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Two-level games and bargaining outcomes: why *gaiatsu* succeeds in Japan in some cases but not others

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The last several years have seen a renewed interest in the ways in which politics at the domestic level affects and is affected by politics at the international level. In particular, Robert Putnam's formulation of international negotiations as "two-level games" has been greeted with positive reviews and has inspired a large collaborative project with multiple case studies designed to refine and further develop the model.[1] Although Putnam's approach has supplied those of us interested in international negotiations with a rich array of analytical problems to explore, it is my view that Putnam's greatest contribution to our understanding of the dynamics of international negotiations lies in the ability of his framework to capture the interactive nature of international bargaining, in particular its description of how international negotiations create opportunities for negotiators to pursue synergistic strategies aimed at reshaping politics in both their own and their counterparts' domestic arenas to make possible

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1. Robert Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," *International Organization* 42 (Summer 1988), pp. 427–60. The collaborative project is led by Peter Evans, Harold K. Jacobson, and Robert Putnam, eds., and is entitled *Double Edged Diplomacy: International Bargaining and Domestic Politics* (Berkeley: University of California Press, forthcoming). One measure of the positive reviews that greeted Putnam's approach is the range of authors who participated in the collaborative project. Contributors include several scholars interested primarily in security studies and in North–South relations, both of which areas are removed from the sphere of North–North economic relations that originally had served as the basis for Putnam's framework. See also Helen Milner, "International Theories of Cooperation Among Nations: Strengths and Weaknesses," *World Politics* 44 (April 1992), pp. 466–96. Other recent works applying and/or reacting to Putnam's work include Frederick W. Mayer, "Managing Domestic Differences in International Negotiations: The Strategic Use of Internal Side-Payments," *International Organization* 46 (Autumn 1992), pp. 793–818; and Howard P. Lehman and Jennifer L. McCoy, "The Dynamics of the Two-Level Bargaining Game: The 1988 Debt Negotiations," *World Politics* 44 (July 1992), pp. 600–644.

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deals that would not have been possible in the absence of interaction between the two levels.[2]

Despite the promise of this aspect of Putnam's model, it is the contention of this article that Putnam's concept of "synergistic strategies" remains underdeveloped. First, it will be argued that Putnam and his collaborators have thus far failed to recognize several such strategies with analytical and empirical significance. Specifically, the article identifies two additional strategies not captured in the original formulation of the framework. As described in more detail below, Putnam concentrates his discussion on two interactive phenomena he identifies as "reverberation" and "synergistic linkage." These two strategies, it will be argued, fail to capture the important ways in which a chief negotiator can change the domestic political game facing his counterpart by expanding the level of participation in his decision-making process and by specifying alternatives for consideration within his domestic policy process.

Second, Putnam and his followers have thus far failed to adequately specify the conditions under which a given chief negotiator will be able to use synergistic strategies to produce positive results, both in terms of making cooperation possible and in terms of winning larger concessions from his or her counterpart. While Putnam in his original article identifies the two synergistic strategies mentioned above, he does not attempt to specify when those tactics are likely to be successful other than to say they are likely to produce more positive results when the nations involved are allies, the issues are economic, and relations between the countries are interdependent.[3] These specifications tell us nothing about what specific kinds of issues, within the very broad category of economic issues within a given relationship, are likely to be more responsive to synergistic strategies. The collaborative project is more ambitious in that it advances numerous hypotheses related to Putnam's framework, but many of these are unrelated to synergistic strategies.[4] It is the aim of this article

2. Moravcsik similarly emphasizes this aspect of Putnam's approach, arguing that the main advantage of the two-level game framework over other approaches that have tried to combine domestic and international factors is that Putnam's model captures how the two levels simultaneously interact while the other approaches treat one level or the other as primary and then "add" the influence of the second level. See Andrew Moravcsik, "Introduction: Integrating International and Domestic Theories of International Bargaining," in Evans, Jacobson, and Putnam, *Double Edged Diplomacy.*

3. Putnam, "Diplomacy and Domestic Politics," pp. 447–48 and 455–56.

4. Evans, in his concluding chapter of the collaborative project, identifies nine hypotheses as the primary contributions of the book, but only three of those address the issue of when synergistic strategies are likely to be successful. Two emphasize that certain strategies ("tying hands" and manipulating information about ratifiability) are rarely likely to work, while one argues that collusion between chief negotiators is more likely to work when a negotiator is a "dove" in relation to his domestic constituents. See Peter B. Evans, "Building an Integrative Approach to International and Domestic Politics: Reflections and Projections," in Evans, Jacobson, and Putnam, *Double Edged Diplomacy,* manuscript pp. 4–7. Individual authors also discuss conditions that are and are not conducive to efforts to manipulate domestic "win-sets," but most of their focus is on efforts by negotiators to manipulate *their own* domestic politics to make possible a deal they think needs to be made. See the summary of the authors' findings in this area in Moravcsik, "Introduction," manuscript pp. 35–38. This article focuses on synergistic strategies through which negotiators may be able to manipulate *their counterparts'* domestic win-set to their own advantage.

to begin to address this deficiency by advancing two specific propositions about the conditions under which synergistic strategies are likely to produce positive results.

The article makes the case for the utility of Putnam's model (relative to competing approaches concentrating primarily on the systemic or domestic level) and demonstrates the need for the above set of modifications by focusing on a set of U.S.–Japanese negotiations known as the Structural Impediments Initiative (SII). Within the context of this "dialogue" (the SII talks were technically not defined as "negotiations"), the United States exerted a great deal of pressure on Japan to implement reforms in a range of areas identified by the U.S. government as structural barriers to the expansion of U.S. exports to Japan: macroeconomic policies affecting Japan's savings–investment balance, Japan's distribution system, the nation's land policy, exclusionary business practices, and the uncompetitive relations between firms in *keiretsu* groups.[5] All of these areas were given essentially equal billing in the Bush administration initiative linked to the aggressive Super 301 provision of the 1988 Omnibus Trade and Competitiveness Act. Nevertheless, the results of this foreign pressure (known as *gaiatsu* in Japan) were decidedly mixed. The United States achieved much of what it wanted in the first three areas listed above but came away with very little on the last two.

Several characteristics of this set of case studies make it useful for the purposes outlined above. First, the fact that the set of cases all involved the same two parties and were carried out at the same time yet produced widely varying results allows us to treat certain key variables (primarily at the system level) as constant and focus on a more limited set of factors (involving domestic politics and interaction between the two levels) for the explanation of the variation in outcomes. The cases particularly highlight the difficulty system-level theories have in explaining variation in distributional outcomes. Realist theories might be able to predict that the outcome of the SII talks as a whole was likely to have been "cooperative," but they would have difficulty explaining why the Japanese conceded more on macroeconomics than on antitrust policy.

Second, the cases are suited to this article's focus on synergistic strategies because they make clear that a focus on domestic politics separate from its relationship to international negotiations cannot explain the variation in outcomes either. All of the American SII demands initially provoked strong opposition from influential Japanese political forces (the U.S. demands did not initially fall within the Japanese negotiators' win-sets, to use Putnam's terminology), and yet the Japanese ended up making significant concessions in some areas. It is the contention of this article that the explanation must

5. In addition, the United States criticized the operation of the price mechanism in Japan. As negotiations proceeded on this topic, however, it became clear that the problem of price differentials between Japan and foreign markets was more a result of other structural barriers than a cause of the trade imbalance in and of itself. The SII talks on this subject therefore concerned the monitoring of price differentials as a way to measure progress. Given that substantive policy changes were not at issue in this case, it is not treated here as a separate case.

therefore lie in the ability of the Americans, in some cases only, to alter the political game inside Japan to its advantage. The cases therefore allow us to focus on the conditions that made it possible in some cases and impossible in others for the United States to reshape Japanese politics to achieve positive negotiating outcomes. In other words, the cases allow us to focus on the *conditions that make possible the positive application of synergistic strategies,* exactly that aspect of Putnam's model that, as argued above, remains underdeveloped.

Despite the utility of the cases in generating hypotheses related to the Putnam model for further testing and analysis, it must be recognized that this study is necessarily limited in ways inherent in the case-study method.[6] In particular, since the case studies involve a single pair of nations, the cases do not allow us to identify conditions specific to the U.S.–Japanese relationship that may influence the degree to which a given nation can successfully employ synergistic strategies. Nevertheless, the set of negotiations carried out under the SII banner remains useful in the effort to identify conditions, within a given relationship, that influence the degree to which such strategies will produce positive results. For negotiators faced with a choice of what issues to put on a negotiating agenda, such information can be of critical importance.

Given the heavy reliance on the case-study method in this article, I shall begin by describing the results of the SII negotiations and emphasizing the variation in outcomes. In the next section, I shall return to theory by exploring why approaches that focus narrowly on either the system level or the domestic level cannot account for this variation. That section will also point out the need for modification of the Putnam model to explain the case results; it will spell out why it is necessary to recognize additional synergistic strategies and draw out the propositions about when these tactics are likely to be effective. Finally, I shall return to the case studies to demonstrate the utility of the modified Putnam model in explaining how and why the American negotiators were successful in applying synergistic strategies in some cases and not in others.

SII results

The SII began in May 1989 as a compromise devised by the Bush administration to satisfy the minimum demands of a restless Congress eager to step up pressure on Japan while avoiding an open break in relations with one of the United States' most important allies. Seen by administration free traders and the Japanese as preferable to U.S. insistence on negotiating "structural" issues under the deadlines and threats spelled out in the Super 301 provision of the

6. Like the authors of the collaborative volume, I defend my reliance on the case-study method with the argument that the two-level game model remains in the early stages of development and requires empirical analysis as a first step toward developing a stronger theoretical base. See Moravcsik, "Introduction," pp. 23–24 and 33.

1988 trade act,[7] SII was designed to allow the two sides to talk about structural issues on both sides of the Pacific in hopes of relieving pressures associated with the trade imbalance.[8]

Japanese hopes that the SII would serve as a low-key forum for exchanging views, however, were quickly dashed, and by early spring of 1990, they had received a clear message that the United States expected concrete concessions. U.S. Trade Representative (USTR) Carla Hills demanded a down payment, Congress held hearings, and Bush called Japanese Prime Minister Kaifu to Palm Springs, California, to make sure he understood that the United States needed the Japanese to come up with specific reform commitments by April—in time for the United States to decide whether or not to keep Japan on the Super 301 hit list. Ultimately, therefore, the SII talks came to serve as a means through which the United States applied intensive pressure on the Japanese to make far-reaching reforms in a range of domestic policy areas.

