

# A Vision of a New Liberalism?

*Critical Essays on Murakami's  
Anticlassical Analysis*

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## Liberalism and Localism in the World Economy

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In his magisterial *magnum opus*, *An Anticlassical Political-Economic Analysis*, Yasusuke Murakami situates an analysis of contemporary global political economy within general theories of socioeconomic development, cultural identity, and international and domestic political order. His book can be read both as a critique of the current policies of major trading nations and as a work of social scientific grand synthesis. Murakami's contemporary policy concern is to assure a smooth transition in East Asia and the Pacific from a bilateralist system, in which the United States tolerated Japanese mercantilism for geopolitical reasons, to a stable multilateral, rule-based arrangement. He argues that the future prospects for cooperative international responses to the challenges of technological development, economic interdependence, and regional stability rest on four pillars: a Japanese transition toward a more open foreign economic policy, greater toleration of mercantilist ("developmentalist") policies pursued by developing countries, enhanced legitimacy for the "distinctive" national economic practices, and the establishment of a regional security regime.

These policy prescriptions are themselves of considerable interest, not least because of the distinctive way in which Murakami, in proposing them, eschews extremes. Neither homogeneous cosmopolitan rules nor cultural relativism provide him with a satisfactory basis for policy prescription. He dismisses, on the one hand, the world of trade lawyers and free-market economists, in which unfettered international economic transactions are promoted by strong international institutions—a view he associates with postwar U.S. hegemony. Yet he is equally critical of cultural conservatism, whether that of civilizational theorists such as Samuel Huntington, who argue that disputes among linguistic and religious entities will supplant ideological and geopolitical conflict; cultural pessimists such as Francis Fukuyama, who maintain that

the spread of democracy, for all its pacific results, is reducing international conflict to administration and sapping the vital force of nations; or defenders of a distinctive Asian meritocracy such as Kwan Yew Lee, who assert that a more authoritarian state structure is appropriate to Asian culture and society.<sup>1</sup>

Murakami forges instead a middle way between demands for local differentiation and aspirations for global order. In doing so, he seeks to establish the international legitimacy of two motivations for government intervention in the international economy, both of which, in his view, are treated as illegitimate by existing international regimes. The first motivation, which Murakami develops explicitly in his analysis of "developmentalist" policies, is to implement a state-led economic development policy in developing countries. The second motivation, less developed in the book, is the defense of cultural norms and institutions of particular value to a society. "Our touchstone for the twenty-first century," Murakami writes, "is surely understanding between cultures."<sup>2</sup> In providing a reasoned defense of this synthesis between cosmopolitanism and particularism, which reflects the more open and liberal elements of the Japanese bureaucracy who support cooperation with the United States and the European Union within a multilateral order, Murakami has established himself as a distinctive and subtle voice of moderation in Japanese and U.S. debates over international cooperation in the Pacific basin.<sup>3</sup>

Fascinating as this policy debate may be, the deeper philosophical and theoretical foundations of Murakami's argument command our primary scholarly attention. On a philosophical level, he grounds his moderate cosmopolitan prescription in the notion of "polymorphic liberalism," by which he means to reconcile two "mutually complementary" modes of thought: scientific, transcendental, universalist theories of social progress, such as classical liberalism and Marxism, and hermeneutic, local, self-reflexive understandings of particular communal identities.<sup>4</sup> In Murakami's view, the dialectical relationship between these two "modes of thought" propels modern history forward. In the current conjuncture, it takes the form of nationally distinctive responses to technological and institutional challenges.<sup>5</sup> The underlying philosophical imperative, however, remains the same: we must learn to treat individual cultures as "commensurable," respecting their individuality and legitimacy, while not losing sight of the shared values and interests that bind all human societies together.<sup>6</sup>

Murakami's choice of the term "polymorphic liberalism" to designate his theory and his explicit acknowledgment of liberalism as the source of his underlying philosophical argument about the nature of individuals suggests a close affinity with liberal thought. "Liberalism," he writes, "is also an 'indi-

vidualism' that respects the individuals creating and remaking the image of the world. By 'individual' I do not mean an isolated or self-sufficient individual, but one who exchanges views and debates with others in forming an image of the world, and who has inherited a historical wisdom. True liberalism must be an individualism rooted in a shared view of the world."<sup>7</sup> In this way, Murakami, like most twentieth-century liberal thinkers, seeks the intellectual resources within the liberal tradition to transcend the simpler universalism or cosmopolitanism that characterized some variants of classical liberalism in the nineteenth century.

In the end, however, it is not as philosophy but as social science that Murakami's work must be judged. From a social scientific and historical perspective, this abstract dialectical synthesis between philosophical poles is consequential only to the extent that we can restate it in historically concrete, theoretically precise terms and assess its empirical feasibility.<sup>8</sup> That is Murakami's central task in *An Anticlassical Political-Economic Analysis*, and it is the central focus of this analysis.

This paper situates Murakami's argument within the world of international relations theory. In moving from philosophy to social science, however, it retains the centrality of liberalism as a theoretical approach. Murakami, I argue, is best understood as contributing to the reemerging school of liberal political economy and international relations theory, which explains state behavior in world politics by uncovering underlying variations in national identity, transnational economic incentives, and domestic institutions. Murakami himself greatly underestimated the full measure of his connection with this type of liberal theory. For liberals, as for Murakami, the tension between domestic autonomy and global order has been the central source of conflict throughout the modern history of international relations. In the late twentieth century, it takes the specific form of conflict between international economic interdependence and nationally specific means of domestic government intervention.

Liberal international relations theory permits us to qualify and extend Murakami's analysis. His analysis is limited by the metaphor of cultural difference, which stands in for a nuanced analysis of democracy, economic interdependence, and values in foreign economic policymaking. Liberal theory can fill in the missing steps in Murakami's analysis by differentiating among different sources of underlying international conflict, specifying the conditions under which such conflicts are likely to be resolved, and analyzing the political process through which proposed reconciliations might be realized. Most importantly, liberal theory helps us specify more precisely the conditions under which governments will defend local cultural and political prac-

tices, rather than accepting a cosmopolitan regional or global economic order. From a liberal perspective, the legitimacy and stability of various solutions to the conflict between domestic autonomy and global order depends on the underlying diagnosis of its source. Particularistic national standards may stem from three separate sources: incompatible sets of underlying collective values, economic market failures, and the disproportionate influence of domestic protectionist groups. Murakami focuses on the first and more benign variants of the second, such as the need for infant-industry protection. He neglects, however, less benign variants of the second, such as predatory strategic trade policies, and ignores entirely the third: special interest pressure.

The liberal analysis of the experience with similar issues in other multilateral forums, such as the General Agreement on Tariffs and Trade (GATT), the North American Free Trade Agreement (NAFTA), and the European Union (EU), suggests some grounds for skepticism concerning Murakami's policy proposals for reconciling particularistic and general interests. Most importantly, if a stable line is to be drawn between national particularity and cosmopolitan commonalities, some mechanism must be employed to distinguish illegitimate actions (e.g., protectionist demands and attempts to exploit market failures) from legitimate ones (e.g., national values and efforts to redress market failures). The EU, GATT, and NAFTA have constructed international norms, rules, and procedures for adjudication. (Such rules function, to a large extent, because they have been embedded, legally or institutionally, in domestic institutions and societies.) Yet the liberal perspective suggests that this sort of institutional commitment requires a substantial prior convergence of interests and institutional forms. In particular, international arrangements of this kind tend to function far more effectively among liberal democracies, among countries embedded in complex networks of intraindustry trade, and among those with an ideology grounded in a common historical experience. It is unclear whether adequate sources of democratic, economic, and ideological convergence of interest currently exist in the Asia-Pacific region. Murakami's skepticism of democratic political institutions, moreover, leaves him without a clear analysis of the origins of the political will to cooperate.

### *Murakami and Liberal International Relations Theory*

#### *Murakami as an International Relations Theorist*

Murakami's work falls within the liberal international relations paradigm, rather than adhering to either of the two major paradigms that dominate the spectrum of contemporary international relations theory, realism and institu-

tionalism.<sup>9</sup> Each of these three paradigms is defined by its assumptions about fundamental actors, interests, and strategic resources.

