. and Japan. Holstein is clearly of the mind that the Japan relationship is America's most important, yet it remains fraught with hurdles and stumbling blocks. Thus, Holstein's book is important reading for Pacific Rim policy makers, simply because it tries to defeat ignorance about Japan in the attempt to address problems in America's increasingly troubled relationship with Japan. Holstein does not offer earthshaking or radical revisions, such as could be found in books by Van Wolferen and Prestowitz. Holstein does achieve a moderate, common sense-based approach, buttressed by his considerable inside knowledge about Japanese culture. He has a fine ability to marshal facts and draw insights from the recent political scandals. His book is recommended for anyone interested in American-Japanese policy debates as a well-written and welcome addition to the revisionist literature about Japan.