The results of the yearlong talks—spelled out in an April 1990 interim report

7. The Super 301 provision of the Omnibus Trade and Competitiveness Act of 1988, itself a milder alternative to the blatantly protectionist Gephardt amendment, was clearly targeted at Japan. It required the U.S. Trade Representative to identify "priority" unfair trading countries and demand reforms in the unfair policies of those nations under the threat of sanctions. While the Bush administration had no choice but to name Japan on its Super 301 hit list in May 1989, it chose to limit the damage to U.S.–Japanese relations by targeting only three specific Japanese industries under that provision. Instead of including broader and more controversial Japanese structural barriers under the Super 301 framework, the administration proposed to deal with these through a less coercive series of talks (the SII). For an insider's account of Bush administration maneuvering on this issue, see Glen S. Fukushima, "Nichibei keizai masatsu no seijigaku: 4" (The politics of U.S.–Japan economic friction: 4), *Asahi Journal,* 1 February 1991, pp. 26–29. See also I. M. Destler, *American Trade Politics: System Under Stress,* 2d ed. (Washington, D.C.: Institute for International Economics, 1992), pp. 88–97 and 131–33; and Michael Mastanduno, "Setting Market Access Priorities: Super 301 and Japan," paper presented at the annual meeting of the American Political Science Association, Chicago, Illinois, 3–6 September 1992.

8. When the Japanese hesitated to go along with President Bush's SII proposal as originally framed, the administration further mollified the Japanese by agreeing to talk about structural sources of the trade imbalance on the U.S. side of the Pacific. Despite the fact that this made the SII talks technically bilateral, my research indicates that neither party took the American side of the bargain very seriously. It is true that the Americans made commitments of their own as part of the SII deal. They pledged to reduce the U.S. budget deficit, to promote private saving, and to seek to attain certain targets for improving their education system, among other commitments. The list of American promises, however, included few steps the U.S. government was not already planning to take and was also outlined in very vague terms. In fact, according to participants on the Japanese side of the negotiations, there were few illusions about the ability of the Japanese to affect American fiscal or education policy, even as they were going through the charade of proposing American concessions. This nebulous nature of the U.S. side of the talks explains why I have focused exclusively on the Japanese-side issues. I consider the SII talks an example of coercive bargaining, where one side makes threats and bargaining focuses on how much the other side will concede. For other case studies that examine coercive bargaining through the lens of the two-level game framework, see the following chapters in Evans, Jacobson, and Putnam, *Double Edged Diplomacy:* John Odell, "International Threats and Internal Politics: Brazil, the European Community, and the United States, 1985–1987"; Robert Pastor, "The United States and Central America: Interlocking Debates"; Lisa Martin and Kathryn Sikkink, "U.S. Policy and Human Rights in Argentina and Guatemala, 1973–1980"; Miles Kahler, "Bargaining with the IMF: Two-level Strategies and Developing Countries"; and Ellis Krauss, "U.S.–Japan Negotiations on Construction and Semiconductors, 1985–1988: Building Friction and Relation-chips."

and a June final report—were widely heralded as a breakthrough in resolving U.S.–Japanese tensions. Given that the Japanese had shown little ability or willingness to deliver any concessions as late as February, that nation's willingness to agree to significant concessions in some areas was a pleasant surprise. For the purposes of this analysis, however, it is particularly important that the Japanese did not yield uniformly across the five targeted areas. Rather, they offered significant concessions in two areas (macroeconomics and the distribution system), compromised somewhat in one (land policy), offered only minimal concessions in another (exclusionary business practices), and offered virtually no concessions in the last (*keiretsu* business groups).

The variation can be summarized as follows. In the case of the first two issue-areas, the Japanese made specific promises (subsequently honored) that were largely in line with U.S. demands: they agreed to devote a specific and larger sum of yen to public works, and they agreed to modify the controversial Large Store Law (LSL) in ways that have greatly facilitated the opening of new large stores. In the case of land policy, the Japanese agreed to limited changes in regulations and tax policies affecting land prices but did not go as far as American negotiators had hoped. In the area of exclusionary business practices, the Japanese agreed to make a few changes in the letter of the Anti-Monopoly Law (AML) but have subsequently shown only limited enthusiasm for enforcing it in more rigorous ways. Finally, in the area of *keiretsu,* the Japanese made virtually no concessions, refusing to alter regulations affecting cross-shareholding and shareholders' rights in ways demanded by the Americans. The subsections below provide documentation and more details about the American demands, the context in which they were negotiated, and the degree to which they were successful.

Macroeconomics and the savings–investment balance

The area in which the Americans were most successful in seeing their demands transformed into Japanese government policy was also the area that saw some of the greatest initial resistance: fiscal policy. Based on the macroeconomic rule that a nation's surplus savings equals its current account surplus, the United States called on Japan to take a number of steps to boost public investment to offset the nation's high savings rate. Until the late 1980s, Japan's persistent private sector surplus savings had been largely offset by large government budget deficits. As the government succeeded in stemming its deficit spending, however, the net surplus of savings began to grow—contributing, according to the United States, to Japan's growing trade surplus.[9]

9. The Japanese general government deficit in 1979 amounted to over 4 percent of gross national product (GNP), but after a decade of fiscal austerity the deficit had been turned into a surplus amounting to 1 percent of GNP in 1988; see Organization for Economic Cooperation and Development (OECD), *1988/89 OECD Economic Surveys: Japan* (Paris: OECD, 1989), p. 45. According to Lincoln, Japan's shift to fiscal austerity was one of the more important reasons for the emergence of the U.S.–Japanese current account imbalance in the 1980s; see Edward Lincoln, *Japan: Facing Economic Maturity* (Washington, D.C.: Brookings Institution, 1988), p. 212.

The solution was thus obvious: the Japanese government needed to start spending again. The United States pointed out that government fiscal restraint in the 1980s had left Japan behind its own goals for improving the social infrastructure and that the nation lagged behind other developed nations in key areas—sewers, parks, highways, and housing.[10] Specifically, the United States demanded that the Japanese commit to increasing the ratio of its gross national product (GNP) spent on public works from the 1989 ratio of 6.7 percent to 10 percent within three to five years.[11]

Throughout the talks, the Japanese were very resistant to these American demands. In particular, the Ministry of Finance (MOF) resented the American interference with its plan to restore fiscal responsibility after over a decade of annual budget deficits. It also considered the U.S. attempt to secure concrete spending commitments to be a gross intrusion into the nation's right to devise its own budget to meet its own economic needs.[12] Nevertheless, in April 1990 the Japanese government agreed to draw up plans for achieving specific social infrastructure targets and in late June, after more hard bargaining, agreed to commit itself to spending a specific sum (430 trillion yen) on public works over the next ten years.[13] The 430 trillion yen (approximately $3 trillion) was still less than the amount the Americans had demanded but marked an increase over the original Japanese offer of 400 trillion yen and amounted to a commitment to a substantial increase in the ratio of GNP spent on public works (from 6.7 percent to about 9 percent).[14] Significantly, the Japanese have by all accounts lived up to this pledge.[15]

The distribution system

The Japanese system of distribution was another area in which the Americans won significant concessions, despite the fact that the structural impediments involved in this case also were stubbornly defended by powerful

10. Testimony of Charles H. Dallara, leader of the treasury delegation to the SII talks, in U.S. Congress, Senate Committee on Finance, *United States–Japan Structural Impediments Initiative (SII): Hearings Before the Subcommittee on International Trade,* 101st Congress, 2d sess., 5 March 1990 (hereafter referred to as the *SII Hearings of 5 March 1990*), p. 45.

11. Keisuka Okada, "Ball is Now in U.S. Court on SII Talks," *Japan Times Weekly,* international edition, 9–15 April 1990, p. 1.

12. Peter Ennis, "U.S.–Japan 'Structural Impediments' at an Impasse," *Tokyo Business Today,* April 1990, p. 22. See also interviews with MOF officials, Tokyo, summer 1992.

13. Japan Economic Institute, *JEI Report,* no. 15B, 13 April 1990, p. 7, and *JEI Report,* no. 26B, 6 July 1990, pp. 11–12.

14. William H. Cooper, "Japan–U.S. Trade: The Structural Impediments Initiative," *Current Politics and Economics of Japan,* vol. 1, no. 1, 1991, pp. 73–81. It is, of course, impossible to specify exactly what proportion of GNP the nation's 430-trillion-yen commitment will equal in the absence of prior knowledge about how fast Japanese GNP will grow over the period of the ten-year plan. The 9 percent estimate is based on my own calculations assuming a 4 percent sustained growth rate over the remaining years of the ten-year plan.

15. *Japan Times Weekly,* international edition, 7–13 January 1991, p. 1, and 4–10 January 1993, p. 6. "First Annual Report of the SII Follow-up," 22 May 1991, pp. 1–3, and "Second Annual Report of the SII Follow-up," 30 July 1992, pp. 1–3; reports provided by the Japanese Embassy, Washington, D.C.

forces in Japan. The Americans were concerned that excessive regulation by the Japanese government and collusive practices among distributors limited the ability of newcomers (especially foreign producers) to get their products to the market at an affordable price. Over the course of the SII talks, one particular law became the symbol of U.S. frustration with Japan's distribution system: the LSL. Under the terms of that law, large retailers planning the expansion of an existing store or the establishment of a new store were required to notify the Ministry of International Trade and Industry (MITI) and participate in an adjustment process designed to consider the interests of local merchants and consumers. The law functioned in such a way that local small retailers were able to hijack the process and delay the opening of new stores for years, thereby forcing many stores to give up their expansion plans.[16] This system, the United States argued, prevented the expansion of large stores that were more likely to sell imported goods—thus making it all the more difficult for U.S. producers to break into the Japanese market. The United States demanded the repeal of the law.[17]

As in the case of the U.S. demand that Japan drastically increase its public works spending this second demand by the United States also met with fierce resistance from elements within MITI, the Ministry of Home Affairs (defending the right of local governments to enforce their own regulations), and the Liberal Democratic party (LDP), which was very sensitive to pressure from the politically influential small business lobby. Because of this resistance the Japanese had been unable to deal with the LSL issue on their own despite efforts dating back several years, and not surprisingly, the Japanese side of the SII negotiations strongly resisted the American call for repeal. Nevertheless, following Bush's strong-arm act at Palm Springs, the Japanese side suddenly came forward with major concessions. As spelled out in the April interim report and the June final report, the Japanese government agreed to some very specific changes in the LSL. These included implementing changes in the administration of the law that reduced the delay between request for and opening of new stores to eighteen months and agreeing to rewrite the law within a year to reduce the delay to twelve months.[18] That these

16. Frank Upham, "Privatizing Regulation: The Implementation of the Large-scale Retail Stores Law," in Gary Allinson and Yasunori Sone, eds., *Political Dynamics in Contemporary Japan* (Ithaca, N.Y.: Cornell University Press, 1993), pp. 264–94. The OECD notes that new openings of large stores dropped from 1,605 in fiscal year 1979 to 499 in fiscal year 1985; see OECD, *1987/88 OECD Economic Surveys: Japan* (Paris: OECD, 1988), p. 78. Delays of seven to eight years between announced intention to open a store and actual opening were not unusual; see Toshimasa Tsuruta, "Kokusaika jidai no daitenho was do arubekika?" (What shall we do with the Large Store Law in an era of internationalization?) *Ekonomisuto,* 13 December 1988, pp. 44–51.