The first, realism, is derived from a long tradition of European *Realpolitik* thinking. Realism is based on three fundamental assumptions. First, states are, or can usefully be thought of as, unitary, rational actors. Second, states have relatively fixed preferences, which are so arrayed as to establish a substantial level of distributional conflict. These underlying motivations may reflect scarcity, uncertainty, or ambition—on this question realists differ—but they do not vary systematically across states. Third, the distribution of political power, generally understood as a resource employed to offer inducements or make coercive threats, determines the outcome of these interstate conflicts.<sup>10</sup> Realists reject the notion that variation in underlying state preferences or in the institutionalized provision of common information influences state behavior in fundamental ways. In seeking to account for international order, realists stress the importance of specific configurations of power, be they balances of power that deter aggression, or forms of hegemonic domination that structure international cooperation and elicit compliance from other countries through the manipulation of security guarantees, market access, or financial side-payments.

Institutionalism, the second major school in contemporary international relations theory, shares with realism the assumption that the major actors in international relations are unitary, rational states, but diverges from it with regard to assumptions about their interests and strategic assets. Rather than assuming a high level of distributive conflict, institutionalists view states as facing mixed-motive collective action problems, in which opportunities for mutually beneficial cooperation coexist with incentives for conflict. Governments are particularly concerned to institutionalize bargaining so as to reduce transaction costs, primarily understood as the *ex ante* cost of negotiating agreements and *ex post* costs of monitoring and sanctioning defection. In seeking to account for international cooperation, institutionalists stress the importance of international institutions, termed regimes, that structure international cooperation by providing information about the actions of other governments, thereby reducing uncertainty about future international interactions. Such regimes are particularly costly to create; they thus persist even when underlying patterns of power and interest change.<sup>11</sup>

Though realism and institutionalism hold sway over contemporary grand theoretical debates in international relations, they do not exhaust the useful theoretical alternatives for explaining world politics. Hence such central theoretical debates have become too narrow to provide an accurate guide to the analyses and research that scholars in international relations actually con-

duct. This is of particular relevance here because—as his category of “polymorphic liberalism” suggests—one of the strengths of Murakami’s analysis is his willingness to move beyond realist and institutionalist theory toward a distinctively liberal view of international relations. Murakami is not centrally concerned to locate the driving forces of state behavior in the international distribution and dynamics of coercive power, as do realists, or in international distribution and dynamics of information and institutions, as do institutionalists. To be sure, factors such as the rise and decline of postwar U.S. hegemony play a role in *An Anticlassical Political-Economic Analysis*, as does the construction of international institutions. Yet Murakami is primarily concerned with differences among societies, rather than their common responses to external political circumstances. His “starting point” is an outright rejection of the realist assumption of rational, unitary actors with similar goals. Instead, “human beings, or societies, are different but ... they have some commensurability.”<sup>12</sup> Rather than focusing on political power, Murakami is primarily concerned with sociological foundations, that is, with the way domestic and transnational civil society and political institutions influence the willingness of states to construct and comply with regimes. While international institutions may figure in Murakami’s proposals, a major theme of his book is instead the need for nation-states to develop and exercise a restraint that stems from their distinctive interests and values.

At the center of Murakami’s analysis lie sets of national cultural values, configurations of economic and technological interdependence, and varied institutions of private and public governance, and the impact they have on world affairs. This is particularly characteristic of his most distinctive arguments, including the utility of developmentalist state intervention, the need to recognize specific national responses to economic interdependence, market imperfections as a justification for national policies, the stability and efficiency of democratic governance, and the role of shared collective norms of domestic distribution and decision making. For Murakami, attempts at international cooperation fail not for a lack of coercive power or appropriate international institutions, but because the underlying interests of governments are, or are perceived to be, contradictory. Therefore, a proper understanding of those interests is thus the first and most fundamental step in analyzing international relations. To situate Murakami’s work, it is thus necessary to turn to a third, reemerging school of international relations theory, the liberal approach.

*Liberalism as a Theory of International Relations*

Liberal international relations theory rests on the proposition that variation in underlying state preferences, derived from the positions states occupy in domestic and transnational society, is the most fundamental determinant of their international behavior.<sup>13</sup> For liberals, domestic and transnational state-society relations are central, in contrast to realism and institutionalism, both of which emphasize the causal importance of the *political* structure of interstate relations. Theories in the liberal paradigm share three core assumptions about, respectively, actors, preferences, and strategic interaction: (1) the fundamental political actors in international politics are autonomous individuals and private groups in civil society acting on the basis of preferences that are, on the average, self-interested, and acquisitive, but risk-averse; (2) states (and, potentially, other political institutions) represent a subset of domestic society, whose interests decisively constrain the underlying preferences of states in the international system; (3) state behavior and, therefore, the level of interstate conflict and cooperation reflect the nature and configuration of state preferences. Liberalism is a "bottom up" theory, which stresses the primacy of societal actors, as represented and regulated by states.

Within the liberal paradigm can be found separate theoretical strands, each of which shares the three basic assumptions outlined above and is thus centrally concerned with the societal sources of state preferences. Liberal theory provides a common theoretical foundation linking three closely related determinants of state behavior traditionally viewed as distinct: collective identities, socioeconomic interests, and representative institutions. Each of these three strands identifies a source of underlying variation in societal demands on governments and traces the implications of those demands for international behavior.

*Commercial Liberalism and Socioeconomic Interdependence.* The first determinant of national preferences is the position of societal actors in transnational patterns of socioeconomic interdependence. In this view, individuals seek material ends and act on the basis of personal costs and benefits of socioeconomic and informational transactions. From this follows a family of related hypotheses about the extent to which specific patterns of interdependence are conducive to cooperation. Among these are the notions that as consumers, social actors tend to benefit materially from trade liberalization; that imperfections in international markets tend to generate greater incentives for conflict; and that, where trade is Pareto-improving for the society as a whole, a relatively even distribution of gains and losses (as in, say, intraindustry trade) facilitates greater cooperation.<sup>14</sup>

*Republican Liberalism and Representative Institutions.* The importance of the second determinant of national preferences, the nature of domestic representative institutions, rests on the assumption that governmental institutions always represent some subset of the national society, though—and here is a decisive distinction from more normative variants of liberalism—that subset is not necessarily an accurate reflection of the full spectrum of views in that society. Liberals argue that the general characteristics of individuals on the average—their acquisitive, but risk-averse nature—is most likely to assert itself only if influence over decision making is widely and equally distributed. Any other pattern raises the possibility that some groups will pursue policies that benefit them at the expense of the disenfranchised, the unorganized, or the uninformed. From this a number of hypotheses follow, including the view that liberal democracies are unlikely to go to war with one another and that conflictual trade policies can result from the overrepresentation of concentrated, highly organized constituencies.<sup>15</sup>

*Sociological Liberalism and Collective Values.* The third determinant of national preferences is the set of collective values that underlies commitments to the provision of domestic public goods, such as national boundaries, fundamental political and socioeconomic ordering principles, institutions of socioeconomic regulation, or organized cultural practices. Liberals have long recognized the importance of collective attachments to the nation, whether in the form of attachment to ethnic identity, common history, local norms of distributional equity, or distinctive constitutional arrangements for collective decision making. Woodrow Wilson's and John Stuart Mill's defense of the national self-determination, John Maynard Keynes's defense of national economic planning, and the extended liberal tradition of noninterventionist and anticolonialist writings would make little sense without underlying recognition of collective attachments and identities.<sup>16</sup> The identity of modern nations is defined not just in ethnic or cultural terms, but also, analogously, in terms of a common attachment to constitutional norms and procedures. The latter include the legitimacy of national decision-making processes; collective conceptions of equality, liberty, justice, and welfare; or collective beliefs about appropriate trade-offs between these collective values.

