Introduction

As a series of international financial crises have shaken the world of swift capital mobility and growing financial interdependence in recent decades,[1] international economic leadership in the management of these financial crises becomes critical.[2] These crises have raised concerns over who, if anyone, will step in to rescue those economies in distress and contain the repercussions of these crises to protect the stability of the international financial system.[3] The issue is essential, because through timely and adequate crisis management efforts, the world can achieve international financial stability—a condition we can consider a kind of international public good[4]—after the onset of crises. The theoretical focus of this study is the provision of international public goods in the form of collective international financial crisis management among major creditor powers.

Analyses by economic historians and political scientists of international financial dynamics in the late 1920s into the 1930s demonstrate the devastating effects resulting from a lack of initiative in economic crisis management. In this historical case, the failure to adequately address financial crisis led to the emergence of exclusive bloc economies prior to World War II.[5] To prevent such disaster, private financial sectors and the governments of the countries that are home to the world's leading financial centers are definitely the best candidates to supply such goods, because of their high stake in the stability of global finance and their financial ability to react.

The widely discussed decline after the 1970s of the single leadership of the United States, the post–World War II hegemon, added urgency to the task of economic crisis management in the 1980s, particularly at the time of the Latin American debt crisis. The actions and roles of other major economic powers in association with the United States become a critical factor in maintaining a certain level of stability.[6] The rise of Japan as an economic power and its role as an international financier supporting the United States in the resolution of the Latin American debt crisis provide the case in point. The large financial contribution extended by the Japanese government led to the solution of the 1980s crisis under the U.S. debt initiatives. In the 1990s, however, the inability of the Japanese government to engage itself in crisis management actively and collaboratively has generated concerns in the international financial world and among policymakers. Despite the importance of nonhegemonic major powers like Japan, there appears to be a paucity in the scholarly endeavors to analyze, from a perspective of international political economy, the motivation of such countries to support (or not support) public goods provision in various issue areas. The analytical focus of this book, therefore, centers on the motivations of such a "number two" power or "supporting actor" to engage in collective management of international financial crises.

This study focuses on one such major nonhegemonic power: Japan.[7] Financial crisis management is understood to encompass policies that aim to provide stability in response to crisis in international financial markets. The cases studied include the financial crises in Latin America (1980s and 1994–95) and those in Asia (1997–98). At the time of a severe financial crisis, particularly among middle-income developing countries with sizable economies, financial rescue packages successfully assembled by the international financial institutions (IFIs) and the major creditor governments can lead to the stabilization of the situation and eventually to the recovery of the economies in trouble. Increased official financial resources, provided either through rescue packages or through foreign aid, constitute an essential component to enhance economic recovery and stability. When no single international actor is either capable or willing to fully shoulder the cost of supplying such a public good—especially as the crises become too large for the International Monetary Fund (IMF) alone to handle—collective action among major financial powers is needed. As is noted in the next section of this introduction, because neither the behavior of the Japanese government nor its level of commitment to various financial crises is uniform, an important empirical puzzle emerges. Why does Japan engage in management of some financial crises but not others? What factors lead the country to engage (or not engage) in such collective action with the United States and the IFIs?

The findings from this study indicate that most favorable conditions for coherent collective action by creditor governments in financial crisis management arise when there are substantial and coherent sets of private returns for a creditor government from its involvement. Strong and unified transnational linkages among the major powers, which augment pressure on the creditor governments to act collectively, also lead to solid collective action. Economic interdependence and the coalition of private sectors constitute these transnational linkages, and these forces can also transmit pressure domestically to their respective home governments for stronger collective action to manage crises.

Japan in Financial Crisis Management

Japan's actions in financial crisis management in the Pacific Rim vary across the cases, particularly in regard to its interaction with the United States. The Japanese government engaged quite actively, and in support of U.S. initiatives, in the Latin American debt crisis of the 1980s. In contrast, Japan was very reluctant to get involved during the 1994–95 Mexican peso crisis. In the Asian crisis, the Japanese government demonstrated an ambivalent position regarding its leadership and its collaboration with the United States. Before asking why Japan behaved differently in each of these three cases, definition of concepts and a brief history of Japan's involvement in the management of these crises are in order.

