

US-Japan Cooperation on the Reform of International Organizations

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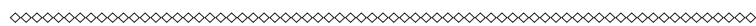
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Phillip Y. Lipsky

THE GLOBAL BALANCE OF POWER is undergoing a gradual but dramatic shift. While the United States will likely remain a preeminent economic and geopolitical power, the long era of American hegemony is coming to an end. In particular, managing the rise of Asia will likely prove to be the central challenge of international politics in the 21st century. In the face of such striking change, rigidity threatens to make international organizations relics of a bygone era. A substantial update of the international organizational architecture is needed. As two of the world's leading democracies and economic powers, there is much that the United States and Japan can contribute toward such an effort. This paper will examine how US-Japan cooperation can reinvigorate and update international organizations to meet contemporary challenges.

The first section discusses distributional imbalance as a serious shortcoming of several major international organizations, most prominently the United Nations Security Council and the International Monetary Fund (IMF). Uneven representation can lead to needless tension and undermine the ability of international organizations to facilitate interstate cooperation. The major international organizations must be updated to reflect 21st century realities. The next section examines the economic and geopolitical rise of Asia and potential implications for institutionalized cooperation. Asia is a region with comparatively weak international organizations and inferior representation in universalistic institutions. Without deeper regional institutionalization and commensurate representation in global institutions, Asia's rise may prove destabilizing for international cooperation. Accordingly, the paper then presents several policy prescriptions for how the United States and Japan can cooperate to update and reform the international organizational architecture.



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Imbalance as a Source of Conflict in International Organizations

According to the Union of International Associations, which has compiled information on international organizations since 1907, one of the earliest intergovernmental organizations was the Kalmar Union of Nordic states, considered a precursor to the contemporary Nordic Council. In 1397, representatives from Denmark, Norway, and Sweden convened at the royal castle of Kalmar and concluded a treaty stipulating that the three realms would be governed by a single king, and that future kings would be jointly elected by the councils of each participating realm. The treaty called for a common foreign policy and a promise of mutual defense, but maintained strong autonomy in the realm of domestic policy, noting that “there should not be any law or justice transferred from one kingdom to the other.”¹ However, the union grew strained as government functions were consolidated in Denmark and foreign policy objectives appeared to favor Danish interests to the exclusion of the other two participants. As the Nordic Council describes, “Norwegian and Swedish landowners—along with the German members of the Hanseatic League—were of the opinion that Denmark dominated the decision-making process.”² Internecine conflict led to the dissolution of the union in 1521.

The Central American Federation, established in 1823 as a federation of Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica, met a similar fate. Only a few decades after its formation, the federation was disbanded. One contributing factor to the dissolution was dissatisfaction over Guatemala’s asymmetrical representation in the Federal Congress (44 percent in 1825) and the centralization of bureaucratic functions in Guatemala City. This imbalance exacerbated a “showdown between the Guatemalans

and the provincials with the myriad of jealousies and resentments built up over the years that were far from being resolved.”³

While few contemporary international organizations are in imminent danger of disbandment, similar concerns over unfairness and asymmetrical influence have been raised repeatedly by dissatisfied member states in a variety of contexts. In the 1980s, developing countries posed a challenge to the International Telecommunications Union’s first-come-first-serve allocation mechanism for the electromagnetic spectrum, which had provided half of the available spectrum to the United States and Soviet Union.⁴ Similarly, members of the European Monetary System frequently expressed dissatisfaction over perceived German domination of European monetary politics.⁵ More recently, European states have voiced their discontent over governance of the Internet, which in the current form of the Internet Corporation for Assigned Names and Numbers (ICANN) falls under the direct jurisdiction of the United States.⁶

Another frequent line of criticism is the perceived overrepresentation and domination of select states, usually the United States or some subset of advanced industrialized nations.⁷ The following statement by the Indian Permanent Mission to the United Nations on the topic of UN Security Council reform is illustrative:

The overwhelming majority of the UN General Assembly members today are developing countries. They are also most often the objects of the Council’s actions. They must have a role in shaping those decisions which affect them. The present composition of the Security Council, particularly the permanent members’ category, is weighted heavily in favour of industrialized countries. This imbalance must be redressed in an expansion of the Council, by enhancing the representation of developing countries in both permanent and non-permanent members’ categories.⁸