The realization of these collective values often requires policies for the provision of public goods—that is, policies that must be legislated for society as a whole. Where these goods are indivisible, for example, where they are provided as a "club good"—a nonrival, nonexcludable public good within any given jurisdiction, from which no one within the jurisdiction can be ex-

cluded or exempted—there is greater potential for explosive conflict.<sup>17</sup> Preferences regarding the provision of such goods are typically justified with reference to a collective vision of society, often of an ideological nature.<sup>18</sup> Deep domestic cleavages with regard to the proper form of such goods may therefore undermine the legitimacy of state policies or, indeed, the state itself. Societal actors who support specific sets of common values will pressure the government to defend these conceptions at home, where individuals have invested the most in their realization, and (though generally to a more limited extent) to project them abroad. Where compatible conceptions are found in different nations and reinforce one another, opportunities for mutually beneficial cooperation are more likely to emerge. Where such conceptions are incompatible, for example, where cultural and ethnic identities are not coterminous with borders, where societies do not share common procedural or ethical norms, or where values promote the domination of those with conflicting beliefs or view their foreign counterparts as threats,<sup>19</sup> interstate conflict becomes more probable.

#### *The Distinctiveness of Liberalism*

The overriding concern with patterns of state preferences induced by state-society relations—from which the resulting commercial, republican, and sociological strands of liberal international relations theory are drawn—decisively distinguishes liberalism from realism, with its overriding concern about the position of states in the international distribution of political power, and from institutionalism, with its overriding concern about the international distribution of information.<sup>20</sup> The sharp distinction between institutionalism and liberalism may seem controversial to those who associate liberalism, in its more normative guise, with support for international institutions, but in fact the separation in the international relations context follows directly from the assumptions above. Institutionalism, like realism, is a “systemic” theory. It explicitly takes underlying state preferences as fixed (or irrelevant) and focuses instead on the way in which variation in external material or informational constraints induces predictable patterns of state strategies. By contrast, liberals focus on the predictable results of variation in underlying state preferences themselves. Hence, for liberals, purpose, not power or information, is central.<sup>21</sup>

Liberalism, understood in this way, is a positive, rather than normative, doctrine. It is a theory of international relations, rather than a prescriptive guide to policy, though the former may, of course, assist in deriving the latter. Thus it avoids the error of reducing liberalism to a set of narrow policy

prescriptions, such as the promotion of free trade, self-determination, or democratic governance. Instead, liberalism seeks to explain and predict the consequences of variation in nature of interdependence, identity, and representative institutions on international relations.

This formulation of liberal international relations theory sidesteps two false critiques. The first is that of realists, such as E. H. Carr, George Kennan, Hans Morgenthau, and Reinhold Niebuhr and other representatives of the postwar realist reaction, who held that liberal international relations theory is utopian or moralist. Modern liberals reject the utopian notion, often falsely attributed to them, that there exists an automatic harmony of interest among individuals and social groups.<sup>22</sup> Instead, liberals begin from the assumption that there are two sources of conflict. As Isaiah Berlin has observed, the fact of scarcity and the “conflict of positive values” both render “social and political collisions” inevitable.<sup>23</sup> As liberals from Immanuel Kant to John Rawls have vigorously asserted, a conflictless society could only be a profoundly illiberal one; peace and progress are possible only because of “antagonism within society” resulting from what Kant termed the “unsocial sociability of men.”<sup>24</sup> Social cooperation and progress are always problematic, because they demand restraint by individuals, groups, and communities who seek competing, sometimes incommensurable, private goals. Only where certain social preconditions are present can conflict be reduced; it can never be eliminated. Hence, realist claims notwithstanding, liberal theory in no way implies that international cooperation must be based on a sense of empathy or altruism, though in some cases it might be. Instead, liberals see tolerance, order, and cooperation as stemming primarily from enlightened self-interest. Modern liberals espouse what I have elsewhere termed “minimalist Liberalism”: even democratic, satisfied states may find themselves in military, economic, or ideological conflict with other sorts of governments.<sup>25</sup> Any state may be called upon to employ coercive means in order to defend and, though to a lesser extent, to propagate ideals. For liberals, convergence of interest is not only contingent, but must also be constructed.

The second false critique, implicit in the writings of contemporary “reflectivists” (sometimes termed poststructuralists or constructivists) in international relations theory, holds that the liberal conception of society is narrowly individualist and materialist and, therefore, unable to take account of collective norms and beliefs, or other nonmaterial motivations for action.<sup>26</sup> This is clearly incorrect. The centrality in liberal thought of national identity, whether understood as a commitment to historical ethnic and cultural ties or as a commitment to certain political and socioeconomic principles and practices, belies a purely materialist and individualist interpretation. In liberal

normative thought, the concern for socialization and collective attachments is at the center of the writings of late nineteenth-century and early twentieth-century liberal theorists such as Mill, Wilson, and Keynes.<sup>27</sup> Liberal international relations theory, as I have defined it above, with its central focus on how state purposes are determined by state-society relations, clearly encompasses ideal motivations and the defense of collective entities. Liberals have little trouble conceding that U.S. hegemony may have been based on ideological as well as material power, or that nationalism and local values are important determinants of state behavior. Liberals assume only that *insofar as these collective affinities influence international politics*, they can be treated as individual or group preferences across certain political outcomes.

#### *Murakami's Relationship to Liberalism*

The theoretical foundations of Murakami's thinking on international relations are more liberal than either realist or institutionalist. As social science, Murakami's philosophical concern translates into a liberal approach to international relations theory, one that treats state-society relations as primary determinants of state behavior, with particular emphasis on the ways in which economic interdependence, cultural identity, and the nature of domestic governance influence state behavior.<sup>28</sup>

Yet Murakami's own appreciation of the liberal tradition remains incomplete. At times he strays into analyzing liberalism as a single, narrow, and rather extreme ideology, rather than as a political science theory (or political philosophy) that can account for (or justify) many diverse outcomes. This leads him to underestimate its explanatory power and normative attractiveness.<sup>29</sup> He sometimes treats existing liberal theory as a sort of Jacobin ideology: a transcendental, progressive impulse that constitutes the polar opposite to a concern for local particularism and shared values. He criticizes liberals as "progressivists," that is, as supporters of strong global institutions that impose universal and homogeneous rights and obligations, such as global free trade, on the basis of a single teleological worldview. From this is derived Murakami's opposition to the United Nations and other universalist organizations.<sup>30</sup>

While this is an engaging ideological position, and one that has attracted some attention in scholarly writings in international political economy, it is less useful as social science theory. It restricts liberalism to a narrow, and rather dated, ideology (if not as a straw man for mercantilist theories), sapping its potential as a theory of international relations. One suspects that Murakami, for example, equates liberalism with the particular demands of a

specific country at a specific time—the postwar United States. While the United States clearly had a disproportionate influence on postwar international economic regimes, liberalism as a social scientific theory nonetheless has the breadth of intellectual resources beyond one country's interpretation of it.<sup>31</sup>

The narrowness of Murakami's appreciation of liberal theory is most obvious in his exegesis of Kant. Kant, like other leading liberal thinkers, including Mill, Wilson, and Keynes, was in fact skeptical of strong international institutions with uniform standards. From a liberal perspective, such skepticism is not coincidental, but central. While liberals do not necessarily oppose all international institutions, they place primary emphasis on underlying social processes of identity formation, economic interdependence, and democratization work through the preferences of states, which set strict limits within which international institutions can function. For all major liberal thinkers, these limits preclude world government.<sup>32</sup> What is most striking in Murakami's own analysis—despite his brief critique of Kant, based on a common misreading of his work as critical of the nation-state—is thus not the divergence with Kant, but the similarities. Both are skeptics of world government, a similarity reflected in the very language they use. Kant argues that world government could only be a "soulless despotism," primarily because of its lack of concern for local linguistic and religious particularity; Murakami rejects a liberal world Leviathan designed to eliminate violence as a heartless, soulless autocrat.<sup>33</sup>

Hence in practice—the question of what might be desirable in normative theory being too complex to analyze here—both Kant and Murakami reject the worldwide imposition of what the latter terms "transcendental justice-based" standards. They seek instead a balance, based on a limited commensurability of cultures, between such standards and more "hermeneutic rule-based" norms.<sup>34</sup> Similar arguments apply to Mill, who criticized foreign intervention and inflexible international norms from a communitarian perspective; Wilson, who was skeptical of international law and who designed the League of Nations to be a nonbinding and essentially voluntary arrangement limited to democratic states; and Keynes, whose blueprints for postwar international organization were designed to permit governments to pursue, among other things, nationally specific programs of state intervention in the economy.<sup>35</sup>

This antic cosmopolitan strain in liberalism should hardly be surprising, because the conflict between a sphere of general law and a sphere of local rights is central to liberal thought, whether we are speaking of the relationship between an individual and the state or, analogously, the relationship

between a nation and international regimes. When Murakami speaks of a synthesis between transcendental and progressive thinking and local hermeneutical thinking, he raises not a distinction between liberalism and culture, but a central tension at the heart of liberal thought itself. This liberal tension foreshadows Murakami's central claim that as we "accept the shift to borderlessness in the visible dimensions," the promotion of international peace and cooperation will require that we "build a world in which much cultural individuality can exist."<sup>36</sup> Elsewhere he calls for greater recognition and legitimacy for the "distinctive characteristics" of national economic systems.<sup>37</sup> When Murakami argues for a rule-governed society that values toleration rather than relativism, and commensurability rather than homogeneity, he is expressing eternal liberal values.<sup>38</sup> The problem for social scientists is to determine the conditions under which such a balance is possible.