In this study, I define Japan as an exemplary supporting power, or "major nonhegemonic power," in the world of international finance.[8] A major nonhegemonic power possesses substantial enough resources, financial or other, to influence the dynamics in international relations but cannot on its own overwhelm the hegemonic power or change international structure.[9]

In the context of this study, the Japanese government's actions are operationally defined in the following manner. The Japanese government is "actively" involved in financial crisis management when the Japanese government either designs crisis management initiatives, collectively with the United States and IFIs or by itself, or commits large official financial contribution to the rescue packages. The Japanese government's "leadership" is considered high when the government proposes independent crisis management plans (i.e., not merely supporting the U.S. ideas) or when it does so before the U.S. government takes action, which is the case of the Miyazawa Plan during the Latin American debt crisis. Strong leadership by Japan does not automatically imply discord with the United States, although that is sometimes the case. Japan may commit a substantial amount of funds to a rescue package, but if these contributions follow the U.S. initiative, the Japanese government is "active" but not exhibiting "leadership." Finally, Japan's strong cooperation or collaboration with the United States in crisis management emerges when the Japanese government supports the U.S. crisis management preferences or initiatives by explicitly announcing its endorsement, adjusting its policies accordingly, coordinating its policies with the United States, and/or extending financial contributions.[10]

In the latter half of the 1980s, Japan emerged as a prime supplier of the additional financial resources necessary to assure the economic stability and growth of developing countries and to provide financial crisis management. During this period, the Japanese government gradually shifted its behavior away from that of a small isolated mercantilist country in Asia and began acting like a leading international economic power. This shift was evident when the Japanese government extended large official loans to the Latin American debtors hardest hit by the debt crisis since 1982. The Capital Recycling Program, first announced in 1986 and expanded between 1987 and 1989, provided a total of $65 billion in official financial flows to indebted developing countries, many of them in Latin America.

The 1988 Miyazawa Plan represented another Japanese government initiative to alleviate the debt crisis. The finance minister of Japan announced this new debt strategy that emphasized debt reduction. Although the plan was not immediately adopted by other creditor governments, the Brady Plan, announced by the United States half a year later, incorporated the core ideas of the Miyazawa Plan. Thanks to the Brady Plan—particularly to its debt conversion packages—the outstanding debt of major debtors signing on to the Brady deals decreased. Japanese public financial organizations, especially the Export-Import Bank of Japan (JEXIM Bank), significantly increased their financial commitment to support the operation throughout the course of the Brady Plan.

The picture changed in the early 1990s as the U.S. economy recovered and as Japan's economic presence decreased in Latin America and began concentrating in Asia. Prominent features of international financial crisis management during the 1994–95 Mexican peso crisis included a striking commitment by the U.S. administration to relief strategies and a reluctance by the Japanese to become actively involved. Although Japan was not totally absent from rescue efforts in Latin America during this period,[11] the modesty of the Japanese government's actions were noteworthy in comparison to its activist contributions during the resolution phase of the Latin American debt crisis only a few years earlier.

Japan's responses to the series of currency crises in Asia, two and half years after the Mexican peso crisis, represent an even more complex picture. On one hand, the Japanese government appeared to become actively engaged in the stabilization of financial crises during the Thai crisis, which began during the spring and summer of 1997; Japan assumed a leading role, along with the IMF, in assembling a $17.2 billion rescue package for Thailand in August. For the rescue packages for both Indonesia and South Korea (hereafter Korea), which faced acute financial crises between the fall and the winter of that year, the Japanese government consistently committed the largest bilateral financial contribution. In addition, it even attempted to launch a new regional financial mechanism—the so-called Asian Monetary Fund (AMF)—which aimed to provide an additional funding source for Asian countries facing currency and financial crises.

On the other hand, Japan's regional leadership in attempting to resolve the Asian financial crisis was at best ambivalent. From the beginning, the Japanese government insisted that Japan would not be able to provide any financial assistance to countries that had failed to negotiate with the IMF before turning to Japan. Particularly after the arrangement of the Thai rescue package without U.S. financial participation and after the unsuccessful bid to establish a regional financial mechanism (the AMF), Japan began to take a "secondary and financier" role in Asian crisis management. Japan adopted this subordinate role supporting U.S.-IMF initiatives.

