

## Sharing World Leadership?

### —A New Era for America & Japan

By John H. Makin and Donald C. Hellmann,  
editors

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for Public Policy Research

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The ability to anticipate issues and a public relations sense for when to announce something. These are essential if a set of policy recommendations is to have any impact. And these are things that U.S. think tanks excel at. The American Enterprise Institute for Public Policy Research's *Sharing World Leadership?* is no exception. It is a collection of perceptive essays released at a crucial point in the U.S.-Japan relationship.

As Senator McCain notes in the preface, this book—an effort to delineate the past history, present situation and future outlook for U.S.-Japanese economic interdependency and military burden sharing—is the first real binational interdisciplinary effort to address the relationship in a comprehensive way. It is organized in three parts: Part 1 reviews the postwar economic and defense arrangements in the two countries, Part 2 examines the relationship between defense spending and economic performance, and Part 3 looks ahead to the future. The facts are laid out, hypotheses are formulated, and forecasts are ventured.

Despite the obvious appeal of interdisciplinary studies, it is not easy to fuse and empirically analyze two such different areas as economics and politics. Not only are the two disciplines' methodologies different, they judge their subjects by different standards. Yet this work succeeds in unifying these studies theoretically, identifying trends in phenomena from vastly disparate dimensions, and deriving policy recommendations from them. It is an outstanding work for which the authors and editors are to be congratulated.

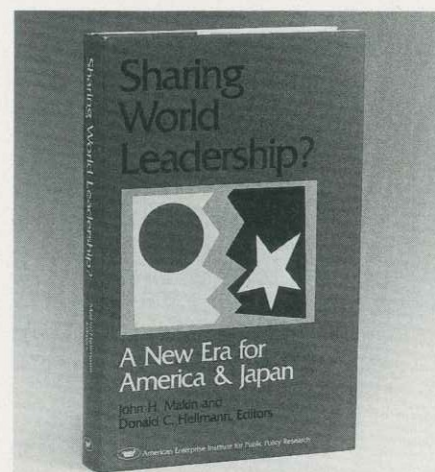
The underlying issue pervading this volume is well stated by Hellmann in Chapter 8: "The United States and Japan have been moving on separate tectonic plates that in recent years have been

grinding against each other with more and more pressure. Because neither government has altered the basic direction of its nation, the accumulated grievances in economics and more recently in defense have raised the tension to a point that an earthquake of adjustment seems the probable and necessary way to re-define the roles of the two nations in a new and stable relationship" (p. 239).

From this premise, it seems only natural to propose that, as Makin says, "In looking ahead to the 1990s and beyond, the United States and Japan confront some basic questions concerning the balance of economic and military power within each country and between the two countries" (p. 8).

Yet as Herbert Stein, former chairman of the President's Council of Economic Advisers, has written elsewhere (and as quoted by Makin), "The most basic fact about the American economy is that it is very rich. It is not rich enough to do everything, but it is rich enough to do everything important. The only problem is deciding what is important" (p. 11).

Detailing the situation in Japan, the book accurately describes the general Japanese view of security. To quote from Professors Seizaburo Sato and Yuji Suzuki, "Since the end of the 1970s the Sea of Okhotsk has become one of the two great bases for Soviet SLBMs.... One of the principal missions of the Soviet Pacific fleet and the Soviet Far East Air Force is to defend the SSBNs concealed in the depths of the Sea of Okhotsk. The Japanese archipelago extends in such a way as to separate the Siberian far east from the Okhotsk.... The increase in the strategic value of the Okhotsk, therefore, signifies an increase in the strategic value of the Japanese islands.... the United States withdrew from Indochina, and the power relations on the Korean peninsula shifted in favor of South Korea, the primary U.S. concern for security in this region has shifted to the northwest Pacific and to the vicinity of the Japanese islands. The so-called maritime strategy is an indication of this change in American security interests.... The national security interests of Japan and the United States generally coincide in the region" (pp. 159, 161).



Awareness of these issues and Japanese security perceptions naturally raises the dilemma outlined by Makin: "The real question is whether adjustments by Japan toward more of its own spending or more payment for American defense will be sufficient to reduce below the boiling point the American perception that Japan is getting a free ride from American military protection" (p. 38).

Hellmann's attempt to answer this question in Chapter 8 may strike Japanese readers as somewhat provocative, but he states that, "What is clear is that the present pattern of U.S.-Japanese relations cannot easily be extended far into the future. It defies both history and common sense for the world's largest debtor nation effectively to underwrite the security of the world's largest creditor and for the political and economic costs of defense to be decoupled from economic foreign policy" (p. 243).