In short, Murakami overestimates the cosmopolitan strain in liberal thought. While liberals may in the long term accept the sort of convergence theory advanced by Francis Fukuyama, it is hardly a universal guide for prediction or prescription. True: liberal capitalism may have become, as liberals have long predicted, the only fundamental political and economic ideology in the world today with a viable *general* claim to allegiance, at least among developed great powers. But this is not to assert that all conflict has disappeared. Not only do conflicts between liberal and nonliberal states persist, but governments *within* the liberal "zone of peace" may face a wide range of disagreements short of armed conflict within a "zone of legitimate difference" among themselves.<sup>39</sup> Hence, while Murakami is attracted to liberal philosophy and social science, he underestimates the resources available within liberal theory to analyze (and, indirectly, to legitimate) claims of cultural and communal autonomy and their relation to cosmopolitanism, to which I now turn.<sup>40</sup>

### *The Tension between Liberalism and Localism*

Having established that Murakami's work is best understood as a contribution to the reemerging liberal tradition of international relations theory, I now turn to existing liberal analyses to assess the validity of Murakami's more concrete and specific arguments. This section begins by demonstrating the centrality of the tension between global order and domestic autonomy in liberal analyses of international political economy; derives from this tension three specific incentives for local resistance to international liberalization and harmonization and some conditions under which governments are likely to succumb to them; and finally employs this tripartite scheme to assess Mu-

rakami's analysis of and proposals for cooperation in the East Asia and Pacific region. Throughout, I pay particular attention to the legitimacy of national regulations that set domestic standards of risk and protection, or seek to realize collective goods, whether cultural or material, through the direct or indirect restriction of trade. The status of such regulations is emerging as the major point of conflict between local and cosmopolitan interests in the contemporary world economy.

### *Global Order and Domestic Autonomy in International Relations*

From a liberal perspective, the tension between cosmopolitan processes and particularistic national practices has been the central political tension driving international relations over the past two centuries, whether in security affairs or foreign economic policy. In the classical diplomacy of nineteenth-century Europe, it took the form of conflict between the desire of statesmen to stabilize the European balance of power and the desire of politicians and populations in individual Central European nations to assert autonomy within borders of their own choosing. Between the defeat of Napoleon and the Versailles settlement, major institutions such as the Concert of Europe and major events such as the revolutions of 1848, the wars of German and Italian unification, and the Balkan catalyst of World War I were driven by this dialectical tension. In Asia, similar conflicts marked the emergence of Japan and China, and later India, into the international system. In the twentieth century, this desire for individual autonomy spread to the less developed world, spurring the rebellions that drove decolonization.<sup>41</sup>

The tension between collective order and particularistic interests has defined a central political cleavage in international trade and monetary affairs as well. Free trade and factor flows under the gold standard, Karl Polanyi observed, imposed painful adjustment on civil society, which ultimately called forth resistance.<sup>42</sup> Recent studies suggest that international economic order in the twentieth century has been constrained not so much by variations in hegemonic power, but more by the extent of convergence among national preferences, which in turn reflect configurations of economic interdependence, national values, and domestic institutions. The gold standard before and after World War I, we now understand, was based more on the convergence of similar domestic political orders than on British hegemonic power.<sup>43</sup> The post-World War II multilateral order, both in Europe and across the world, sought not to impose uniform trade and monetary institutions, but to reconcile international economic cooperation with the simultaneous strengthening

of state institutions, norms, and practices—a reconciliation John Ruggie has termed the “compromise of embedded liberalism.”<sup>44</sup>

The “embeddedness” of market policies varies across countries and circumstances. After the failure of the United States to ratify the International Trade Organization (ITO), the postwar trading system was organized under the provisional GATT treaty, which sought free trade only over a long period, permitted strong safeguards, recognized regional and postcolonial arrangements, ignored nontariff barriers until the 1970s, exempted important sectors such as agriculture and textiles, and provided special terms for developing countries. Under Bretton Woods monetary institutions, European currencies did not become convertible for over a decade. When currencies were finally made convertible, the system still permitted adaptation to new circumstances through devaluation or revaluation. By the early 1970s, when divergence between national macroeconomic policies became too great to contain within pegged exchange rates, the system collapsed. Today, regional integration and regulatory harmonization top the agendas of the World Trade Organization (WTO), the European Union, the North American Free Trade Agreement, and the U.S.-Japan Structural Impediments Initiative (SII). With the deepening of economic integration beyond the reduction of traditional at-the-border measures, domestic regulatory standards are increasingly perceived by foreigners as nontariff barriers to market access and have become targets of foreign demands in international negotiations. The relation between global rules and particular national standards is thus being raised today more clearly than ever.

#### *Integration and Domestic Standards: Three Sources of Conflict*

In order to assess how the tension between cosmopolitan and local values manifests itself concretely, it is necessary to understand the liberal view of the conditions under which governments will choose to defend local practices in the face of international imperatives. Begin by postulating that governments support international cooperation, and specifically trade liberalization or regulatory harmonization, primarily in order to coordinate domestic policies such that the negative externalities of the policies of foreign governments are removed and larger gains are provided for all. From a liberal perspective, local resistance to market integration, whether in the form of tariff liberalization or regulatory harmonization, may stem from any one of three distinct sources, corresponding to the republican, commercial, and sociological strands of liberal theory: governments may seek to offset or exploit domestic and transnational market imperfections, to realize or defend collective

values, or to protect powerful, particularistic interests with disproportionate political influence. Each incentive predicts a different general pattern of international conflict and cooperation under distinct circumstances.

The first source of local resistance to international market integration and harmonization of domestic policies, according to liberal theory, is the presence of domestic and transnational market imperfections. Market imperfections create incentives for strategic behavior, including protection, that would not arise in free markets. One such case, relatively uncontroversial even among economists, is infant industry protection. New industries in backward countries may lack information or ready sources of investment capital and may require some time to establish efficient economies of scale and a “fair share” of a free market. If new, potentially competitive, industries are unable to establish themselves without assistance, then temporary subsidies, trade restrictions, or the relaxation of regulations, such as intellectual property rights, may generate a net improvement in welfare for the firm, the nation, and the world. Such industries may have spillover effects that are valuable to the nation as a whole and, indeed, to the world economy. Yet similar market imperfections, such as high fixed costs and increasing returns to scale, may also provide incentives for governments to engage in exploitative, predatory intervention to establish and extend oligopolistic advantages in global markets.

The second source of local resistance to international market liberalization and harmonization of standards, according to liberal theory, is the defense of specific domestic values or identities. Despite its initial association with untrammelled free markets and minimal state intervention, liberalism has over the past two centuries increasingly recognized the legitimacy of government intervention to provide public goods, including social equity and justice, domestic economic stability, specific regulatory standards, and unique political and social institutions, against domestic and international market pressures. This reflects the recognition that the liberalization of international markets is “embedded” in, and thereby fundamentally limited by, legitimate domestic social compromises concerning risk, equity, and identity. Such limits are imposed when the domestic social welfare function includes not only aggregate wealth maximization (assuming that integration does achieve this goal), but also various public goods, such as a particular level of externalities, nonmaterial goals, or the preservation of specific domestic values and practices, such as an egalitarian income distribution, moderate levels of personal risk, national security, democratic control, political legitimacy, and distinctive cultural or institutional practices. Governments often seek to limit imports of goods and factors of production that fail to meet domestic norms of equality,

safety, security, order, democratic control, consumer and environmental protection, industrial practice, and cultural values. Where economic liberalization and harmonization undermine provision of these domestic public goods, local resistance to harmonization is more likely to occur.