17. The argument that stores like Toys R Us were closed out of the market by the LSL (which came to be a symbolic issue in the SII talks, culminating in the spectacle of George Bush presiding over the grand opening of a Toys R Us store during his January 1992 visit to Japan) only became part of the American argument once the talks were significantly underway; see Nihon Keizai Shimbunsha, ed., *Daitenho ga kieru hi* (The day the Large Store Law is extinguished) (Tokyo: Nihon Keizai Shimbunsha, 1990), p. 4.

18. The Japanese also agreed to some other important changes (all implemented), including (1) restrictions on the ability of local governments to limit retail store expansion and (2) legislative

changes (all implemented) were having an affect became clear as MITI announced that it was processing a record number of requests to open new large stores. Approvals during fiscal 1990 increased to 617 large stores from just 132 during the previous fiscal year.[19]

Land policy reform

In the issue-area of land policy reform, probably the most complex of those discussed under the SII framework, the Japanese agreed to make limited changes along the lines advocated by the Americans. The issue was on the SII agenda because Japan's urban land prices—already among the highest in the world—had skyrocketed in the late 1980s and because the Americans saw those high land prices as aggravating the trade imbalance in three ways: first, by discouraging foreign firms from establishing operations in Japan; second, by placing new (landless) foreign firms at a distinct competitive disadvantage relative to established Japanese firms that had bought land when it was much cheaper; and third, by aggravating the macroeconomic savings–investment balance. The last argument, reflecting the rationale of the first issue-area discussed above, pointed to the ways in which high land prices forced Japanese consumers to save more (to buy exorbitantly priced homes) and spend less (as high prices depressed spending on construction and consumer durables). Lower land prices would free consumers to spend more on everything, including imports.[20]

Unlike the cases of public works and the distribution system, however, the United States did not have a simple, straightforward demand in the case of land policy. Reflecting the complexity of the problem, the U.S. side called for a range of changes in tax and regulatory policies designed to increase the supply of land and allow its more efficient use—thus bringing down the price. Particularly of concern to the Americans were tax policies that encouraged urban farmers to keep their land in farming and encouraged firms to hold onto idle land for use as collateral, as well as regulatory policies that discouraged multistory and rental housing construction. Such tax and regulatory policies, the U.S. side argued, created an artificial shortage of land, which aggravated the land price problem.[21]

In pressing these demands, the Americans encountered a mixed response. A few actors, including the National Land Agency and the Construction Ministry, supported many of the U.S. proposals. On the other hand, the American

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changes taking the local adjustment process away from the informal (and nontransparent) local coordination councils and putting it under the control of MITI-run large-scale retail store councils. The Japanese also promised to conduct a basic review of the law in 1993 with consideration given to total deregulation in specific geographical areas, but it remains to be seen whether they will follow through.

19. *Japan Times Weekly,* international edition, 20–26 May 1991.

20. Testimony of Dallara, *SII Hearings of 5 March 1990,* p. 45.

21. Ibid. See also Shigeko Fukai, *Japan's Land Policy and Its Global Impact,* U.S.–Japan Program Occasional Paper no. 90-01, Harvard University, Cambridge, Mass., 1990, p. 46.

demands for land tax increases were strongly opposed by the affected groups (farmers and business groups) and by their bureaucratic patrons (the Ministry of Agriculture and MITI). In fact, land policy reforms of the type proposed by the Americans had been proposed in the past and had been emasculated to the point that they had no lasting effects. Nevertheless, this time, limited tax and regulatory changes were adopted in many of the areas targeted by the United States, and land prices did begin to fall.[22] The reforms remained limited, though, in that the Japanese did not go quite as far in their tax and regulatory changes as the Americans had demanded.

Exclusionary business practices

The United States was able to win only minimal concessions in response to its demands grouped under the umbrella term "exclusionary business practices," which was used to refer to a range of private sector collusive practices that had the effect of excluding foreign firms from Japanese markets. The Americans were concerned about (1) the rigging of construction project bids; (2) a slow patent process and collusive arrangements among firms to delay purchase of technologically advanced foreign products until Japanese firms were able to replicate foreign advances; (3) cartels designed to protect uncompetitive industries by keeping out foreigners, fixing prices, and dividing the Japanese market; and (4) manufacturer-controlled distribution networks that effectively excluded foreign products. While such activities largely were undertaken by the private sector, the United States blamed the Japanese government for failing to regulate such behavior. Specifically, the U.S. side called for increased funding and staffing of the Japanese government agency in charge of policing anticompetitive behavior (the Fair Trade Commission [FTC]), changes in the AML designed to give it more teeth, and more vigorous enforcement of the law.[23]

In pursuing these demands, the Americans encountered at least as much opposition as on any other issue. For many Japanese, the entire antitrust system was a foreign creation (adopted during the U.S. Occupation after World War II) not in conformance with the traditional Japanese emphasis on informality in business dealings. MITI and the business community had already

22. In the SII agreement, the Japanese government committed to changes in tax and regulatory policy and over the course of the next two years passed a series of legislation that (1) ended the preferential treatment of urban farmland, (2) strengthened the special land-holding tax on idle land, and (3) revised sunshine regulations and the lease laws to encourage more multistory and rental construction. In addition, the government went beyond its official commitment in the final SII report and adopted for the first time a national land-holding tax on individuals and firms with large land holdings. See "First Annual Report of the SII Follow-up," pp. 11–14. By 1992 it was clear that these measures (combined with probably more important monetary policies designed to limit land speculation) were bringing land prices down so fast (some estimate by 30 percent) that the dominant concern became the need to stop the free-fall; see Jonathan Friedland and Louise do Rosario, "Financial Earthquake," *Far Eastern Economic Review,* 26 November 1992, pp. 55–58.

23. Testimony of S. Linn Williams, *SII Hearings of 5 March 1990,* pp. 113–114.

fought many battles to limit the powers of the FTC and the AML, and they were not about to give in easily to the latest foreign demands. Even the FTC, though sympathetic with the need to increase its staff, funding, and powers, was defensive about its preference for informality in dealing with anticompetitive cases.[24] In addition to this general lack of enthusiasm for more vigorous antitrust enforcement, specific U.S. proposals such as those aimed at ending the rigging of construction project bids and breaking up cartels in long-protected segments of the economy ran up against the potent opposition of powerful interest groups.

Faced with this negative reception, the U.S. side made much less progress in achieving its objectives in this case than in the previous three. The Japanese agreed to draw up guidelines to clarify which practices were illegal under the AML and to increase staffing and funding of the FTC. Most of their commitments, however, were phrased in vague terms, and in the year following the adoption of the SII report, it became clear that the Japanese government was going to interpret those commitments in the most conservative way possible.[25] Although the government decided to revise the AML, the new maximum levels for fines and criminal penalties were felt by the Americans to be still too low to deter collusive behavior. Despite steps by the FTC to increase the number of cases pursued and to publicize its decisions, many on the U.S. side remained pessimistic about what had been achieved through the SII process on this issue.[26]

Keiretsu relationships

A related demand of the American delegation to the SII talks concerned a particular class of interfirm relationship that the Americans considered to be one of the more important structural barriers to U.S. exports: the *keiretsu.* Nevertheless, the United States was almost totally unsuccessful in winning Japanese concessions. The Americans charged that firms participating in these networks, such as those in the Sumitomo, Mitsubishi, and Mitsui groups as well as the groups of suppliers and distributors dominated by manufacturing giants

24. See testimony of Commerce Undersecretary J. Michael Farren, *SII Hearings of 5 March 1990,* p. 51; and Yuko Inoue, "FTC is a Referee with a Quiet Whistle," *Japan Economic Journal,* 18 November 1989, p. 6.

25. Examples of the "vagueness" of terms include the Japanese government's agreements to "continue to make efforts to eliminate bid-rigging on government projects"; "raise the surcharges against cartels so that they effectively deter violations"; and "actively seek criminal penalties." See "Joint Report of the Working Group on SII, June 1990," reprinted in *SII Hearings of 5 March 1990,* pp. 98–100. Yamamura wrote a similarly pessimistic evaluation of the Japanese government's SII promises in this area; see Kozo Yamamura, "Will Japan's Economic Structure Change? Confessions of a Former Optimist," in Kozo Yamamura, ed., *Japan's Economic Structure: Should it Change* (Seattle, Wash.: Society for Japanese Studies, 1990), pp. 13–64, especially pp. 55–56.

26. Paul Blustein, "Top Treasury Official Warns Japan on Monopoly Practices," *Washington Post,* 23 May 1991, p. B18. See also "Comments of the U.S. Delegation," in "First Annual Report of the SII Follow-up," p. 7.

like Toyota, Nissan, and Matsushita, systematically discriminated against nongroup firms (including U.S. firms). Such groups, the Americans pointed out, were locked in tight relationships based on cross-shareholding, interlocking boards of directors, and stable business deals that sometimes seemed to defy economic logic. In sum, U.S. Treasury negotiator Charles Dallara charged, "*Keiretsu* ties foster preferential group trade at the cost of outside suppliers, help facilitate exclusionary business practices, and deter foreign direct investment, especially mergers and acquisitions."[27]

To remedy this problem, the United States demanded that the government of Japan limit cross-shareholding, increase shareholders' rights, and force firms to make public more of their business decisions. Such changes, the United States hoped, would make it easier for U.S. firms to get involved in the Japanese market through mergers and acquisitions while at the same time forcing Japanese firms to be more responsive to profit considerations. Once removed from the protective womb of cross-shareholding and limited disclosure requirements, managers would have a more difficult time defending questionable business deals based on group connections.

Like all of the American demands described above, these demands encountered a storm of criticism. The Japanese business community, professional economists, and government bureaucrats all defended *keiretsu* arrangements, describing them as economically rational and not overly exclusionary.[28] It was the Americans who should change their own system, the Japanese argued. Thus, in the 1990 SII agreement, the Japanese side insisted that the Americans agree to a clause recognizing "certain aspects of economic rationality of *keiretsu* relationships" and agreed to make only limited changes in the way it regulated cross-shareholding: the Japanese government would increase FTC monitoring of intra-*keiretsu* deals, and if it found that cross-shareholding among *keiretsu* firms led to restraints on competition, it would limit such practices. Not surprisingly, when the FTC issued its February 1992 report based on a study of the six major *keiretsu,* it found no preference for intragroup trade within such groups.[29] Consequently, the FTC has proposed no new restrictions on cross-shareholding.

Explaining the results

The above summary of the results of the SII talks emphasized the variation in the distributional outcomes of the negotiations over the five issues. While the

27. Testimony of Dallara, *SII Hearings of 5 March 1990,* p. 46.

28. See Steven Weisman, "Trade Talks Fail to Produce Gains for U.S. or Japan," *New York Times,* 16 March 1991, p. A1; and Imai Ken'ichi, "The Legitimacy of Japan's Corporate Groups," *Japan Echo* 17 (Autumn 1990), pp. 23–28.