Hellmann's conclusions, and judging from the way the book is structured the book's too, are, "(1) the close links between Japanese society and political institutions, the reluctance of a successful nation to alter its national course at the apex of its power, and the seeming inability of Japan to articulate a national purpose with which others can identify make it unlikely that Japan can become a world leader under a Pax Nipponica; (2) despite fundamental problems in managing the economy, the United States has the capacity to continue as a world leader in



both security and economic affairs; (3) the bilateral alliance needs to be restructured in ways that effectively link economic capacities and security responsibilities, perhaps under a new definition of security that leads to burden sharing in international constabulary activities beyond containment; (4) the United States should initiate a priority review of Japanese-U.S. relations of the sort undertaken in the late 1940s vis-à-vis the Soviet Union, for Japan, much like the Soviet Union during the latter part of this century, will be critical to global stability and peace in the first part of the twenty-first century" (pp. 237-238). As Hellmann concludes, "It is in Washington, not in Tokyo, that a push for a new bilateral alliance is likely to occur" (p. 264).

Although there is much in it that will prove controversial in Japan, this book should be read and read carefully because it is a major contributor to the field and, despite the new situation generated by the Japan Socialist Party's sudden revival, I am afraid the authors are right in their basic assertion that the locus of policy initiative continues to rest with the United States.

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## The Financial Behavior of Japanese Corporations

By Robert J. Ballon & Iwao Tomita  
Published by Kodansha International Ltd.  
1988; Tokyo/New York  
268 pages; ¥3,700/\$24.95

With the world anxiously watching to see how Japanese industry will use its gargantuan economic strength in the world's money markets, it is very useful to have this up-to-date and succinct guide to Japanese financing, financial reporting and taxation.

The founder of Sophia University's In-

ternational Management Development Seminars, Ballon has been a mentor for the internationalization of Japanese business for over a quarter of a century and has served as consultant and counselor to virtually all of the major foreign companies that are now active in Japan. His coauthor, Tomita, was one of the first internationally minded postwar certified public accountants in Japan and is currently a senior partner at Touche Ross International. He, too, has been a key adviser to the foreign community in Japan for many years.

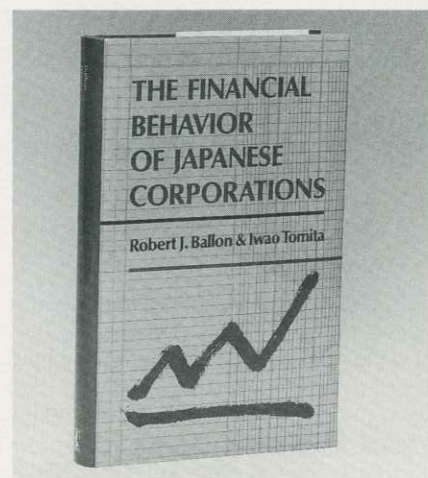
These two authorities had previously teamed up to write *Financial Reporting in Japan* (Kodansha International, 1976), but this latest book should by no means be considered a simple updating of their previous work.

Instead, this ambitious work, in the first place, provides a comprehensive review of the main points of Japanese financial operations and the financial system, illuminating areas that have previously been misrepresented, distorted, exaggerated and neglected by foreign authors with only a superficial smattering of experience.

The second feature to recommend this book is its value as a Japanese-English dictionary of economic, financial and accounting terms—not just in the extensive glossary but throughout the book. For example, anyone who does not know what *oyabike* means can follow the description from the glossary's definition of it as "withheld by parent (=selective allocation of new shares)" and will quickly learn in the section on "Equity Issuing at Market Price" exactly how the term (and practice) is used, in what situations and with what effect.

The book's third characteristic is that it provides a detailed, nontedious and clearly understandable explication of the structural, practical and ideological differences between the Japanese and American economic and financial systems. For example, the authors note that payment by promissory note (*yakusoku-tegata*) is an integral part of doing business in Japan and explain how these notes can be endorsed to provide debt financing.

The fourth point is that the authors do not discuss financing in a vacuum but



draw their examples from Japanese economic and business history to give the system's historical background and to imbue their explanations with an almost tangible immediacy. Far from an abstract discussion of Japanese management, this work explains Japanese business practices with specific examples of specific cases, thus shedding new light on Japanese management practices and helping the reader to achieve new insights.

Finally, the fifth recommendation for this book is that someone who reads it will come away with a good understanding of the laws and regulations governing Japanese corporate accounting and financial practices and some feel for where government policy is heading in these areas.

Yet valuable though this work is, I believe it could have benefited from a little more attention in two areas. The first is that, although the authors note that it is possible to amortize goodwill (= *noren*) in five years in Japan, they do not compare this with the significantly different practices in North America and Europe (e.g. the 15-year amortization common in West Germany). Likewise, while they discuss takeover bids, I wish they had dealt a little more extensively with the criticism that the Japanese legal system makes leveraged buyouts extremely difficult.

The second area where the book could have benefited from a more extensive treatment is in the glossary. For example,