Decisions to forsake a margin of material prosperity for other domestic public goods are made routinely in domestic matters, and there is little reason to doubt that such motivations influence international politics as well. Though this line of argument is somewhat underdeveloped in Murakami's book, it follows directly—perhaps even more directly than developmentalism—from his general analysis. While Murakami is concerned primarily with the nature of domestic corporate governance systems, which he views as fundamental historical legacies uniquely well suited to specific national systems, his argument can be extended much further.<sup>45</sup> The defense of local social compromises may also require restrictions on immigration, continued sovereignty in the provision of social welfare and the imposition of taxes, special provisions for cultural and religious institutions, and the maintenance of discriminatory regulatory standards—all of which may restrict trade and regulatory harmonization.

The third source of domestic pressure for the defense of local interests against cosmopolitan commitments is the interest of some groups with a privileged position in domestic politics in protecting domestic rents. This is the classic endogenous tariff theory explanation for trade protection. Although liberalization of trade and harmonization of regulations may improve the welfare of the society as a whole, disadvantaged groups strongly oppose it. The defense of local restrictions often triumphs because they are more concentrated, more salient, more mobilized, or better represented by existing institutions. The combination of intense preferences and de facto biases in the political process generates strong forces for protection.

Not all trade leads to such pressures, however. Studies of trade policy suggest that bilateral and multinational interests are more compatible where trade flows conform to intra-industry rather than interindustry patterns. Crosscutting flows of exports and investment internalize the costs and benefits of liberalization and permit specialization in different product lines, while interindustry trade tends to create direct conflict among similar sectors in different industries. The success of the EU in Europe, a region of especially high intra-industry trade, and the focus of GATT on the liberalization of industrial goods support the view that regional integration is most likely to occur when member countries engage in such trade.<sup>46</sup>

### *The Implications of Multiple Justifications*

The existence of multiple justifications for local resistance to international liberalization and harmonization, of varying legitimacy, raises two sets of fundamental challenges to any proposal, like that of Murakami, to accord domestic intervention greater legitimacy. The first and more straightforward challenge stems from the internal argumentation within each category. Under what conditions are the claims that Murakami makes for the role of government intervention in assuring development and protecting cultural values correct? How essential has sectoral intervention been to spurring growth in Japan and other newly industrializing countries? How successful is government intervention in assuring domestic public goods provision?

The second and ultimately greater challenge stems from the existence of multiple justifications for the same policies, each *prima facie* plausible, but some legitimate and others illegitimate. Often a clear distinction between the two is impossible without a detailed examination of the facts of the case, including the specific motivations of the parties. Murakami makes it clear that he supports intervention to promote development and to defend deep, if unspecified, cultural values. He opposes, on the other hand, the perpetuation of developmentalist policies beyond the transition to industrialization or in sectors where it is not beneficial to the economy as a whole, as well as classic protectionism in the interests of particularistic domestic interests with disproportionate political power. The need to make this complex determination on a case-by-case basis implies that domestic and, we shall see, international institutions must be constructed that are able to distinguish between the legitimate and illegitimate cases of local resistance. This is an extremely demanding form of international cooperation, the conditions for which may not yet be present in East Asia and the Pacific. Let us consider these challenges in turn.

### *Does Developmentalist Intervention Work?*

Greater international legitimacy for the promotion of infant industries during the transition to industrialization, which he terms developmentalism, is the policy prescription that Murakami stresses most heavily. He views developmentalism as a transitional stage between underdevelopment and classical liberalism, and perhaps also, though to a more limited extent, as a permanent characteristic of some sectors of developed economies that express particular cultural practices. Such intervention must, he argues, strike a balance between planning and market competition, for which "industrial policy provides the central policy instrument."<sup>47</sup> Essential to a successful industrial

policy, in his view, is the designation of priority industries, sectoral-indicative planning, subsidization of the development and importation of new technology, and the creation of price cartels to limit competition. Trade protection and subsidies should be employed, while the regulation of investment, finance, and entry into industrial sectors should be eschewed.<sup>48</sup>

Murakami also recommends a set of specific supporting policies, which, though secondary, establish the preconditions for the success of industrial policy. These include a number of egalitarian policies, including the promotion of small firms, equality of income distribution, land reform, comprehensive education, and a fair, insulated bureaucracy. Although he warns against identifying “developmentalist” policies with the Japanese experience and concedes that Japanese policies “included much unnecessary government intervention,” he nonetheless draws heavily on an analysis of the Japanese experience. A comparison with Latin America, characterized by a focus on primary product exports, a state influenced by mass populist politics, and great inequality, underscores his basic claim.<sup>49</sup>

Yet a closer examination of the postwar Japanese experience calls Murakami’s view into question. Beyond the historical correlation between state intervention and high growth rates—which has evidently convinced many Japanese officials of a causal relationship—recent scholarship has uncovered only thin evidence for the view that the sectoral intervention stressed by Murakami made a decisive contribution to Japanese postwar growth. Most contemporary analyses reverse Murakami’s policy priorities, placing primary emphasis on the macroeconomic and macrosocial policies, and only secondary emphasis on industrial policy. Though initially proposed and largely financed by the Japanese government, led by the Ministry of Finance, in an effort to legitimate the East Asian development model, the World Bank’s recent study, *The East Asian Miracle*, suggests that macroeconomic stability, human resources investment, and an export-led growth strategy were the most important contributors to high growth. While land reform, universal education, encouragement of a high saving rate, a realistic exchange rate, support for small enterprises, and other such promarket policies may have had an important effect, sectoral microeconomic intervention had only a marginal effect. The study concludes, moreover, that the conditions that permitted such microeconomic intervention to be even marginally successful are not necessarily replicated elsewhere.<sup>50</sup>

There is also little evidence that the Japanese state systematically picked “winners.” Cross-sectoral studies of the postwar economic subsidies and incentives suggest that the Japanese government did not systematically target for support those firms that generated greater than average rents or external

externalities, such as knowledge and technological development. These studies portray the postwar Japanese government not as autonomous and strategic, but as clientelistic and indecisive.<sup>51</sup> Hence most observers agree that if the Japanese model is to be reproduced elsewhere in the developing world, the primary stress should be on broad economic and social fundamentals, including macroeconomic stability, education, and equitable socioeconomic policies, rather than microeconomic intervention and corporate governance—an argument Murakami concedes, but which, if taken seriously, reverses his emphasis on industrial policy.<sup>52</sup>

Murakami is less concrete about the standards for judging the effectiveness and legitimacy of policies, other than developmentalism, that reflect specific national practices. Yet greater recognition of such practices is clearly part of his vision for future international cooperation. The status of national regulations that set domestic standards of risk and protection, or seek to realize collective goods, whether cultural or material, through the direct or indirect restriction of trade, is emerging as the major point of conflict between local and cosmopolitan interests in the contemporary world economy.<sup>53</sup>

The effectiveness of such regulations is difficult to determine. Cross-issue studies of the relationship between international trade and domestic standards have yet to be conducted. A quarter-century ago, Richard Cooper observed that the realization of most domestic policy goals requires the isolation of domestic markets from the international economy or international coordination to eliminate negative externalities.<sup>54</sup> The precise terms of such trade-offs remain, however, unclear. Some have argued that areas such as human capital improvements and the distribution of fiscal resources are relatively impervious to interdependence, while macroeconomic aggregates are more vulnerable. Others, following a narrow interpretation of GATT law, focus on the differences between restrictions on products, which can be effective, and restrictions on domestic processes, which are often difficult to harmonize.<sup>55</sup> Murakami himself does not offer clear criteria for distinguishing cases in which such intervention is likely to be effective.