29. Fair Trade Commission Executive Office, *The Outline of the Report on the Actual Conditions of the Six Major Corporate Groups,* February 1992, p. 19.

overall package was greeted with positive reviews on both sides of the Pacific and can therefore be considered cooperative, the degree to which the Japanese side compromised on separate issues varied greatly. This section will focus on alternative approaches to explaining this variation, with a particular focus on the need to modify Putnam's two-level game framework in order to capture the important ways in which international and domestic politics interacted to produce these results.

First, let us examine the utility of explanations emphasizing international pressure. The most straightforward of these argues that the outcomes of international negotiations can be explained by treating states as unitary actors (for analytical purposes) and exploring how such states, acting in their national interest, are likely to interact. Weak nations are likely to agree to policy changes demanded by powerful nations when those demands are backed up by explicit threats of retaliation.[30] Games such as prisoners' dilemma can be used to show how it is rational in some cases and irrational in others for states to choose to cooperate.[31]

Such approaches have generated interesting insights into the decisions of states to cooperate or to defect. As others have noted, however, they are not very useful in explaining the more specific distributional outcomes of negotiations,[32] and they have not developed systematic hypotheses about how domestic politics produce a nation's "national interest" and the strategies to be pursued at the international level.[33] The cases considered in this article highlight the limitations of system-level theories because they reveal the wide variation in outcomes that can result even when most system-level variables are held constant. As noted in the introduction, one of the attractions of the SII talks as a set of cases is that they involved the interplay of the same two actors at the same time.

Nevertheless, it is possible to imagine several system-level explanations for the variation in SII outcomes. First, it is possible that some variation can be explained by differences in relative American power over issue-areas. It has

30. Within the international relations literature, the realists take this position. Such assumptions can also be found, however, in less theoretical studies of U.S.–Japanese economic relations in such places as the study conducted by the Advisory Committee for Trade Policy and Negotiations (ACTPN). After examining the recent history of U.S. attempts to pressure Japan, the group concludes: "Japanese Government officials have a keen sense of where their national interest lies, and when faced with credible threats of retaliation that adversely affect that interest, they usually choose to accommodate requests from the United States." See ACTPN, *Analysis of the U.S.–Japan Trade Problem,* February 1989, p. 108. Implied is the idea that the Japanese government is a unitary actor that will respond rationally to the realities of power relations.

31. See Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, N.J.: Princeton University Press, 1984); Robert Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984); and Joseph Grieco, *Cooperation Among Nations* (Ithaca, N.Y.: Cornell University Press, 1990).

32. James K. Sebenius, "Challenging Conventional Explanations of International Cooperation: Negotiation Analysis and the Case of Epistemic Communities," *International Organization* 46 (Winter 1992), pp. 323–65.

33. Milner, "International Theories of Cooperation Among Nations," pp. 488–495.

been asserted, for example, that relative power balances can vary, even between the same set of states, if the issues involved are in different areas (e.g., security versus economic issues).[34] I would argue, however, that the SII issues all fall into a rather narrow category of economic issues and that therefore realism would predict similar responses to similar external pressure.

Second, it is possible that my assertion that the United States applied "similar external pressure" across the SII issue-areas is an oversimplification. It is possible, for example, that U.S. negotiators informally communicated to the Japanese that they were more concerned about getting concessions in one area than in another. If so, and if the pattern of concessions conformed with such an informal expression of U.S. priorities, then realist theory might be able to account for the variation in SII outcomes. My research indicates, however, that two of the areas experiencing the fewest concessions (the exclusionary business practices and *keiretsu* areas) were actually the top priorities of the U.S. side—especially of USTR negotiator S. Linn Williams. It is therefore doubtful that the U.S. side signaled the Japanese that these were low priorities of the SII effort.[35]

Third and relatedly, even if U.S. negotiators were equally concerned about all of the SII issues, it is possible that U.S. threats were not equally credible across the five areas.[36] American constituencies behind each of the SII demands may not have been equally determined to force retaliation, and the Japanese may have sensed this variation and responded only in those areas where they felt they had no choice. Again, however, my research indicates that some of the most organized and determined interests on the American side were most concerned about the *keiretsu* and antitrust issues. In congressional testimony, organizations like the National Association of Manufacturers made it clear that they were more concerned about these issues (which they saw as directly limiting exports) than about land policy or macroeconomics. U.S. congressmen echoed these concerns.[37] Yet the Japanese made more concessions in the latter areas than in the former. Threat credibility, therefore, does not seem to be the explanation either.

Finally, the variation in SII outcomes might be explained in realist terms by

34. Robert O. Keohane and Joseph Nye, *Power and Interdependence,* 2d ed. (HarperCollins, 1989), pp. 30–31.

35. See Japan Economic Institute, "Outlook for U.S.–Japan Trade Relations: An Interview with S. Linn Williams of USTR," *JEI Report,* no. 1A, 11 January 1991, p. 2.

36. Much of the work on threat credibility has been done by those, like Schelling, who treat international bargaining as a game between states seen as unitary actors; see Thomas Schelling, *The Strategy of Conflict* (Cambridge, Mass.: Harvard University Press, 1960). Odell, however, has emphasized that threat perception cannot be understood without reference to domestic politics since threats too must be "ratified"; see John S. Odell, "International Threats and Internal Politics."

37. Testimony of R. K. Morris, National Association of Manufacturers director for international trade, in U.S. Congress, Senate Committee on Finance *Super 301: Effectiveness in Opening Foreign Markets: Hearings Before the Subcommittee on International Trade,* 101st Congress, 2d sess., 27 April 1990, pp. 79–80.

referring to Japan's interest in minimizing its costs of adjustment. Having judged that it had to come up with a package of concessions acceptable to the Americans, it may have conceded only to those American demands where it faced the lowest costs. While it is difficult to disagree with such an argument in the abstract, that rationale begs the question of how those costs might be calculated. Was it less of an adjustment for the Japanese to agree to give up a great deal of autonomy in their fiscal policy (by committing to a specific sum of public works spending) than for them to agree to raise the upper limit on surcharges imposed under the AML to the level demanded by the Americans? Ultimately, it is domestic politics that determines how these costs will be calculated, and realists have not yet been able to devise systematic propositions about how this is done.

The counterarguments to realist interpretations outlined above should not be taken to imply that I believe that system-level variables do not matter. It will be argued in more detail below that American pressure and negotiation strategies were in fact crucial determinants of the SII outcomes. The arguments merely are meant to show that the effects of this pressure and these strategies cannot be accounted for without reference to the way in which they interacted with domestic politics on the Japanese side.

If interpretations based only on system-level variables are therefore unsatisfactory, it is also impossible to account for the variation in SII outcomes through domestic politics alone. Some observers of U.S. pressure on Japan have argued that such tactics work only when the domestic balance of power already favors or shifts on its own to favor the U.S. position. Dennis Encarnation and Mark Mason, for example, examine the Japanese response to U.S. demands for capital liberalization and argue that Japan agreed to allow selective cases of U.S. foreign investment only when "domestic constituencies finally championed foreign demands and pressured a reluctant state for concessions."[38] According to their argument, all the U.S. government could do was wait. Frances Rosenbluth, writing about the role of U.S. pressure in bringing about later policies of financial liberalization, comes to a similar conclusion, arguing that reforms were adopted almost exclusively in areas where the domestic balance of power happened to be in line with U.S. demands. According to the logic of her argument, many of the elements of financial liberalization adopted in the 1980s could have been accomplished without foreign pressure.[39]

38. Dennis J. Encarnation and Mark Mason, "Neither MITI nor America: the Political Economy of Capital Liberalization in Japan," *International Organization* 44 (Winter 1990), pp. 25–54; the quotation is from p. 25.

39. Frances McCall Rosenbluth, *Financial Politics in Contemporary Japan* (Ithaca, N.Y.: Cornell University Press, 1989). Rosenbluth argues that "foreign diplomatic pressure is effective only when market forces have already altered domestic costs and benefits or when there is a perceived threat of retaliation" (p. 53) and that policies in the end reflect "the ever changing landscape of power and interest" in the domestic politics of specific sectors (p. 94). Although she does recognize that

Similar arguments would posit that in the SII cases as well, no more concessions were extracted as a result of foreign pressure than might have been produced without foreign pressure, solely as a result of the activities of domestic political actors. While purely domestic theories of foreign relations have not been in vogue of late, I justify the consideration of the above hypothesis because such interpretations have found expression in analyses of U.S.–Japanese relations (including the work of one influential critic of the Bush administration's SII strategy) and because consideration of the ways in which this purely domestic explanation falls short also serves to highlight the ways in which Putnam's "interactive" approach does a better job of capturing how domestic politics shapes the outcomes of international negotiations.

The argument that in the SII cases in particular the United States failed to convince the Japanese to adopt any policies that they would not have adopted anyway has been advanced by Glen Fukushima, a former official in the office of the USTR who was involved early in the SII process. Arguing that the whole SII process was designed by the U.S. and Japanese sides to appease Congress, he claims that the United States picked demands it knew the Japanese wanted to act upon and that the Japanese then pretended for months that these were unreasonable—all to convince Congress that the Bush administration was being tough on Japan and that Japan was making major concessions.[40] While I grant that some of the policies adopted would have been adopted even without SII, my analysis suggests that many of the more significant policy changes adopted in the year following the SII talks would not have been pushed through without foreign pressure. As suggested in the brief summaries of the SII issue-areas above, many U.S. demands (including those that were adopted) faced significant opposition from influential interest groups that had blocked similar proposals in the past. The ways in which such opposition was overcome in some cases and not others can only be understood by looking at how foreign pressure interacted with domestic politics.

The SII cases thus seem to suggest that international pressure can make a difference, but that the domestic political context matters as well. Such a conclusion, of course, is not in itself novel. Most detailed case studies of episodes of foreign relations come to similar conclusions. Among studies of U.S.–

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some limited changes can be forced on Japan by political pressure (membership on the Tokyo Stock Exchange for U.S. securities firms, for example), she emphasizes that such cases are rare and that political pressure is generally effective only when the domestic balance of power has already shifted.

40. See Glen Fukushima, "Nichibei keizai masatsu no seijigaku" (The politics of U.S.–Japan economic friction), *Asahi Journal*, series running weekly from 11 January to 15 February 1991. Even if it were true that there was some collusion between the U.S. and Japanese sides of the type Fukushima describes, I would argue that it was of the type where a single faction within Japanese politics (say MITI bureaucrats) had certain policy objectives and approached the Americans to solicit foreign pressure in order to make it easier for it to achieve those objectives. To say that this faction wanted to make the SII policy changes all along does not suggest that they could have made them on their own without the intervention of the United States. Even if U.S. pressure was orchestrated, it made possible policy changes that would not have been possible in its absence.

