

Book review

Financial Globalisation and the Opening of the Japanese Economy, James D. Malcolm, Curzon Press, Richmond, Surrey, 2001, £50, ISBN 0 7007 1472 3

The Japanese economy has now been virtually stagnant for a decade. Of all the many measures the Japanese government has taken to attempt to restart the economy, perhaps the most significant and far-reaching in terms of its implications and possible consequences has been the de-regulation of the financial services sector, in particular the 'Big Bang' of November 1996. One of the intentions of the Big Bang was that Japanese financial institutions should become, organisationally and procedurally, more like their Western counterparts. In other words, the reforms were intended to bring globalisation to Japan.

In fact, as James Malcolm describes in great detail in this study, the reforms have been only partly successful. Globalisation has had an impact, and the Japanese financial services sector is notably more liberalised and open than it was in the past. Yet Japanese financial institutions have remained robustly unwilling to make large-scale organisational adaptations, and foreign banks continue to find Japan a very difficult operating environment. As the author notes, Japan's embrace of financial globalisation has been only partial.

The case of Japan is interesting for two reasons. First, it shows us a great deal about how globalisation works, particularly in financial services (commonly regarded as the sector in which globalisation has made the greatest progress). Second, turning the question around, the case reveals a great deal about Japan's business culture, especially in the financial sector. The reasons for the refusal to embrace globalisation are deep-rooted, and show how even in the global financial market, local culture still matters.

Malcolm's study, based on first-hand experience of Japan during the 1990s and covering the crucial period of late 1996 and early 1997, concludes that globalisation is having an impact, and that Japan's financial institutions were and are evolving towards conformity

with their Western counterparts. But, he adds, there are limits to convergence. In particular, there are few signs that convergence is leading to greater openness and transparency, except where absolutely required by law. This is an important point, and is perhaps not sufficiently stressed in the book; given the current passion for transparency in the West, especially following the Enron debacle, there will be increasing pressure for transparency across the global marketplace. It may well be that the limits of financial globalisation have already been reached, and that cultural barriers will prevent further convergence.

Certainly globalisation has had limited impact in transforming the institutional structures of the Japanese economy and Japanese industry. And, as the author notes in his conclusion, the case also highlights how little we really know about institutional fit and change. Institutions refuse to behave rationally; they don't always act to optimise the interests of themselves or of others, even when it seems logical that they should. The Japan case shows starkly how tradition and culture can be powerful obstacles to reform.

The point of all this, of course, is not just that Japan is another culture with which we have to do business. It is the world's second largest economy, and Tokyo is by volume of trade the second largest stock exchange in the world. Japan Inc. matters to us all, and understanding the nature and extent of Japan's interaction with and involvement in the world economy is of critical importance. James Malcolm has added considerably to our knowledge of this area. This book is strongly academic in nature and parts of it are heavily reliant on references to other theoretical works, but the core chapters are important and useful descriptions of the globalisation process.

Morgen Witzel
*London Business School
 London NW1 4 SA
 United Kingdom*