#### *Institutional Preconditions for Cooperation*

We turn now to the second and deeper liberal challenge to Murakami’s theory, which concerns its practical implementation. Perhaps the weakest link in Murakami’s argument concerns the domestic and international political mechanisms by which the transformations in economic policies he recommends are likely to occur.<sup>56</sup> The realization of Murakami’s vision requires the construction of institutions, domestic and international, capable of establish-

ing and enforcing subtle distinctions between legitimate and illegitimate policies. It remains unclear whether existing political institutions could adopt the policies he recommends—if not, whether reform of institutions to facilitate such adoption is possible—or what other consequences the adoption of such institutions might bring. The following subsections consider domestic and international institutions in turn.

*Domestic Institutional Preconditions.* Although Murakami does not reject parliamentary democracy as a means of achieving the ends he recommends, he remains skeptical of it, complaining of its ungovernability, particularly during the process of industrialization. He remains critical of excessive reliance on majoritarian institutions, which are just “a convenience” for achieving other ends. The problem of domestic institutional design raises the more fundamental question of the relationship between democracy and the economic policies Murakami proposes. This relation differs, depending on whether we view it from the perspective of developing or developed countries, that is, both from the perspective of those countries, including prospective Asian newly industrializing countries (NICs), seeking to make the transition to successful developmentalism, or those countries, including Japan, Korea, and Taiwan, seeking to make the transition away from it.

Developing countries seeking to construct and maintain a developmentalist system, Murakami argues, should resist pressures for multiparty pluralist democracy. While not inevitably in contradiction with developmentalism, democratic governments tend to be weak and dependent, leading them to succumb to short-term, particularistic pressures for redistribution.<sup>57</sup> Authoritarianism appears to be the alternative. This, as Stephan Haggard and others have noted, is a plausible conclusion to draw from East Asian development: “It is difficult to [avoid] the conclusion that certain reform efforts would not have been possible without forcible changes of regime and the exercise of authoritarian power.”<sup>58</sup> In situations where enlightened policies promoting the long-term general welfare are blocked by intense short-term pressures from concentrated constituencies, the autonomy of government institutions may well be desirable. The Japanese state, it is argued, was effective at pursuing such strategies in part because of its autonomous, technocratic institutions. Executive and bureaucratic independence from short-term considerations and particularistic interests was, in this view, the key to successful intervention. The insulation of the Japanese state permitted officials to demand adherence to general rules as a *quid pro quo* for microeconomic support. This helps explain why microeconomic intervention in East Asia has been more effective than in other developing regions. There may be good reason to condone, perhaps even promote, authoritarian “developmentalist states” in de-

veloping regions. Full democratization may be a luxury available only to relatively wealthy countries—a conclusion supported by the correlation between per capita income and democracy.<sup>59</sup>

Yet this conclusion is far from definitive, for three reasons. First, even if one accepts Murakami’s analysis of Japan, one might question its relevance for other nations and regions. There may be societal preconditions for such governance: the two are not in contradiction, Murakami argues, if an egalitarian distribution of income and opportunity leads to the emergence of a “new middle mass” society providing substantial opportunity for small business owners, farmers, and workers. Yet Murakami offers no analysis of the conditions under which governments can and will successfully pursue such policies, nor what to do if one cannot.

Second, even if the structural preconditions are present, authoritarian governance brings with it substantial risks. In general in international and domestic affairs, authoritarian states—which range from enlightened despotisms to predatory or dysfunctional states—display a *variation* in political behavior that is considerably greater than among democratic states. Hence, for example, the behavior of illiberal states tends not only to be more conflictual in international relations, but also more arbitrary.<sup>60</sup> While the existence of strong authoritarian states in Japan, Korea, and Taiwan had some attractive social consequences, such as permitting governments to implement land reform, it also had some very unattractive ones, such as labor repression. In the European context, such governments have historically been more aggressive than democracies. It is thus unclear that the benefits of authoritarianism in, say, China outweigh the risks.

Third, evidence from Eastern Europe and Latin America suggests that democratic governments can achieve similar goals. The link between authoritarian governance and rapid economic growth in East Asia may yet prove to be a spurious correlation. It is worth taking seriously the possibility that democratic states can be structured so as to afford technocrats considerable autonomy, while preventing the worst of the corruption, violence, and predation associated with them.<sup>61</sup>

A different set of institutional problems arise when countries seek to dismantle a developmentalist system. Such countries, of which Japan is the best contemporary example, must overcome opposition from the bureaucracy and special interests, particularly in declining industries, which often develop over time a clientelistic relationship with specific ministries. In the case of Japan, the realization of Murakami’s recommendation of liberalization depends on the willingness of a developmentalist bureaucracy and a set of interests that benefited from developmentalist policies to surrender power.

Following Alexander Gerschenkron, Murakami hints that developmentalism may naturally abate as industrial production within developed economies becomes more differentiated. Yet institutional change of this magnitude is rarely easy. Murakami writes that "to manage developmentalism well is to control the bureaucracy." How and why should this occur—absent significant economic conflict between Japan and its trading partners? The attempt under Prime Minister Yasuhiro Nakasone to liberalize and deregulate the Japanese economy—in which Murakami was closely involved—must be judged a failure. The alliance with reform-minded government officials, which has been at the core of the U.S. strategy toward Japan over the past half-decade, now appears to have failed, as the recent U.S.-Japanese automobile negotiations suggest.<sup>62</sup>

It is difficult for Japan, or any other country with a developmentalist system in place, to overcome institutional opposition to its dismantlement without either a major crisis or radical reform of political representation. Cross-national studies of patterns of state intervention, as well as the relevant example of France, suggest that bureaucratic power and societal weakness persist over long periods of time, even after the functional imperatives that gave rise to them disappear. Murakami himself considers fundamental "political reform" a necessary precondition for abandoning developmentalism, without which liberalization of the Japanese economy is not possible. His concrete suggestions do not, however, go beyond a tentative proposal for new campaign-financing regulations. There is little evidence that campaign-finance reform, nor even greater party competition in Japan, would either disempower special interests or unblock bureaucratic inertia to the extent required.<sup>63</sup>

From the perspective of the United States and Europe, Murakami's recommendation that all countries tolerate, even promote, infant industry protection by NICs in East Asia and the Pacific basin is difficult to implement, given Japan's current trading patterns and the sensitivity to import pressures in the West. In contrast to the U.S.-Europe relationship, or the relationship among countries, the structure of Japan's current trade relationship with the United States and Europe continues to reflect the legacy of restrictions on imports and inward investment.<sup>64</sup> Without intra-industry trade, the conflicting interests of Japan and the United States have tended to undermine cooperative efforts—the automobile industry being the clearest case. Protectionist pressures emanate from vulnerable import-competing industries. It remains unclear, moreover, whether Northern countries, including Japan, perceive a strong interest in providing preferential opportunities for developing countries, particularly where they are specializing in standardized production of goods that adversely impact declining Northern sectors (e.g., steel, textiles, shoes). To

be sure, former developing economies have benefited in the postwar period from foreign aid, special trade preferences under the General System of Preferences (GSP), and the violation of intellectual property rights. Such preferences were sustainable, however, in large part because these economies were insignificant exporters to developed country markets.

Thus both the transition to and the transition from developmentalism may be possible only under relatively narrow domestic institutional conditions. In particular, they appear to rely on a careful balance between state autonomy and democratic control. The feasibility of the necessary institutional reforms and adaptations remains unclear.

*International Institutional Preconditions for Cooperation.* The institutional preconditions for the realization of Murakami's proposals are not just domestic, but also international. Here the central issue is the establishment and enforcement of a distinction between legitimate and illegitimate limitations on the scope of general international rules. Such a distinction may appear straightforward in theory. In practice, however, it is difficult to maintain without the establishment of strong, autonomous international institutions or exceptionally close relations among national bureaucracies that share common goals. There are two fundamental reasons for this.