Japanese economic relations, there certainly have been some that have taken this position.[41] Few of these studies, however, have sought to move beyond the specifics of their cases to generalize about when and how foreign pressure influences policy outcomes. In many cases, foreign pressure is seen as just one more input competing with domestic inputs to influence specific policy outcomes. Much in the way pluralist theory treats the government as a "black box" for processing pressures from domestic interests, many studies of U.S.–Japanese economic relations have treated foreign pressure as just another input into the calculations of the Japanese government. It is the aim of this article to look inside the black box in an effort to improve our understanding of how foreign pressure influences the policy process.

One model which recognizes that foreign pressure is not just another input into the calculations of governments and which takes both system-level and domestic politics seriously and examines how they interact, is the two-level game approach developed by Putnam. While certainly not the first to discover that domestic and international politics interact, Putnam's major contribution lies in the ability of his framework to capture how domestic and international influences flow both ways at the same time.[42] The model, in brief, describes international negotiations as two-level games involving a chief negotiator who must deal simultaneously with counterparts from other nations (Level I) and domestic actors within his or her own nation (Level II). At Level I, the chief negotiator may pursue what he or she sees to be the national interest—seeking the best possible deal acceptable to his or her foreign counterparts.[43] Ultimately, however, a decision must also be acceptable to the negotiator's domestic constituents. The deal must fall within the win-set of the domestic arena.

Although Putnam's basic model is straightforward, some of his more interesting observations concern the interaction between the two levels. He notes that a Level I negotiator may find "silent allies at his opponent's domestic

41. See, for example, the numerous cases discussed in I. M. Destler, Hideo Sato, Priscilla Clapp, and Haruhiro Fukui, *Managing an Alliance* (Washington, D.C.: Brookings Institution, 1976); and in I. M. Destler and Hideo Sato, eds., *Coping with U.S.–Japanese Economic Conflicts* (Lexington, Mass.: D.C. Heath and Co., 1982). Robert M. Orr, Jr., *The Emergence of Japan's Foreign Aid Power* (New York: Columbia University Press, 1990), similarly examines the ways in which both U.S. pressure and bureaucratic politics in Tokyo affected Japanese foreign aid policy decisions.

42. In developing his approach, Putnam draws explicitly on the behavioral theory of social negotiation developed by Richard E. Walton and Robert B. McKersie, *A Behavioral Theory of Labor Negotiations: An Analysis of a Social Interaction System* (New York: McGraw Hill, 1965). He is also building, however, on the work of others who have emphasized the interactions between international and domestic politics, including James Rosenau, "Toward the Study of National–International Linkages," in James Rosenau, ed., *Linkage Politics: Essays on the Convergence of National and International Systems* (New York: Free Press, 1969), pp. 44–63; Keohane and Nye, *Power and Interdependence;* and Peter Gourevitch, "The Second Image Reversed: The International Sources of Domestic Politics," *International Organization* 32 (Autumn 1978), pp. 881–911. See also Putnam's own discussion of how his approach differs from these, "Diplomacy and Domestic Politics," pp. 430–433; and see Moravcsik, "Introduction," pp. 14–15 and 21–23.

43. Putnam lists pursuit of national interest, however, as just one of the chief negotiator's aims. Others include pursuit of domestic popularity and pursuit of "domestic policy goals that he prefers for exogenous reasons." See Putnam, "Diplomacy and Domestic Politics," p. 457.

table" who support his position—increasing his chances for a favorable deal. If these silent allies constitute a minority within the domestic arena of the target nation at the beginning of negotiations, international pressure may in time succeed in bolstering this movement to the point that it becomes a majority.[44] Putnam calls this effect "reverberation." Similarly, a chief negotiator may be able to improve prospects for a deal by linking previously unrelated issues within his or her counterpart's and/or his or her own domestic arena. Whereas policy gridlock may have characterized each issue-area in isolation, synergistic linkage achieved by grouping issues in international negotiations may open up the process in a way that allows for a broad cross-sectoral compromise.[45]

It is the argument of this article that in order to explain the variation in SII outcomes, one must take into account synergistic strategies like these. The cases suggest, however, that Putnam's original formulation of the model does not capture some additional ways in which chief negotiators can pursue synergistic strategies, tactics I have called "participation expansion" and "alternative specification." Both of these additional strategies derive from the politicizing impact foreign involvement can have on the domestic policy process. Many policies that are the subject of international negotiations are, in ordinary times, debated and decided by elite domestic actors with privileged access to the policy process. Once such policies become the focus of international interest, however, the domestic policy process can be transformed: other domestic actors who had not previously been interested or allowed to participate may bring pressure to bear on the decision; the public (perhaps previously unaware of an issue) may become aroused and bring the weight of public opinion to bear on the outcome; and specific policy proposals not previously considered at top levels of the government may suddenly be debated.

Putnam, in his original formulation of the two-level game model, seeks to take into account all significant actors involved in domestic policymaking. He mentions legislators, bureaucratic agencies, interest groups, and social classes, as well as public opinion.[46] All are involved, he says, in the process of ratification, where any deal negotiated by a chief negotiator must be confirmed at the domestic level. By portraying the basic dynamic as one of forming a simple winning coalition from among a set of actors, however, he ends up overshadowing the processes described above and ignoring the possibilities they create for additional synergistic strategies. Policy outcomes depend crucially on which potential policy actors are motivated (and allowed) to participate, on whether issues are being decided in relative seclusion or in the glare of television lights, and on which proposals for dealing with a given problem are on the table—and international negotiators have an opportunity to influence all of these processes.

Let us look first at what I have called the strategy of participation expansion.

44. Ibid., p. 455.
45. Ibid., pp. 445–48.
46. Ibid., p. 436.

Those who study domestic policymaking processes have long known that policymaking outcomes can be affected by changes in the number of participants. As E. E. Schattschneider argued, "The number of people involved in any conflict determines what happens; every change in the number of participants, every increase or reduction in the number of participants affects the result."[47] Likewise, James Sebenius, writing in the quite different tradition of negotiation analysis, demonstrates through a series of bargaining problems that the number of parties involved in a set of negotiations can have dramatic effects on bargaining outcomes, creating zones of possible agreement where no mutually agreeable terms existed before and altering the parameters to the advantage of one of the parties.[48] While Sebenius refers primarily to examples of international negotiations where the number of participating governments has been manipulated to alter zones of possible agreement, his logic predicts that changes in the number of participants at the domestic level would have similar effects.[49] The arguments of both Sebenius and Schattschneider suggest, therefore, that we should look for ways in which international negotiators might be able to alter the parameters of negotiation by increasing the number of participants at the domestic level.[50]

An examination of how such participation expansion might be achieved must begin with the recognition that most policy decisions in most nations are made by only a fraction of potential participants. The literature on policymaking in the United States, for example, takes for granted that most policy decisions are made by privileged elites. Studies based on empirical research show that many decisions are made by subgovernments, "small groups of political actors, both governmental and nongovernmental, that specialize in specific issue areas."[51] An entire theory of regulation has been built around the logic through which collective action problems lead small, organized groups to be privileged relative to the rest of us in influencing many policy decisions.[52] Policymaking in Japan

47. E. E. Schattschneider, *The Semisovereign People: A Realist View of Democracy in America* (New York: Holt, Rinehart and Winston, 1960), p. 2.

48. James K. Sebenius, "Negotiation Arithmetic: Adding and Subtracting Issues and Parties," *International Organization* 37 (Spring 1983), pp. 281–316.

49. Sebenius does not refer exclusively to intergovernmental negotiations. He refers, for example, to the way in which a multinational firm that was engaged in bargaining with its host government altered the parameters for possible deals by arranging its affairs so that additional parties (including the U.S. government) would have a stake in the outcome. He does not refer, however, to the type of "party addition" seen in the SII negotiations where a government (the United States) altered the zone of possible agreement by bringing in additional domestic (that is, Japanese) players.

50. Although it is possible to conceive of some cases in which international negotiators might alter parameters by reducing the number of domestic-level participants involved in making a decision, the tendency of foreign involvement to politicize most issues suggests that in almost all cases negotiators will only be able to expand the number of domestic participants.

51. Randall Ripley and Grace Franklin, *Congress, the Bureaucracy, and Public Policy,* 3d ed. (Homewood, Ill.: Dorsey Press, 1984), p. 8.

52. See Mancur Olson, *The Logic of Collective Action* (Cambridge, Mass.: Harvard University Press, 1982); and George Stigler, "The Theory of Regulation," *Bell Journal of Economics and Management Science* 2 (Spring 1971), pp. 3–21.

has been found to be similarly dominated by subgovernments, and recent work has demonstrated that policy patterns there follow the logic of the theory of regulation.[53]

Changes in the character of issues, however, can alter levels of participation. Theodore Lowi has emphasized how U.S. policymaking patterns vary markedly depending on the impact of the issue under consideration. Although his classification scheme is relatively static in that it predicts that certain types of issues (e.g., regulatory versus redistributive) will tend to be characterized by certain levels of participation and policymaking patterns, his argument that the impact of policy determines levels of participation suggests the dynamic through which participation levels might be altered.[54] Specifically, it suggests that international negotiators might expand levels of participation if "internationalizing" a previously domestic issue increases its impact.

As illustrated in more detail through my analyses of the SII cases below, I found that foreign pressure can indeed increase the impact of a given issue and thus expand participation. Furthermore, I found that this expansion can take place at two levels. First, by transforming a narrow domestic issue into one with implications for an important bilateral relationship (in this case the U.S.–Japanese relationship), foreign pressure can expand elite-level participation as previously uninvolved bureaucratic agencies, senior party leadership, and interest groups come to have a stake in dealing with the problem. Second, by focusing media attention on previously neglected domestic issues, foreign pressure can increase public awareness of a problem and sometimes serve as a rallying point for the unorganized and ignored general public.

The final synergistic phenomenon affecting the variation in SII outcomes but not captured in Putnam's original two-level game model is something I have called the strategy of alternative specification. As John Kingdon has argued, again in the literature on U.S. policymaking, the political stream where parties, bureaucrats, and interest groups jockey for influence is only one of three streams that must come together before a major policy change can be adopted.[55] Equally important to explaining policy outcomes are the processes through which governments come to recognize that a problem exists and identify specific policy proposals.[56] Nothing about foreign pressure suggests

53. See John C. Campbell, "Policy Conflict and Its Resolution Within the Governmental System," in Ellis Krauss, Thomas Rohlen, and Patricia Steinhoff, eds., *Conflict in Japan* (Honolulu: University of Hawaii Press, 1984), pp. 294–334; and Rosenbluth, *Financial Politics in Contemporary Japan.*

54. Theodore Lowi, "American Business, Public Policy, Case-Studies, and Political Theory," *World Politics* 16 (July 1964), pp. 677–715.

55. John W. Kingdon, *Agendas, Alternatives, and Public Policies* (Glenview, Ill.: Scott, Foresman and Company), pp. 20–21.