The main feature of the difference in Japan's behavior in relation to the United States in the case of the Asian crisis, compared to the cases in Latin America, is the more prevalent level of conflict in the interaction between the two major creditor governments. Although in most cases, the Japanese government cooperated with the U.S.-IMF scheme of Asian crisis management without undermining creditor unity (except in the case of the AMF, which failed), there was visible tension between the two major powers. The United States persistently criticized Japan's lack of action to help solve the economic problems of these Asian countries, particularly by stimulating its own economy, while IMF-led financial crisis solutions have threatened the economic autonomy of Asian countries. Under such an environment, the Japanese government has revisited the idea of Asian regional solution to financial problems, once stillborn as the failed AMF proposal, in the form of the New Miyazawa Initiative (October 1998) and through the agreement on a regional financial arrangement (May 2000).[12]

Puzzles, Arguments, and Methodology

Puzzles and Questions

The solution to the economic problems of middle-income countries in Latin America and Asia can constitute an important factor of international financial stability due to the considerable economic repercussions that the financial crises in these countries have, particularly when contagion effects amplify the impact of financial crises. During the early years of the debt crisis of the 1980s, the U.S. government successfully argued that creditors should resolve Latin America's debt problems swiftly, lest the international financial system should be in danger. This same argument could also be made for Mexico in 1994–95 and for Asia in 1997–98. All these crises required urgent and active involvement of creditor governments to maintain international financial stability.[13] Assuming that all these crises have required collective action by major creditor governments to avoid worsening economic turmoil and that collective action is always difficult to attain (see chap. 1), Japan's uneven behavior as it faced different financial crises is certainly puzzling. The question regarding Japan's varying behavior begs a reliable explanation, because no conventional understanding regarding international cooperation or the nature of Japan's foreign policy behavior can satisfactorily account for the specific combination of Japan's action and inaction in different crises.

The first depiction of Japan's foreign policy behavior commonly associates Japan's international behaviors with its pursuit of selfish national economic interest. Japan has been perceived as an "economic animal," whose primary foreign policy objective is to succeed in its mercantilist quest of global market shares and natural resources. Moreover, the Japanese government has long been blamed for being a "free rider" in the international economic system, failing to shoulder enough of the burden of international public goods provision. This picture neither explains the variation in the behavior of Japanese actors in the different financial crises nor accounts for the Japanese government's substantial contribution as a major financier and provider of international public goods. It is particularly difficult to explain Japan's active commitment in the Latin American debt crisis, because Japan's economic interests in the region have been quite limited.

The second common profile depicts Japan as a reactive or passive state, particularly when it comes to foreign policy and in relations with the United States.[14] The Japanese government has, however, demonstrated active and occasionally independent initiatives, both in the Latin American debt crisis, in the form of the Miyazawa Plan, and throughout the Asian financial crisis, in the form of the AMF scheme and other regional solutions to the crisis.

The third image relates to the shifting economic power balance between Japan and the United States: Japan's overwhelming economic might in the latter half of the 1980s and its retreat in the 1990s. Japan looked very much like an emerging hegemon and a challenger to the U.S. economic supremacy by the mid-1980s. Meanwhile, Japan's economic weakness (especially in contrast to the U.S. economic rise) led to a major concern regarding the spread of recession from Japan to the rest of the world in the latter half of the 1990s. This shift seems to have influenced the Japanese government's financial capacity and Japan's self-image, as well as Japan's domestic conditions (see chaps. 6 and 8). Nevertheless, Japan's motivation to become or not to become involved in collective financial crisis management has often overcome such constraints, as is demonstrated by the Japanese government's active role at the time of the Thai crisis in the summer of 1997 and through the New Miyazawa Initiative in October 1998.

The fourth and final picture associated with Japan's foreign policy is its strong interest in Asia and lack thereof in other developing regions, including Latin America (with the possible exception of oil-producing regions). Asia is Japan's backyard, where the Japanese private sector has established significant economic interests through trade, investment, and financial activities, while Latin America is still a remote region for most Japanese firms (see chap. 2). Japan's political and social ties are wide and strong throughout Asia, weak and limited throughout Latin America (with the exception of a fairly large Japanese immigrant population in the region). Such perception of Japan's nonpresence in Latin America is one reason Japan's active involvement in the Latin American debt crisis is not more widely known and is puzzling. A good explanation is also required, then, as to why the Japanese government occasionally receded to a supporting position, following the U.S. lead, in some phases of Asian financial crisis management, despite Japan's prevailing stake to demonstrate leadership in the region.