The first reason is that international institutions or very close cooperation are required to establish norms. In establishing such norms, a balance must be struck between various competing values, the relative importance of which is itself disputed among countries. In the end, any such balance represents a political, not a technical decision. Internationally, as domestically, the promulgation of international standards concerning the provision of public goods is a question not of what is technically correct, but what is considered legitimate. This problem is exacerbated when regulatory standards are involved, as has been the case in the European Community's "1992" single-market initiative, the GATT Uruguay Round, the U.S.-Japan Structural Impediments Initiative, and NAFTA. All have sought to strike a balance between the desire to achieve increases in economic efficiency through the elimination of nontariff barriers and the preservation of various legitimate levels and forms of regulation and public goods provision.

GATT and other trade regimes have found it increasingly difficult to draw consistent distinctions between legitimate and illegitimate policies. To be sure, GATT presumed implicitly that opposition to free movement of goods among developed countries resulted from protectionist pressures by particular domestic firms and sectors and was therefore illegitimate. Yet so many "legitimate" exceptions have been made that many doubt the utility of treating "openness" as a basic constitutive principle of the regime. Instead, it has

been termed a system of "embedded liberalism" that balances liberalization with the systematic protection of domestic values, institutions, and interests. National defense, economic adjustment, domestic regulation of services, unfair trade practices, agriculture and textiles, and other legitimate justifications for protection were treated as enumerated "exceptions."<sup>65</sup> These difficulties arose despite the relative simplicity of the task facing GATT, which was restricted for the most part to the reduction of transparent, discrete at-the-border measures such as tariffs and quotas. Where the harmonization of domestic regulations is involved, the difficulties governments face in balancing competing considerations are exacerbated, because a far larger and more varied set of legitimate local objections must be considered.

Murakami's proposal to legitimate and institutionalize greater respect for distinctive national practices, moreover, while undoubtedly necessary to accommodate the greater range of legitimate concerns in today's international political economy, may simultaneously encourage more controversial and exploitative forms of government intervention. Which national corporate governance regulations, including those that support the *keiretsu* system in Japan, are legitimate? This issue cannot be resolved without detailed negotiations and relatively clear rules. Another example is strategic trade policy. Many market imperfections other than those concerning infant industries induce government intervention that is far more exploitative of others in the global economy. Where economies of scale may persist beyond the "infant" stage, creating durable international "first mover" advantages and spillovers, a "strategic trade policy" of protection, government subsidies, and regulatory support may generate important benefits, not just for special interests, but perhaps also for an entire nation—though most economists are skeptical of the latter claim.<sup>66</sup> More radical proponents of industrial policy claim that continuous government intervention of this kind, if correctly managed, may improve national welfare, which often takes place at the expense of specific domestic sectors and foreign competitors.

For all these reasons, the development of the international norms in these areas requires an internationally recognized distinction between legitimate and illegitimate, mutually beneficial and internationally exploitative, purposes for domestic practices. It is particularly important to develop clear rules, because once such justifications have been introduced into the rules of the international trading system, there is a danger they will spread uncontrolled. Ideas and institutions are sticky. The legitimation of one form of government intervention of this type may indirectly legitimate others.<sup>67</sup> The distinction between legitimate and illegitimate forms of industrial policy, which

Murakami himself does not clearly draw, must therefore be codified in international rules.<sup>68</sup>

In the case of developmentalist intervention, Murakami draws a clear distinction between developing countries, which are permitted to employ such techniques, and developed countries, which must forsake them. Hence his recommendation that Japan liberalize its markets, but international regimes accommodate idiosyncratic development strategies adopted by poorer countries. The prospect that the World Bank might be called upon to support the sort of broad-based, human-capital-intensive, egalitarian development policies adopted in Japan is an attractive one. Yet this would require a global consensus on which policies are legitimate, which would be hampered not only by doubt concerning the reading of East Asian history on which Murakami's own prescriptions have been called into question, but by the outright opposition in many Western countries, particularly the United States, to some aspects of Murakami's prescriptions, most notably the relaxation of intellectual property rights. To overcome such problems, a strong commitment to common institutions would be required.

The second reason why strong international institutions would be required is to adjudicate competing claims in specific cases. Even with strong rules, it is unrealistic to assume that specific types of policy intervention can be definitively labeled a priori legitimate or illegitimate. When a country asserts its right to derogate from a general rule for local reasons, its legitimacy must rest instead on a determination concerning the specific motivations behind the request and the way in which the derogation fits into an overall economic strategy. U.S.-Japanese disputes over the legitimacy of the *keiretsu* form of corporate organization or practices of wholesale distribution, to take two recent examples, cannot be resolved by fiat; competing arguments must be weighed within some commonly accepted political process. The conflict entailed by interstate bargaining is, one assumes, precisely what Murakami seeks to avoid. If the system is to work well, protectionist claims by special interests must be given a different status than legitimate claims for domestic public goods provision.<sup>69</sup>

International claims based on existing GATT restrictions on regulations are already controversial and have contributed to a market strengthening of GATT/WTO institutions over the past decade.<sup>70</sup> Governments are under constant pressure to offer legitimate justifications for policies whose purposes are essentially protectionist. There are more legitimate reasons for accepting regulatory pluralism, yet governments continue to draft legislation and issue statements that appear to comply with the letter of international prohibitions on regulatory nontariff barriers, but not their underlying pur-

poses. Hence GATT panels are being asked to distinguish, to a much greater extent than ever before, between legitimate and illegitimate purposes and consequences of domestic regulations. One recent example is the 1985 U.S. Farm Bill. Were it not for pressure from the Arkansas congressional delegation, the bill would have stated that the "sanitary and inspection" standards imposed on all imported chickens would be "equal to" ours, which would have recognized foreign inspections of similar stringency. Due to last-minute lobbying, the final legislation required that foreign standards be the "same as" ours, which required that exporters establish not simply equivalent, but identical procedures. Another is the "Tuna-Dolphin" case in 1991, in which a GATT panel report criticized U.S. laws imposing sanctions on imports of Mexican tuna on the ground that U.S. laws that banned the sale of tuna caught in nets that also trap and injure marine mammals, particularly dolphins, were more stringent than those in force in Mexico.<sup>71</sup> In both cases, a judgment about motivation and context is required in order to establish whether the action is legitimate.

Yet the GATT/WTO experience suggests that there remains a striking incongruity between domestic practices, which have grown increasingly favorable to public goods provision, and global multilateral regimes governing trade and factor flows, which tend to be at best neutral and sometimes hostile to such policies. It is not enough, as Murakami seems to suggest, to promulgate rules. Even more extensive international institutions and processes may be necessary. Current disputes over trade and the environment suggest the difficulty of adjudicating such disputes within current institutional arrangements.

A better illustration of the institutional requirements for a successful system for adjudicating disputes over domestic regulations is the European Union. The EU is the most advanced, and most controversial, system of regulatory harmonization and adjudication in the world. The focus of EU trade liberalization over the past decade has been the removal, harmonization, or mutual recognition of domestic regulations, standards, and other nontariff barriers to trade. As a result, the balance between general rules and national exceptions has also been a central issue among national governments. Since the landmark *Dassonville* case in 1974, a major strand in the jurisprudence of the European Court of Justice (ECJ) has sought to define the conditions under which national standards of public health and safety, consumer protection, effective fiscal supervision, and other conditions stated in Article 36 of the Treaty of Rome, are (or are not) recognized by the EC as legitimate barriers to trade. The celebrated *Cassis de Dijon* case, which reintroduced the concept of "mutual recognition" into EC debates, concerned the legitimacy

of German restrictions on the content of imported liquor. Germany defended the provision on public health grounds, but this defense was rejected and the provision ultimately determined to be an illegal nontariff barrier. A similar decision was rendered a few years later with regard to the beer industry.<sup>72</sup>

This strand of ECJ jurisprudence has tended to favor free trade over regulations, but by 1985–86, with the negotiation of the Single European Act, the member governments took matters into their own hands, with the effect of strengthening the regulatory impulse against free trade. During the final hours of the negotiations leading to the Single European Act in 1985, which launched the "1992" single market program, European chief executives drafted a clause (Article 100A4) permitting countries that oppose a harmonization provision to derogate upward, that is, to provide higher standards of national protection. National exceptions are policed through a complex procedure involving a semi-autonomous supranational regulatory body, the EC Commission, and the ECJ.<sup>73</sup>

The clear lesson from these controversies is that such disputes over such practices cannot easily be resolved by applying international rules alone, due to the difficulty of predicting the nature of future disputes when the system is constructed. The problem is thus one of "incomplete contracting," in which the precise terms of the contract must be filled in as the regime evolves. For the reasons outlined above, national executives and parliaments cannot be trusted to police themselves; this task is increasingly being delegated to autonomous institutions within international organizations such as NAFTA, the European Union, and GATT. Bilateral bargaining or multilateral voting over every disagreement tends to be a costly, cumbersome, and unpredictable mode of dispute resolution, leading to suboptimal outcomes, and thus such determinations are increasingly handled by judicial or quasi-judicial procedures such as dispute settlement panels and international courts, often enforced by domestic courts. Hence the rapid increase in the number of GATT panel and ECJ decisions concerning nontariff barriers, not to mention the establishment and strengthening of NAFTA and WTO procedures.