56. John Campbell, writing about policymaking in Japan, has also emphasized the importance of these two streams, although he uses the terms "energy" and "ideas." His concept of "ideas" is very similar to Kingdon's discussion of how the menu of policy options is narrowed, while part of his concept of "energy" involves the energy necessary to move a problem higher on the agenda. See John Campbell, *How Policies Change: The Japanese Government and the Aging Society* (Princeton, N.J.: Princeton University Press, 1992).

that its interactive influence is limited to the political stream. In fact, as the SII cases will show, foreign demands for specific policy action can serve to spotlight policy alternatives that may not have been considered in the absence of foreign intervention.

The preceding discussion has served to identify additional ways in which a chief negotiator may be able to expand the range of policies his or her counterpart can have ratified and thus open up possibilities for a deal where none may have existed and/or increase his or her ability to fashion a more favorable set of terms. This may be accomplished by expanding participation at the elite level by internationalizing a previously domestic issue or by increasing the influence of the unorganized masses; and it may be accomplished by specifying policy alternatives that may not have been considered in the absence of foreign involvement. In the following section, I argue that it was the variation in the degree to which these strategies worked—rather than either international politics or domestic politics alone or even a combination of the two modeled separately—that explains why the United States was more successful in achieving its objectives in some cases than in others.

While doing so, it is also the aim of the next section to generate a few hypotheses about the conditions under which chief negotiators are likely to be able to use these strategies to produce positive results. Operating under similar system-level constraints, the officials leading the U.S. delegation to the SII talks pursued similar strategies in each of the issue-areas in their efforts to gain a more favorable deal: they sought to expand elite participation, appeal to public opinion through the media, and point to specific policy alternatives they felt would solve the identified problems. However, these strategies worked only part of the time. As discussed in more detail below, the SII results suggest that such strategies are most likely to work under the following conditions: participation expansion is most likely to yield positive results when targeted issues are not already politicized (when subgovernments operating in relative seclusion dominate policymaking) and when latent support for foreign demands can be found at the elite or mass level or both; alternative specification is most likely to have an impact when an issue already on the agenda is in search of solutions.

An interactive interpretation of SII results

This section describes in some detail how the variation in SII results summarized in the first section correlates with the variation in the degree to which U.S. negotiators successfully were able to use the synergistic strategies identified in the second section. In order to demonstrate this correlation while at the same time highlight the conditions under which the strategies did and did not work, this section looks at each tactic in turn, focusing on examples of their successful and unsuccessful application. Since space limitations do not permit

me to discuss how each strategy worked in each issue-area, I have summarized my findings in Table 1.

Participation expansion (elite level)

Before the United States decided to target them with foreign pressure, most of the SII issues were considered to be domestic matters. Consequently, and because most were also regulatory issues (to use Lowi's classification scheme), the policy processes in each of the issue-areas tended to be dominated by a small group of elite subgovernmental actors. For example, decisions regarding the LSL tended to be dominated by the regulatory agency (MITI), retail interest groups, and LDP politicians with close ties to the retail industry. Policy in the SII area of public investment, although not a regulatory issue-area, nevertheless also was characterized by limited elite participation. In fact, a single bureau of the MOF (the Budget Bureau) dominated fiscal policymaking. At the start of the SII process, therefore, there was ample room for participation expansion at the elite level in most of the SII issue-areas.

The American negotiators thus targeted each of the SII issues with a strategy designed to broaden elite participation.[57] This was accomplished primarily by turning all of these previously domestic issues into U.S.–Japanese issues through the act of placing them on the SII agenda. This action guaranteed that the issues would no longer be dealt with at the subgovernmental level and that the policymaking process would from that point on incorporate a much broader range of policy actors, many with less of a stake in maintaining the status quo and more of a stake in maintaining good relations with the United States. The American negotiators also guaranteed broader elite participation in the SII issue-areas through the multiagency format of the talks. This format meant that Japanese bureaucrats who had previously reigned supreme in their issue-areas would have to coordinate their bargaining with officials from other ministries, creating incentives for them to undercut one another in an effort to make sure that ministries other than their own would make the bulk of the concessions.[58]

57. That the Americans self-consciously set out to increase their chances for a favorable deal by expanding participation is evident in USTR negotiator Williams's recollections about how he and his colleagues purposely sought to make sure that the Japanese Economic Planning Agency and FTC (both of which were seen as sympathetic to the American demands) were included in the Japanese team. He recalls that they made sure the Economic Planning Agency was an equal participant on the Japanese side by giving the agency's American counterpart (the Council of Economic Advisors) equal rank in the U.S. delegation. See S. Linn Williams "Kagami no naka no nichibei kozo kyogi: Daigokai" (The U.S.–Japan Structural Impediments Initiative in the mirror: no. 5), *Shukan daiyamondo,* 11 April 1992, pp. 90–93.

58. For example, MOF officials who previously might not have cared about the LSL suddenly had an incentive to encourage MITI concessions on that issue in order to avoid having to concede too much on "their own" issue of public investment (and vice versa). This can be seen as a variety of Putnam's synergistic linkage in that international negotiations linked issues that were previously separated in domestic politics. I have included it here in the middle of a discussion of participation expansion because of my impression that the incentives described above merely reinforced the more important participation expansion effect of the SII negotiations.

TABLE 1. *Synergistic strategies and the Structural Impediments Initiative (SII) results, by issue-area*

SII issue-area	*Result*	*Participation expansion (elite)*	*Participation expansion (public)*	*Alternative specification*
Public investment	Significant concessions	By turning the issue into a broader U.S.–Japanese concern, led to involvement of other actors more supportive of increased spending	Raised public awareness of Japan's shortcomings in social infrastructure and forced policymakers to consider public opinion	No significant impact
Distribution system	Significant concessions	By turning the issue into a broader U.S.–Japanese concern, took issue out of the hands of entrenched interests in subgovernment	Raised public awareness of costs of regulation; convinced retail lobby of futility of resistance	Led to consideration of proposals for more radical reform
Land policy	Limited concessions	No impact because issue was already under consideration at highest level	No impact because public attitudes already fixed	Led to consideration of specific ideas by linking them together and to a recognized problem
Exclusionary business practices	Minimal concessions	Broader involvement made no difference because support for U.S. position lacking even outside usual circles	Raised public awareness of costs of collusion and put issue on the agenda (with possible long-term impact)	Led to consideration of proposals to raise surcharges and criminal fines
Keiretsu groups	Virtually no concessions	Broader involvement made no difference because support for U.S. position lacking even outside usual circles	Media were not sympathetic and public did not line up behind this U.S. demand	No significant impact because proposals were not linked at all to a recognized local problem

While the American negotiators thus sought to increase their chances of a favorable deal by broadening elite participation in all of the SII issue-areas, they were successful in using this strategy to their advantage in only two of the cases. It worked in their favor on public investment and the LSL, but it failed to gain them much of an advantage in the other three areas.

The positive impact of participation expansion at the elite level can be seen most clearly in the case of public investment. Before foreign pressure, the question of how much to spend on public investment each year had been dominated, as noted above, by the Budget Bureau of the MOF. The entire structure, personnel system, and even culture of the MOF revolved around its aim of preserving fiscal responsibility. The ministry might be willing to negotiate with LDP leaders about how to divide the budget pie, and it might be willing to respond with some fiscal stimulus in times of serious recession, but it was not about to let politicians, spendthrift bureaucrats, or foreigners alter the overall level of spending the MOF had deemed to be fiscally prudent. To preserve this autonomy, the MOF had constructed elaborate multiyear plans involving zero budget ceilings, strict rules of balance providing for all ministries to share equally in the pain of budget cuts, and target dates for reaching key goals, such as an end to the issuing of new deficit bonds. It had also carefully insulated its Budget Bureau from foreign influence by making sure that its own officials who dealt with foreigners (the internationalists) were put on a personnel track that kept them outside the key budgeting positions.[59]

Once it became clear that the level of spending on public investment for the next ten years would be the subject of U.S.–Japanese negotiations, however, the walls around the MOF Budget Bureau began to crumble.[60] First, it meant that MOF internationalist Makoto Utsumi (the leader of the ministry's delegation to the talks) would play a central role in determining the nation's fiscal policy. Second, it meant that other Japanese ministries on the record in favor of more spending on public works would be sitting beside the MOF at the negotiating table. Third, it meant that LDP politicians, not generally known to be fiscally prudent, would have to be brought in to resolve any impasse in the talks. Finally, it meant that the MOF would be put in the position of being blamed for a collapse in U.S.–Japanese relations if its refusal to compromise on public investment resulted in the failure of the talks.

59. This last observation reflects my own analysis of the careers of recent MOF administrative vice-ministers and Budget Bureau directors. On MOF, see Jin Ikko, *Okura kanryo: cho eriito shudan no jinmyaku to yabo* (MOF bureaucrats: the personal networks and ambition of a super-elite group) (Tokyo: Kodansha Bunko, 1986).

60. Public investment did not become a firm part of the SII agenda until midway through the first year of talks. Prior to the first negotiating session, the MOF felt it had succeeded in keeping the issue off the agenda when Makoto Utsumi, the leader of the MOF delegation, received a promise from Assistant Secretary of the Treasury Charles Dallara stating that macroeconomic policy would not be part of the dialogue. By early 1990, however, it had become clear that the rest of the U.S. delegation was insisting that Japan commit a specific amount of public investment. As one participant on the Japanese side put it in the summer of 1990, "the Utsumi–Dallara deal crumbled." Interview with a member of the Japanese delegation, Tokyo, summer 1992. See also NHK, ed., *Nichibei no shototsu* (The U.S. Japan collision) (Tokyo: NHK, 1990), pp. 73–74.

The degree to which the MOF was isolated is revealed by several episodes during the course of the negotiations. One story is told by Tsuneo Unno, the leader of the Japanese Economic Planning Agency's delegation to the talks. As he was walking out of one negotiating session, he jokingly complained to commerce undersecretary Michael Farren that he didn't know how to respond when the U.S. side kept quoting statistics and using arguments straight out of his own agency's publications. Farren replied, "You should come sit on our side of the table."[61] More widely publicized were the series of meetings between U.S. officials and LDP politicians during the crucial period leading up to the publication of the interim report in April 1990. At that point, the MOF was still refusing to commit to a specific yen figure or percentage of GNP to be devoted to public investment—insisting it was a purely domestic matter. By the time President Bush had met with Prime Minister Kaifu, U.S. Secretary of State James Baker had met with former Prime Minister Takeshita, U.S. Treasury Secretary Brady had met with Finance Minister Hashimoto, and U.S. Commerce Secretary Mosbacher had met with LDP powerbroker Kanemaru, it was clear the MOF could not hold out. The first three Japanese politicians worked behind the scenes to force the MOF to relent, and Kanemaru emerged from his meeting with Mosbacher saying that he thought the U.S. demand that Japan spend 8 percent of its GNP on public investment was reasonable.[62] With the politicians taking such positions, it soon became impossible for the MOF to insist that it could not compromise.