Additionally, although not related to Japan's image itself, it is quite puzzling to find that the United States was sometimes opposed to Japan's active involvement in financial crisis management, even though the participation of Japan would mean increased financial contributions, lessening the burden on U.S. taxpayers or the U.S. economy. In the case of the Mexican peso crisis, for example, the Clinton administration designed a unilateral solution without explicitly resorting to Japan's support. The AMF scheme, furthermore, presented the United States with Japan's alternative solution in Asia (with a large financial contribution from Japan), but the U.S. government did not accept it.

As a nonhegemonic major power capable of significantly influencing the outcome of collective financial crisis management in the Pacific Rim, Japan's actions call for adequate explanations. Why has Japan engaged in collective action to manage some crises but not others? What factors determine the motivation of the Japanese government to become involved (or not) in financial crisis management, and which factors have led it to behave differently in different cases? As I discuss more extensively in chapter 1, existing theories cannot satisfactorily explain the variance in Japan's behavior.[15] Difficulty of collective action is prevalent. The hegemonic stability theory of formation of a "k-group," which attempts to explain how major powers supply public goods unilaterally or collectively, falls short in predicting the changes in Japanese behavior. Contemporary theories of regionalism cannot explain cases of Japan's active involvement in Latin America and its occasional passiveness in Asia. Finally, the "second image reversed" perspective provides an explanation of Japan's reactions to external pressure but cannot adequately address the variation in outcome when the pressure is similar. This study introduces a new perspective that can account for the empirical puzzle on the case of Japan and international financial crisis management.

The Argument

I pose two interrelated hypotheses to address the puzzle and to examine the question regarding Japan's uneven behavior in various financial crises. These hypotheses can be thought of as two sets of encompassing theoretical frameworks under which empirically specific factors are subsumed. These two sets of hypotheses are useful in defining systematically the impact of the specific factors and in outlining clearly my expectation regarding the impact of these factors on Japan's behavior. The first hypothesis deals with the nature of crisis management per se; the second emphasizes the importance of the influence of transnational linkages and domestic politics on the Japanese government's external behavior. These hypotheses also presume an asymmetry of power between the United States—not the dominant, but still the most powerful, financial actor in the world—and Japan and other major creditor countries, which must deal with U.S. dominance in international financial issues.

The first hypothesis focuses on the nature of international financial crisis management and claims that the motivation for managing international financial crisis strengthens as the private returns for a major creditor government from such management increases. These private returns emerge from the "joint product" nature of international financial crisis management, in which actions to manage financial crisis produce both public and private goods and thus facilitate cooperation among the participants. The term *private* here refers to exclusive benefits that do not have to be shared with others. Empirically from the cases of this study, private returns include such things as the creditor country's domestic financial stability, an improved relationship with the country's important trade and security partners, and the country's political and economic influence vis-à-vis other creditors and debtors. The term *public* here refers to benefits that are not exclusive and have to be shared with others regardless of their contribution.[16] The discussions among major creditor governments concerning financial crisis management emphasize the public nature of the benefits that such actions produce, such as international financial stability and faster economic recovery of the countries in crisis (and thus more certainty of economic well-being and a decreased security threat). However, creditor governments are usually motivated by greater payoffs to themselves and their citizens as they decide to commit themselves and their tax revenues (see chap. 1).

During the Latin American debt crisis, the high exposure and stake of Japan's financial sector in Latin America led the Japanese government to act to protect its financial sector, encouraging it to become actively engaged in the resolution of the crisis (see chaps. 3 and 5). In addition, as discussed under the second hypothesis, the Japanese government was also interested in supporting the U.S. initiatives because of its strong bilateral economic linkages. This raised Japan's stake in stabilizing the economic problems of Latin America, because such action can minimize the detrimental impact of these problems on the U.S. economy. The lack of these private returns helps explain Japan's limited association with the Mexican peso crisis of 1994–95 (see chap. 6). There was a lack of high exposure of the Japanese financial sector, which came from the "exit" of Japan's financial commitment from Mexico and other Latin American debtors after the conclusion of Brady deals and from the increasing concentration of Japan's economic and financial activities in Asia in the 1990s. Moreover, the strong economic health of the United States eliminated the Japanese government's important regional interests in the Western Hemisphere. Thus, active involvement in crisis management during the peso crisis did not appear to produce enough private benefits for Japan.