The construction of semi-autonomous institutions of this type, whether judicial or not, is a particularly demanding form of international cooperation. The prospects for negotiating such a regime within Asia, or between the United States and Japan, appear slim. Underlying recent trends in the European Union has been the implicit threat that high-standard countries, particularly Germany, would continue to close their borders to some products that did not meet local standards. For their part, Germany and other high-standard countries had an incentive to negotiate harmonization to facilitate free trade. Within East Asia, trading relations appear to be more asymmetrical, with a

gulf between rich and poor that increases the costs of harmonization. Between Japan and the United States, by contrast, recent efforts to eliminate such nontariff barriers in the automotive industry have ended in acrimonious failure. One of the central issues in the negotiations was Japan's auto inspection system, defended by Japan as a safety measure and challenged by the United States as a nontariff barrier.<sup>74</sup>

Moreover, whether supranational dispute resolution is employed or not, the successful implementation of such policies appears to require that decision making be deeply embedded in domestic legal institutions, particularly independent courts, parliaments, and regulatory bureaucracies. Thus it tends to function best among liberal democracies, in which such subnational actors enjoy a measure of autonomy. This is not to say democracies always agree, but only that they recognize among themselves a "zone of legitimate difference," even where no supranational norms are in place. It is almost inconceivable that successful dispute resolution could become deeply embedded in a regional system with governmental systems as disparate as those of Russia, China, North Korea, Indonesia, Singapore, and Japan, or that it would be transnationally enforceable.<sup>75</sup>

#### *Security Threats and Regional Security Institutions*

The liberal view also helps evaluate the prospects for collective security. From a liberal perspective, a large degree of consensus is required to establish a regional alliance or collective security arrangement. In Europe, strong regional security arrangements formed only where a hostile nondemocratic power had underlying conflicts of interest with a core of democratic governments. The high level of consensus required is demonstrated by the experiences of the United Nations, NATO, the Western European Union, and the EU's Common Foreign and Security Policy, in which neither effective supranational control over national forces nor majority voting is permitted. The unit veto system, used by all three organizations, is the only practical method of reaching decisions.<sup>76</sup> Murakami prudently proposed such a system for an East Asian regional security organization, but it is unclear whether a common threat exists sufficiently salient to spark formation of such an organization. In the case of the recent expansion of NATO, which entailed a much less extensive concrete commitment, the major justification was stabilization of new democracies whose instability might create negative externalities for West European governments. A similar justification does not appear to apply in contemporary East Asia, though it may emerge in the future. In the absence of either a direct threat or democratic consensus, or both, future East Asian

regional security cooperation is thus likely to be of more symbolic than practical importance.

The formation of both NATO and the EC benefited from the existence of an activist minority in each country that supported integration for geopolitical and ideological reasons. This ideology stemmed in part from the legacy of interwar idealism, but it achieved the importance it was awarded due to two other considerations. The first was the common Soviet threat, which, like the German threat during the interwar period, was both internal and external, because it followed ideological lines of cleavage between hostile regime types and philosophies. The second was a formative historical experience common to the entire region, namely World War II, which led some to seek to overcome great power rivalries, particularly between France and Germany. While there may be functional reasons to adopt some of the elements of the European Union elsewhere, such as institutionalized dispute settlement, there is little reason to believe that the institutional density of the EC can easily be transported—barring an external threat or a "formative" historical catastrophe of the same magnitude as World War II.<sup>77</sup> And, even if such historical legacy and external threat emerged, there is little precedent for close collective security arrangements without a core of democratic states.

#### *Conclusion*

The recognition that Murakami's work can be situated within the reemerging liberal international relations paradigm has permitted us to sharpen and extend it. Murakami shares with liberals the basic belief that an analysis of modern international political economy must stress the role of state-society relations in forming national preferences; with particular attention to economic interdependence, collective identity, and representative institutions. His skepticism of the ability of international organizations, such as the United Nations, to act strongly, is a most welcome antidote to the exuberance of the immediate post-cold war period. Yet Murakami underestimates the flexibility and tolerance of existing liberal theory; his approach is closer to the center of the tradition than he realizes. His policy prescriptions are close to those pursued in the immediate postwar period, albeit for reasons that may no longer be valid.

From the perspective of liberal theory, Murakami's analysis, while sophisticated economically, remains incomplete politically. The lack of an underlying political analysis is most evident when we turn to Murakami's specific proposals for East Asia. Deep integration along the EU model, as well as collective security, would probably require the spread of democratic insti-

tutions throughout Asia. Democratic governments pose no security threat to one another, value commercial opportunities, and, perhaps most important, grant domestic autonomy to groups and institutions—such as economic interests and an independent judiciary—that may support international cooperation. There is good reason to believe that international economic regimes similar to the European Union can function only among democratic states. The sort of rule-governed international institutions required to implement Murakami's more ambitious proposals for balancing local and general interests are most effective when all participant nations know that all others recognize the common institutional rules in their domestic legal systems, thereby creating a "zone of legitimate difference." The effectiveness of international legal systems such as those in the WTO and the European Union outside of democratic countries remains uncertain. The lack of stable democratic institutions in China and Russia, as well as Thailand, North Korea, Indonesia, and elsewhere, limits the prospects for lawful change in the region; Murakami's analysis of this problem is, as he himself observes, "inadequate."<sup>78</sup>

Even if we accept Murakami's assertions about the success of developmentalism, the experience of other international organizations, notably GATT and the European Community, suggest that the institutional challenges of making the transition to and from developmental policies, as well as other policies that respect idiosyncratic domestic practices, are far more extensive than Murakami foresees. Comparisons between East Asia and the experience of other regions suggests that, while Murakami is correct to point out certain advantages to authoritarian governance in developing nations, there are offsetting advantages to democratic governance. Moreover, Murakami's proposals for the recognition of legitimate local purposes and for a regional security system require not only strong international institutions, but also a substantial measure of democratization. These considerations suggest that Murakami's skepticism of democratic governance and his neglect of the decisive links between international and domestic institutions must be overcome if his proposals for international cooperation are to be realized.

Returning in conclusion to the level of political theory, Murakami's analysis, despite its weaknesses, offers a distinctive contribution to the development of liberal thought. Murakami's *An Anticlassical Political-Economic Analysis* seeks to elaborate a conception of the individual robust enough to support a subtle understanding of both the pressure for universal homogenization of global society and the counterpressure for local differentiation. The elaboration of individual-level microfoundations is the ultimate challenge for liberal international theorists, whether normative or positive. This task has

traditionally been perceived as one for political philosophy, not social science, but it is in fact central to both. A satisfactory theory of international relations, like a satisfactory theory of political obligation, must be based on microfoundations at the level of the individual—that is, as political philosophers are inclined to put it, it must be grounded in a coherent conception of human nature. Neither political philosophers nor political scientists have proposed a wholly satisfactory theory of this kind to treat the issue of global interdependence and national difference. Hence liberal theories of world politics and of international obligation remain underdeveloped. Much of the subtlety and insight in Murakami's work stems from his appreciation of the need for more complex individual-level microfoundations. Ultimately this lifts his work above the level of contemporary U.S.-Japanese politics and above the current "national" interpretations of liberalism in Japan and the United States to a more general level of theoretical insight. His explicit attempt to ground his theory in a conception of individuals seeking individual and collective freedom demonstrates the best in the liberal impulse toward tolerance, while posing a challenge for future scholars.