Given the seeming preponderance of support within Japan for the U.S. position, some may be tempted to explain the government's final decision to commit to spending 430 trillion yen on public investment purely in terms of domestic politics. Surely this would have happened even without foreign pressure. Such an analysis, however, would ignore the fact that none of these other domestic political actors (the ones who supported the U.S. position) would have been involved in the decision were it not for the fact that the American side succeeded in establishing it as a U.S.–Japanese issue with implications for the overall bilateral relationship. Unno, for example, insists that neither LDP politicians nor bureaucrats like himself would have been able to breach the MOF Budget Bureau's defenses had it not been for SII. Asked if he or other advocates had any plan before SII to achieve a substantial increase in public investment, he replied, "Nothing other than to use the Americans."[63]

The success of the Americans in overcoming initial resistance to liberalization of the LSL also cannot be explained without examining the way in which bringing the issue into the SII process expanded elite-level participation. As

61. Interview with Tsuneo Unno, Japanese Economic Planning Agency official, Tokyo, 25 May 1992.

62. *Nihon keizai shimbun,* 30 March 1990, p. 3.

63. Interview with Unno. This type of comment, which is expressed quite frequently by reformist bureaucrats in Japan, points to the importance of remembering that interactive strategies are not strictly the province of chief negotiators. Domestic actors can also use international negotiations for their own purposes.

noted above, policy in this sphere had long been dominated by subgovernmental actors: officials in the part of MITI that administered the LSL at the national level, local governments that administered the regulations at the local level, LDP members of the Diet influential on matters dealing with business (many of whom received generous political contributions from small retailers), and retail interest groups (the most powerful of which benefited directly from the regulatory regime). Previous attempts to liberalize regulation of the retail sector had been stymied primarily because all of these actors had incentives to maintain the status quo, and they were in charge as long as the issue was dealt with at the subgovernmental level.

As in the case of public investment, however, the Americans found that they had allies outside the privileged circle once they succeeded in broadening participation in the process. The Economic Planning Agency, the Administrative Reform Council (*Gyokakushin*), and the Federation of Economic Organizations (*Keidanren*) all had published reports critical of the LSL in the year prior to the SII.[64] Even within the circle, there were some advocates of relaxed regulation: the MITI mainstream is said to have long sought to extricate itself from the burden of administering the LSL, and a few of the more aggressive retail chains vocally advocated reform.[65] Once the United States put this issue on the SII agenda, it was guaranteed that it would be dealt with at the cabinet level and that all of those voices would be heard. What had been impossible at the domestic level before foreign intervention had now become possible.

The cases of public investment and the LSL thus offer clear examples of how foreign pressure expanded participation at the elite level and ultimately altered the policy result. As suggested in the analysis and hypothesized above, the Americans were successful primarily because in these issue-areas they had latent support for their position outside the privileged circle. The importance of this condition becomes clear when one contrasts the success of the U.S. participation expansion strategy in the first two sectors with its inability to do the same thing in the last two. In the cases of the AML and *keiretsu,* there were few people outside the usual circle of policy elites dealing with the issues who were talking about reform at the time the United States decided to make them topics of the SII talks. Asked if anyone was talking about strengthening the AML before the Americans made it an SII issue, recently retired Fair Trade

64. See Keizaikikakucho Bukkakyoku Bukkakanrishitsu, *Kaihogata ryutsu shisutemu no kochiku ni mukete* (Toward the construction of a liberalized retail system) (Tokyo: Shojihomu kenkyukai, 1988); Rinji Gyosei Kaikaku Suishin Shingikai Jimushitsu, *Gyokakushin zenshigoto* (The complete work of the Administrative Reform Council) (Tokyo: Gyosei, 1990), pp. 202–203; and Keidanren's Keizai Koho Center, "Views on Japan's Distribution System," *KKC Brief* 58 (July 1990) (translation of report issued 2 March 1990 and reiteration of opinions first expressed in March 1988).

65. Hosono Sukehiro argues that MITI was never happy with the LSL; see Hosono Sukehiro, *Posuto daitenho* (After the LSL) (Tokyo: Nihon Jitsugyo Shuppansha, 1991), pp. 38–40. MITI officials interviewed by the author confirmed that the ministry had long favored reduced regulation but had been thwarted by the political power of small retailers. Some large retail chains such as the Life Store and Daiei chains opposed the law because it slowed their expansion (interview with Life Store chairman Nobutsugu Shimizu, Tokyo, 10 June 1992).

commissioner Hiroshi Iyori replied, "Just a few academics."[66] Academics by themselves, as we all know, do not make much of a constituency. Therefore, although the SII talks succeeded in broadening elite-level participation in the process of thinking about these issues and responding to the American criticisms, no one was inclined to take advantage of this opportunity and move policy in a new direction.

The final issue-area of land policy highlights the other limitation on the ability of negotiators to use this synergistic strategy successfully. International pressure is unlikely to create new opportunities for deals by broadening elite-level participation if the issue is already so politicized that everyone is involved. The land price explosion of the mid-1980s had implications for elites throughout the political system even before the Americans decided to make it a U.S.–Japanese issue: LDP leaders were concerned because it was affecting the ability of the middle class to buy homes; the MOF was concerned because the issue was closely related to monetary policy and the stability of the financial system; MITI and big business were concerned that land taxes imposed to bring down prices might be too high; and the construction, agriculture, and land planning bureaucracies all had their own agendas. Given this already politicized environment, U.S. negotiators were not going to be able to alter Japan's domestic win-set by expanding participation.

Participation expansion (general public)

American negotiators did not limit themselves to the elite level in their efforts to expand the Japanese win-set by increasing levels of participation. They also set out to influence public opinion and bring its weight to bear on each of the policy debates.[67] In particular, the Americans sought to use their demands as a rallying point for the unorganized interests of consumers by focusing attention on the costs to ordinary Japanese of certain public policies. By doing so, they forced top policymakers to take into account the interests of the previously underrepresented majority—expanding the Japanese domestic win-set in ways that improved their prospects for a favorable deal.[68] Again, the

66. Interview with Hiroshi Iyori, former Fair Trade commissioner, Tokyo, 29 May 1992.

67. A source at the U.S. embassy in Tokyo told me that there were planning documents in which the American negotiators strategized about how best to influence public opinion. Although I have not seen these documents, the performance of American negotiators at press conferences after each of the official SII negotiating sessions indicates that the U.S. side set out to present themselves as champions of the Japanese consumer. See Williams's retrospective articles run weekly in *Shukan Daiyamondo,* 14 March to 18 April 1992.

68. In some ways, this participation expansion strategy is similar to Putnam's "reverberation." Both involve attempts by one chief negotiator to influence the balance of opinion in his or her counterpart's domestic arena. The difference is that while Putnam's term refers to efforts by chief negotiators to persuade domestic players on their counterpart's side to support their positions (to "change minds"), the phenomenon I have described involves the efforts of chief negotiators to empower unorganized interests in their counterpart's domestic arena who were already sympathetic to their positions.

successful use of this strategy was crucial to the Americans' ability to win concessions on public investment and on the issue of the LSL. The strategy failed in the last two cases.

To understand how American pressure succeeded in giving voice to ordinary Japanese citizens, one has to appreciate the role of the Japanese media in U.S.–Japanese relations. The media love the drama of friction between Japan and its most important ally. Between September 1989 and December 1991, Japanese weeklies and monthlies listed in the Japanese Diet Library data bank published 199 stories with "SII" in their titles and certainly many more that touched on the subject in their stories.[69] During the first year of the talks, newspapers and the national networks led their coverage with stories about SII for days at a time. The television network NHK did a six-hour miniseries-length documentary on the talks in April, shortly after the interim SII report was released.

While in many cases this coverage focused on the conflict between the two governments, a great many of the stories were sympathetic to the American positions (if not their heavy-handed pressure). The Japanese equivalent of the *Wall Street Journal,* the *Nikkei,* ran a series of stories illustrating the irrationalities of the LSL and other policies targeted by the Americans through the SII process.[70] The NHK series cited above revealed sympathetic treatment of the U.S. positions on almost all of the SII issues (except the *keiretsu* issue). In some cases, it is clear that reporters saw the SII talks as an opportunity to shake up the political establishment and achieve reformist goals. As one reporter involved in the NHK documentary explained, he and others at NHK realized that the topics being discussed as part of the SII talks were "too important to be left to bureaucrats." The media needed to make the public aware of their stake in the outcome.[71]

The impact of the media's often sympathetic treatment is perhaps best revealed in public opinion polls conducted in March 1990 as the first year of talks was coming to a head. Surveying 6,186 Japanese from across the country, the *Nikkei* reported that the proportion of respondents saying they "basically" or "totally" agreed with the American demands stood at 47.4 percent, higher than the 39.5 percent who reported that they agreed with "only some" or "none" of the American demands. The remaining 13.1 percent had no opinion.[72]

While it is difficult to measure how many Japanese changed their minds as a result of American pressure, interviews conducted by the author reveal that

69. Search conducted by the author at the Diet Library using the Japanese term for SII, "*nichibei kozo kyogi.*"

70. *Nihon keizai shimbun,* series running daily during November and December 1989.

71. Interview with NHK reporters, Washington, D.C., 10 April 1992. Studies of the media's impact on public opinion in the United States suggest that elite opinion of the type represented by this NHK reporter plays an important role in shaping the views of the general public; see John R. Zaller, *The Nature and Origins of Mass Opinion* (Cambridge: Cambridge University Press, 1992).

72. *Nihon keizai shimbun,* 27 March 1990, p. 3. The survey asked respondents how they would respond to the following question: "Citing the bilateral trade imbalance, the U.S. is demanding that Japan review its economic structure and open its markets to overseas products. What is your opinion on this issue?"

many Japanese officials involved in the SII process believe that foreign pressure altered the balance of opinion within Japan. One area in which this American strategy seems to have played a critical role is the issue of the LSL. Before the SII talks, MITI's regulation of the distribution sector had continued because of the political clout of small retail shops at the local level. In the late 1970s and again in the early 1980s, as local governments responded to demands from retailers by placing freezes on new store openings and placing cumbersome regulations on medium-sized stores, MITI had been forced to extend its own regulations to smaller stores and to toughen up its requirement of prior consultation in an effort to bring some sort of order to the regulatory regime.[73] MITI officials therefore knew that any effort they made to reduce regulation under the LSL would have to deal with the power of local retailers to do the same thing again: to go to their local representatives and get them to substitute local regulations for reduced MITI regulation. In the autumn of 1989, when MITI had tried to preempt the American SII demands by reducing regulations on its own, it had been the refusal of local governments to go along with a ban on substituting local regulations (and the support they received from the Ministry of Home Affairs) that had forced MITI to back down.

American pressure under SII did not convince local retailers to welcome deregulation. According to MITI officials, however, it did convince many that public opinion would no longer tolerate the continued costs of the regulatory regime. The small shopkeepers were not happy, but "*shoganai*" (there was nothing they could do).[74] This shift in attitude at the local level, according to these officials, was the key to smooth implementation of reduced regulation: the social consensus had changed. MITI alone would not have been able to change that consensus. The SII demands and the sympathetic media attention they generated had provided the shock necessary to hurry along the development of the consensus that reduced regulation was inevitable and could no longer be resisted.