Finally, the Asian financial crisis embodied an interesting mix of the elements of high private and public returns and visibly constraining elements for the Japanese government's leadership (see chap. 8). Japan's interest in successfully managing the Asian crisis was extremely high in the region. Both the Japanese government and its private sector had high economic and political stakes in the well-being and stability of their Asian neighbors. Japan has had many more interactions and interests with these Asian countries than with the countries of Latin America (see chap. 2). Two elements of the mix of private returns that the Japanese government pursued in this crisis management, however, made it difficult for Japan to have a coherent leadership position. First, the interests of the Japanese domestic private sector were divided. Banks wanted an immediate solution to their loan exposures in these countries (particularly given domestic problems with bad loans), but Japan's manufacturing sector either wanted Japanese money to stay in these countries or welcomed the IMF solution as a means to pressure the Asian countries to further liberalize their economies. Second, under the asymmetry of power, the Japanese government's high commitment and its leadership in Asian crisis management created tensions with the United States. As observed in the case of Japan's AMF proposal (see chap. 8), Japan's independent initiative to provide an alternative response and to shoulder the costs of such an initiative as the regional power invited objections and criticisms from the United States. Moreover, although the U.S. position in the Asian crisis was similar to Japan's during the Latin American debt crisis,[17] Japan was not able to induce the same type of supportive collaboration from the United States. Rather, in most of the Asian cases, the United States took the initiative and Japan followed. After the slow start at the time of the Thai crisis, the U.S. administration began setting agendas and urging the Japanese government to support the U.S. lead.

In short, the critical factors directing the Japanese government's actions in international financial crisis management were the level, type, and coherence of the private returns that the Japanese government expected to gain from its active involvement in three sets of financial crisis management.

The second hypothesis, which is related to the first, asserts that transnational linkages and domestic politics in creditor countries translate private goods into active crisis management and cooperation among major creditor governments. Acknowledging fully the relevance of the perspective of "complex interdependence,"[18] I argue that the stronger the transnational linkages among creditor countries are, the greater will be a creditor country's efforts in collectively managing international financial crisis (see chap. 1). Two types of transnational linkages are relevant here. First are institutional linkages among private financial sectors—mainly commercial banks—that played a major role in influencing the formation of collective action among creditor governments. Second are general economic linkages that have arisen from economic interdependence among major creditor countries.

During the Latin American lending boom from the mid-1970s through 1982, commercial banks from major creditor countries formed a de facto linkage by participating in so-called syndicated loans. As many as several hundred banks participated in syndicated loan packages managed by a few leading banks and protected by cross-default clauses to create a single megaloan, which was usually extended to sovereign borrowers, such as the government of Mexico. The syndication mechanism was constructed to minimize the risk of a debtor defaulting on a loan, by creating circumstances under which, if a debtor defaulted on a loan, it would be totally cut off from sources of international finance. In response to the onset of the debt crisis in 1982, the same commercial banks—mostly the larger ones—formed bank advisory committees (BACs) for each debtor country, to create a uniform and united front in debt negotiations. The institutional linkages created through these processes functioned to transmit the preferences and priorities of commercial banks to each government (see chaps. 3 and 5).

Domestic dynamics between major Japanese actors involved in external financial flows—the financial sector and the government—have influenced financial activities in both Latin America and Asia. Without the Japanese government's ability to influence the banks and without Japan's involvement in development financing to Latin America during the late 1970s and early 1980s, Japan's initiative in resolution of the debt crisis after 1985 would have been quite different. The private financial sector in Japan is not, however, merely a passive actor. The financial sector has a voice that influences the government's foreign policies, particularly when it can play on the government's need to protect domestic financial stability. This influence is reinforced when the financial sector forms ties with supportive counterparts on the other side of the Pacific—American banks and financial institutions lobbying the U.S. government (see chap. 5).

During the 1994–95 Mexican peso crisis, Japan's private financial sector had a very limited interest in influencing the Japanese government to get involved in crisis management on its behalf. The financial sector was not greatly exposed to the crisis, and the new financing facilities for Mexico, mostly in the form of portfolio capital flows without interbank ties, inhibited the formation of institutional linkage among financial sectors (see chap. 6). Although the formation to some degree of a "united front" among international financial sectors did exist, its cohesion was not as strong then as during the Latin American debt crisis.