Former Bank of Japan Governor Toshihiko Fukui expressed similar sentiments about the distribution of quotas in the IMF, which determine voting shares. He noted, “It is important to recognize that the current distribution of IMF quotas represents another form of unsustainable global imbalance.”⁹

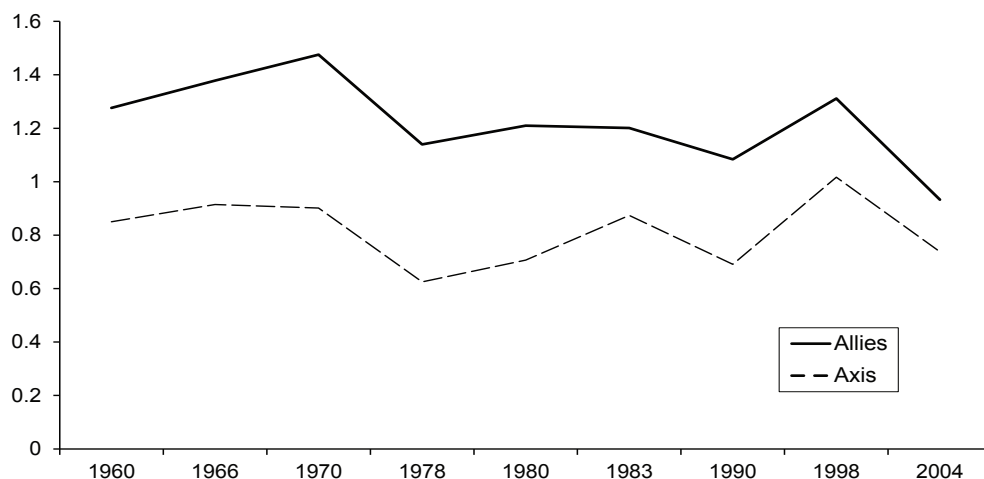
Scholars of institutions have long recognized the tendency for institutions to “lock in” initial conditions, even after considerable shifts have occurred in the underlying realities.¹⁰ This tendency has also been observed in institutionalization at the interstate level, particularly in terms of extending the stabilizing effects of hegemony beyond the apex of hegemonic power.¹¹ Such institutional rigidity can be helpful for maintaining continuity and stability in the international system. However, it can also produce glaring discrepancies between a state’s perception of its place in the international order and its ability to obtain preferred outcomes in institutional settings.

Being on the losing side of World War II, Japan was absent from the negotiating table in the initial bargaining over much of the postwar institutional architecture. In effect, as a late mover, Japan has been “locked out” of some positions of influence in major international organizations. For example, the IMF

and the World Bank officially came into being in 1944 at a conference of 44 allied nations at Bretton Woods, New Hampshire. Despite the large number of nations present at the inception, the core details of the Bretton Woods institutions were hammered out through a series of compromises between rival plans developed by Harry Dexter White of the US Treasury on the one hand and by John Maynard Keynes of Great Britain on the other. The birth and the initial mandate of the institutions were essentially the result of bargaining between the financial authorities of the United States and Great Britain. As a consequence, the top leadership positions of the IMF and the World Bank have, since their inception, gone respectively to European and US nationals by convention. This has made it difficult for a Japanese national to be placed at the helm of either institution.¹²

The voting shares of the IMF have also exhibited a tendency to overrepresent founding members and underrepresent subsequent members.¹³ Figure 1 separates G7 states into Allied and Axis powers according to their affiliation during World War II and plots these countries’ shares of IMF voting power as a proportion of their shares of world gross domestic product (GDP)—the most straightforward

Figure 1. Ratio of IMF voting shares to share of world GDP for G7 nations



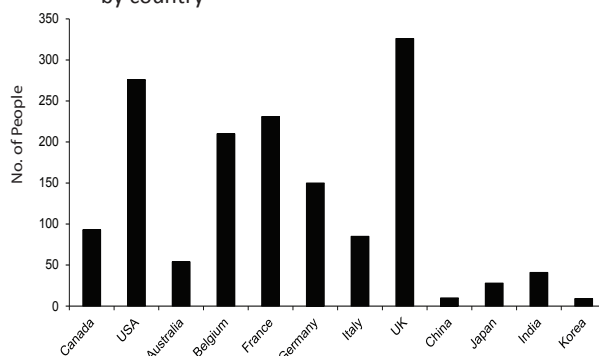
Note: Allies include Canada, France, the United Kingdom, and the United States. Axis countries include Germany, Italy, and Japan. GDP is nominal. Source: IMF and Rapkin et al., “Institutional Adjustment to Changed Power Distributions: Japan and the United States in the IMF,” *Global Governance* 3, no. 2 (1997): 171–195.

measure of a country's weight in the global economy. By this measure, the wartime Axis powers (Germany, Italy, and Japan) have lagged behind their actual place in the world economy despite the passing of half a century and dramatic shifts in economic realities. In contrast, the former Allied powers (Canada, France, the United Kingdom, and the United States) remain overrepresented.