The power of foreign pressure to change the social consensus in Japan, however, should not be exaggerated. The SII process was able to hurry it along in part because the consensus was already moving in that direction. Large numbers of small store owners were retiring and finding their children not interested in taking over the business. The urban land price boom created opportunities for many to use their land assets for alternative income. As a result, many small store owners were no longer as dedicated to their cause.[75] In cases where the social consensus was not already moving in the direction sought

73. Nihon Keizai Shimbunsha, *Daitenho ga kieru hi,* pp. 92–106.

74. Interviews with MITI officials, Tokyo, June 1992. The term "*shoganai*" came up often in conversations about Japanese reactions to foreign pressure. One high-ranking government official pointed out, for example, that even LDP politicians react with this feeling when faced with strong U.S. pressure "as long as the U.S. doesn't say something too unreasonable."

75. Interview with Teiichi Yamamoto, MITI official, Tokyo, 3 June 1992. It should also be noted that MITI helped the social consensus along by offering a large new government subsidy program to rejuvenate shopping districts as an incentive to get key interest groups to go along with reduced regulation.

by the United States, the American strategy of appealing to the general public was less successful. Thus, in the cases of the AML and *keiretsu,* with less support preexisting in Japan, it was impossible for the United States to exploit the latent power of public opinion in the way it had on the LSL.

Alternative specification

As Kingdon argues, the way in which a "short list of ideas" is created out of a "policy primeval soup" critically affects policy outcomes.[76] While we have focused on foreign pressure's effects on the policy process and the balance of opinion within domestic politics (Kingdon's political stream), the results of the SII talks suggest that international negotiators can also influence this other stream of the policy process and thus create new opportunities for favorable deals.

The strategy of alternative specification had the greatest impact on the land policy issue-area. This was an issue that, as noted above, was very much on the domestic policy agenda even before the Americans made it an SII issue. Prime Minister Nakasone had set up a cabinet-level advisory council to deal with the issue in 1987, and the problem had become more manifest in the intervening years. Yet, there was little agreement about which policies ought to be adopted to address the problem. For some, the land price explosion primarily was a result of speculation encouraged by a soft monetary policy. The solution was to raise interest rates, raise taxes on short-term profits from speculation, and place stricter regulations on land transactions. For others, the problem was more deeply rooted in tax and regulatory policies that artificially restricted the supply of land.

The Americans who stepped into this fray had little chance, as argued above, of influencing the result by bringing in new participants, and thereby altering the balance of power. The results suggest, however, that they were able to influence the result with ideas. The Americans did not, of course, invent solutions to Japan's land price problem. They consulted with experts in the Japanese land policy community. In particular, they favored the advice of reformist economists like Yukio Noguchi and Tokunosuke Hasegawa, who argued for far-reaching changes in tax and regulatory policies designed to bring urban farmland and idle corporate land holdings onto the market and to encourage the more efficient use of property.[77] Shigeko Fukai, who has studied the impact of the SII talks on Japan's land policy debate, argues that by favoring such prescriptions, the Americans gave just enough added credence to

76. Kingdon, *Agendas, Alternatives, and Public Policies,* pp. 122–51.

77. Both Noguchi and Hasegawa were named members of the MOF tax commission subcommittee on land tax policy that paved the way for the 1991 land tax reforms. Their collaboration with Americans preparing for the SII talks is well-known. See NHK, *Nichibei no shototsu,* pp. 121–25. The above impressions were confirmed in interviews with U.S. Embassy personnel, Tokyo, May 1992.

some of their ideas to get them enacted.[78] Hasegawa himself argues that the Americans' greatest contribution lay in linking the proposals of his policy community together and to the land price problem. Previously, he argues, many of their ideas were considered in isolation. The proposal to tax urban farmland had been dealt with separately, dooming it to defeat by agricultural interests. The proposal to encourage rental housing by reducing tenants' rights had been dealt with alone, leaving it vulnerable to tenants' rights organizations. By arguing that all of these proposals ought to be considered as a package designed to address the land price problem, the United States helped them survive the policy process.[79] The Americans, in other words, were able to help pull specific alternatives out of the policy primeval soup and attach them to the already recognized problem of the land price explosion.

The limits of the above strategy can be seen, again, in the *keiretsu* issue-area. In this area as well, the Americans had specific policy proposals. They proposed that the Japanese government set limits on cross-shareholding and revise its regulations to toughen disclosure requirements and increase shareholders' rights. These were not ideas circulating in any Japanese policy community, however, and the Americans made no attempt to link them to any recognizable Japanese "problem." Given these less favorable conditions, the strategy that had worked in the land policy area was doomed to fail.

Conclusions

Gaiatsu, as foreign pressure is known in Japan, is seen to have mystical powers by many on both sides of the Pacific. The U.S. Congress, with its rhetoric urging ever stronger pressure on the Japanese, clearly operates under the assumption that *gaiatsu* will work only if American negotiators would apply enough force. In Japan, too, reformist bureaucrats and the media often seem to welcome *gaiatsu* as a tool they can use for their own purposes. The SII results indicate that American pressure on Japan does indeed have the power to make possible policy changes that could not have been adopted in its absence. The results also indicate, however, that *gaiatsu* has its limits.

This article has argued that the key to understanding why *gaiatsu* succeeds in Japan in some cases but not others lies in an appreciation of how domestic and international politics interact during the course of international negotiations. In particular, international bargaining gives negotiators the chance to employ a variety of synergistic strategies in an effort to reshape domestic politics to their advantage. Through an analysis of the five SII cases, it has been argued that *gaiatsu* will tend to produce the most positive results when these strategies resonate with domestic politics in certain ways.

78. Shigeko Fukai, "The Role of *Gaiatsu* in Japan's Land Policymaking," paper presented at the annual meeting of the American Political Science Association, Chicago, Ill., 3–6 September 1992.
79. Interview with Tokunosuke Hasegawa, Tokyo, 5 June 1992.

The article has highlighted two synergistic strategies that were used with varying degrees of success by the Americans during the course of the SII negotiations. The first, which I called participation expansion, involved an effort by the United States to broaden both elite and general public involvement in decision making in targeted spheres in hopes of increasing the influence of interests sympathetic to American demands. By internationalizing issues that previously had been considered purely domestic, this strategy proved effective in taking issues that had been dominated by specialized elites and opening them up to involvement by other elite actors less concerned about maintaining existing policies and more concerned with maintaining smooth U.S.–Japanese relations. Both the public investment and LSL issues were thus taken out of the hands of their usual ministerial sponsors and debated at the highest levels of government—with results attesting to the impact of the broader participation.

The SII cases also reveal that, by drawing media attention to issues usually dealt with in relative seclusion, foreign pressure can expand participation to include the general public. In several of the cases, the fact that the United States had decided to target specific issues gave the Japanese media (which happened to be sympathetic to some of the American demands) an excuse to publicize and amplify U.S. arguments, thus giving expression to unorganized but widely felt interests of the Japanese general public. In the glare of the television lights, decision makers who previously had responded primarily to special interests were forced to take into account the views of Japanese consumers.

The SII results also show, however, that such participation expansion strategies are not likely to be uniformly effective. Expanded participation is only likely to make a difference if the broader ranks include significant sentiment sympathetic to foreign demands. The importance of this condition was demonstrated by contrasting the successful application of the strategy in the above two cases with its failure in the cases of antitrust and *keiretsu,* in which support for the U.S. position, even outside the privileged elite, was lacking. The other limiting condition for this strategy, demonstrated by the example of land policy, is that it works only when issues are not already politicized to the point where there is no room for expanded participation.

The second synergistic strategy described in this study was termed "alternative specification" and was defined as an attempt by a chief negotiator to influence policy outcomes in a target country by influencing the process through which policy proposals emerge from the policy primeval soup. As seen in the land policy case, such strategies can prove successful if foreign pressure is aimed at taking proposals already germinating in local policy communities and linking them to recognized local problems. The *keiretsu* case showed, however, that alternative specification is unlikely to work if the above conditions are not operative.

While the SII cases tell us something about why *gaiatsu* succeeds in Japan in

some cases but not others, they also contribute to our understanding of the dynamics of international negotiations. First, the cases confirm the utility of Putnam's two-level game framework as a superior way of examining international bargaining. Given the demonstrated importance of synergistic strategies, alternative approaches that focus only on system-level factors, on domestic politics alone, or on a combination of the two modeled separately cannot adequately explain international bargaining outcomes. In the SII cases, it was the variation in the degree to which international negotiators were able to reshape domestic politics that explained the distributional variation in bargaining outcomes.

Finally, while confirming the utility of the two-level game approach, the study also contributes to its further development. While Putnam described some of the synergistic strategies available to negotiators, the SII cases make it clear that the two levels of international negotiations interact in ways he did not anticipate. International negotiations affect levels of participation in domestic policy processes and the way in which policy proposals are generated, and negotiators can pursue synergistic strategies that take advantage of their ability to influence both of these processes. Furthermore, by focusing on a set of cases in which U.S. negotiators pursued those strategies across a range of issue-areas with varying success, the study has isolated some of the conditions that influence the degree to which these strategies are likely to be successful. Participation expansion is likely to work best when involvement in decision making (before the initiation of foreign pressure) is limited and when latent support for foreign demands exists outside the privileged elite. Alternative specification is likely to produce positive results when aimed at linking proposals to recognized local problems.

I used the phrase "some of the conditions" in the previous paragraph because, as noted at the outset, my research design limits my ability to identify conditions specific to the U.S.–Japanese relationship, which may contribute to the success or failure of synergistic strategies. It may be that such strategies are effective only in cases in which one party is clearly more powerful or in which the parties involved are allies. In cases involving other parties, the negative reverberation of attempts by one party to influence politics in the other may outweigh the kinds of positive effects found in several of the SII cases.[80] To answer such questions, future research will have to study whether the synergistic strategies identified here operate in similar ways in the context of other bilateral or multilateral relationships.

By focusing on a set of cases involving the same two parties, however, I have been able to specify the conditions within a given relationship that make possible the positive application of participation expansion and alternative

80. This comment should not be taken to imply that there was no negative reverberation in the SII cases or, more generally, in the application of *gaiatsu* to Japan. Negative reaction to *gaiatsu* has been growing in Japan, and in the SII cases, MOF officials in particular clearly resented foreign interference.

specification strategies. The results of the SII talks suggest that negotiators who hope to use such tactics should first study the domestic politics of the issue-areas they hope to target and select only those issues where conditions are ideal, where latent support for their demands is widespread, and where their proposed solutions can be linked to real local problems. Contrary to what many congressmen and congresswomen seem to believe, the effectiveness of foreign pressure is not simply a function of the voracity of threats, it is also a function of how positively foreign demands resonate in the domestic politics of the target country.