Within the series of Asian financial crises, the contrast between the case of Thailand and Korea provides solid support to the importance of the institutional linkages among transnational banks in establishing strong collective action among creditors (see chap. 8). Because loan exposure in Thailand was predominately concentrated in Japanese banks, other transnational banks did not have a high stake in resolution and thus were not interested in establishing the united front themselves or in influencing the creditor governments' policies. The high exposure of many European, American, and Japanese banks in Korea, however, made the formation of a coalition of banks inevitable.

Furthermore, by the mid-1990s, the domestic transmission channels from Japan's financial sector to the Japanese government, which had previously provided strong political power to Japan's financial sector, became weaker. Contributing to this weakening were such factors as intensified financial liberalization, financially and politically debilitated banks, various collusion and corruption charges between Ministry of Finance (MOF) officials and employees from major banks, the "loss" of the Bank of Tokyo (which merged with Mitsubishi Bank in 1996) as a leading foreign exchange bank and a coordinator of international financial affairs, and political instability in Japan. The Japanese government's reluctance or ambivalence as it became involved in the Mexican peso crisis and the Asian financial crisis was in part a reflection of Japan's domestic dynamics (see chaps. 6 and 8).

The second type of transnational linkages (economic linkages) establishes a link between Japan and the countries in economic crisis through another creditor country, such as the United States, in which Japan has a high economic and political stake. In the case of Japan's involvement in the Latin American debt crisis, an important factor influencing Japan's behavior was the intensification in the 1980s of U.S.-Japanese economic and financial integration. Obviously, the U.S.-Japanese bilateral relationship, including their security arrangement, has traditionally been very important for the formation of Japan's foreign policy, and the recent integration tied Japan's economic fate to that of the United States—through trade, investment, and exchange rate links—much more closely than before. Japanese banks held major vested interests in the economic well-being of the United States, and the Japanese government recognized the possible negative repercussions of increased economic problems in the United States. The Japanese government supported

U.S. initiatives to assist the economic recovery of Latin American debtors, thus behaving in a way that benefited the U.S. economy. Weakened in part by Latin America's economic problems, the United States counted on Japanese financial contributions when U.S. economic and budgetary problems kept the United States from acting on its own as a large financial supplier to the region.

These economic linkages corroborate the importance of the triangular relationship between the United States, Japan, and Latin America in the case of Japan's involvement in the Latin American debt crisis in the 1980s. Japan's interests in the health of the U.S. economy triggered Japan's involvement in Latin America, and this involvement, in turn, affected the form of the collective management of the crisis. A division-of-labor arrangement also took place in this triangle, as the United States provided more substantial support to certain Latin American countries in which it had a stronger security interest, while Japan provided support to those countries with higher economic ties to the United States (see chap. 3).

In the case of the Mexican peso crisis in the mid-1990s, although economic interdependence between the United States and Japan persisted, the robust U.S. economic recovery of the mid-1990s lowered the Japanese government's stake in supporting the United States. Concomitantly, Japan's economic downturn further limited the feasibility of Japan's supporting role, in the absence of its direct interest in the region in crisis (see chap. 6).

Finally, the Asian crisis management case allows us to analyze another triangle. In this case, Japan was suffering economically from financial crisis in neighboring countries, and the U.S. government needed to consider the added benefit that could come from Japan's recovery through successful Asian crisis management. As noted earlier, because of an asymmetry of power and different levels of dependence, the U.S. government's gestures of collaboration in managing the Asian crisis to support Japanese initiatives were limited, making it difficult for Japan to take leadership (see chap. 8).

In sum, the degree of private returns produced through collective action influences the motivations and efforts of creditor governments to actively engage in the collective management of financial crises. Private returns, however, do not appear merely in terms of a pursuit of narrow self-interest by a creditor government. Collective crisis management contributes to the production of international public goods, partly because of the strong economic interdependence among creditor countries, economic linkages that work to increase the economic and political stakes of crisis management even in regions where a creditor government does not have measurable direct interests. Furthermore, institutional linkages among private sectors influence the behavior of a creditor government. These linkages bind private financial sectors across borders and transmit common interests through domestic channels in respective home countries, thus influencing home governments.

Methodology

This study uses both the quantitative research method of inferential statistics (multivariate regressions) and comparative case studies of the Latin American debt crisis (1982–91) and the Mexican peso crisis (1994–95). Moreover, the study analyzes the Asian financial crisis (1997–98) to test in a different regional context the same hypotheses examined in the Latin American cases. The case of the Asian financial crisis enables us to draw a regional contrast and, at the same time, provides a test for a more robust and generalizable theory of a creditor government's behavior in financial crisis management. The variable to be explained is the varying behavior of the Japanese government in financial crisis management, particularly in collaboration with the United States, when these crises take place in a third country (i.e., neither in the United States nor in Japan). The factors that influence the outcome are disaggregated into (a) the production of both public and private returns from the collective action, (b) economic linkages that emerge from economic interdependence among creditor economies, (c) private sector interests in the solution of crises and their institutional ties, and (d) domestic political actions that transmit outside pressure on the Japanese government.[19]

The combination of quantitative and qualitative research has a certain advantage.[20] The formal quantitative analysis with multivariate regressions in chapter 3 has merit in establishing the microlevel dynamics regarding the various factors, with a clear specification of the model and of the relationship of the variables involved. The regressions allow for control of variables other than those of direct interest, and they in turn provide straightforward answers to the level of validity of the hypotheses with existing quantifiable information. But problems are always associated with the use of regressions. First, the operationalization and quantification of some variables are difficult, and data limitation can lead to a compromise as to the variables accurately captured by available information. Second, the results from the quantitative analysis have to be interpreted carefully, based on a qualitative understanding of the issue.[21]

The less formal qualitative analysis in the comparative case studies in chapters 5 and 6 serves not only to verify the results from the quantitative analysis but also to supplement them with historical information. The analysis of the stark contrast in Japan's involvement in two Latin American financial crises provides increased sophistication to the understanding of factors that led to Japan's actions and its cooperation with the United States. Although these qualitative analyses do not allow us to control for variables to the same extent as does the quantitative analysis, the comparison of the two Latin American financial crises provides a good basis for contrasting certain variables while keeping others constant.

The hypotheses examined through both quantitative and case study analyses of Japan's actions and its cooperation with the United States in the Latin American crisis are retested in the case of the Asian financial crisis (see chap. 8). By shifting the regional focus from Latin America to Asia, the case of the Asian crisis provides an excellent opportunity for generalizing these hypotheses. The regional contrast and its implications on collective financial crisis management are discussed in detail in the book's conclusion.

Book Structure

This book consists of eight chapters. The following two chapters lay out the theory and background of this study. Chapter 1 outlines the theoretical discussions that lead to the two major hypotheses noted earlier. These hypotheses aim to provide a framework to explain the variance in Japan's behavior and motivations during different cases of financial crisis management over the past two decades. The chapter also briefly evaluates possible alternative explanations for the behavior of creditor governments; these are discussed further in the book's conclusion. Chapter 2 provides a brief background of Japan's "rise to power" as a major financier and as a provider of capital and technology for the developing world. The discussion extends to an analysis of the dynamics between Japan and the United States, an interaction that has had a major impact on the character and intensity of collective crisis management. The point in this chapter is that with the rise of its economic power, Japan has become closely integrated with the United States as well as with Asia. The chapter also discusses the changes in Japan's relative economic power vis-à-vis the United States over the past two decades.

After the descriptive data analysis of chapter 2, chapter 3 examines quantitatively the two broad hypotheses stated in chapter 1, by operationalizing the concepts and analyzing how Japan's official flows were allocated in Latin America during the Latin American debt crisis. Japan's official flows (both concessional and nonconcessional) constituted a large part of Japan's contribution to the solution of the Latin American debt crisis, and the amount and timing of such financial disbursement captures the Japanese government's interests in engaging in the debt solution.

Chapter 4 provides an introduction to the comparative case study of Latin America. The following two qualitative chapters (chaps. 5 and 6) examine Japan's actions and collaboration with the United States in the Latin American debt crisis and the Mexican currency crisis, respectively. These two cases are contrasted in chapter 4.

Chapter 7 introduces the case study of Asia. Then, chapter 8 focuses on the dynamics of financial crisis management in Asia (Thailand, Indonesia, and Korea) since 1997.

Finally, the conclusion revisits the theoretical discussion of chapter 1, discusses the implications of the regional contrast, and lays out the future course of this type of study.