Similarly, employment at international organizations has tended to favor nationals from the victorious powers of World War II at the expense of defeated powers. Figure 2 plots the number of “leading people” in international organizations by country of nationality, as compiled by the Union of International Associations in 2003. As the chart indicates, employment of nationals from Germany, Italy, and Japan lags behind other key states, including substantially smaller states such as Belgium. Figure 3 plots the same information by educational background of the employee. Employees educated in all the universities in the city of Tokyo combined are only a fraction of those educated in a single academic institution such as Harvard or Yale.

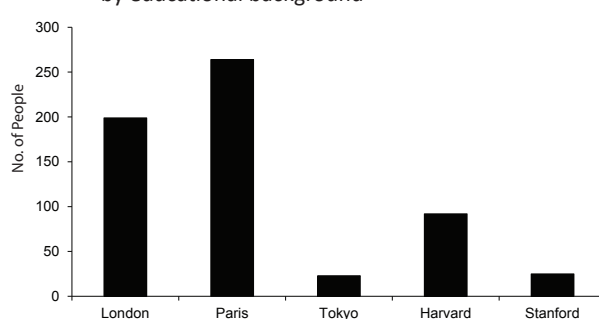
This discrepancy likely has multiple causes—for example, limited labor market mobility has meant that Japanese nationals have traditionally faced greater obstacles and risks in pursuing full-time employment at international organizations. However, there are several institutional factors that tend to make employment static. Most notably, the distribution of institutional headquarters tilts toward countries such as France and the United States, which played important roles in institution building in the postwar period. The presence of an institutional headquarters can facilitate the employment of host-country nationals for a variety of reasons, among them (1) less hardship for nationals who can continue to reside in their home country, (2) greater visibility and opportunities to establish contacts

Figure 2. “Leading people” in international organizations, by country



Source: Union of International Associations, ed., *Yearbook of International Organizations* (Munich: KG Saur Verlag, 2004)

Figure 3. “Leading people” in international organizations, by educational background



Source: Union of International Associations, ed., *Yearbook of International Organizations* (Munich: KG Saur Verlag, 2004)

with current employees, and (3) self-reinforcing network effects (e.g., current employees tend to prefer new hires with similar training or skills). In addition, the location of an institutional headquarters can also affect the ideological leanings of an international organization and consequent policy output. Notably, the orthodoxy of the US Treasury and Bretton Woods institutions in the 1990s, espousing sound fiscal policies and market liberalization as a prerequisite to economic growth, acquired the location-specific appellation of the “Washington Consensus.”

Another major international organ that has come under heavy criticism for insufficiently reflecting international realities is the UN Security Council. The five permanent members—China, France, Russia, the United Kingdom, and the United States—have remained static since inception despite fairly dramatic

shifts in the underlying geopolitical conditions. While it is difficult to construct a single measure that accounts for the geopolitical weight of a state in the international system, the case for including Japan is strong. According to one widely cited measure, the Composite Index of National Capability (collected by the Correlates of War project), Japan has outranked France and the United Kingdom in terms of material capabilities since roughly the 1970s and has been on par with Russia since the collapse of the Soviet Union.¹⁴ A similar argument could be made for including Germany and India. Nonetheless, reforming the Security Council has proved difficult despite repeated attempts.

Japan has been particularly affected by rigidity in international organizations since the end of World War II. Through rapid postwar reconstruction and economic growth, Japan rose through the ranks of world powers during the late 20th century. By the late 1980s, Japan was already the number two economy, and it also became the number one provider of official development assistance. However, this meteoric rise did not immediately translate into greater status and recognition in major international organizations. Although Germany and Italy have shared a similar predicament, their representation in the European Union has provided some advantages Japan has lacked—e.g., a German national, Horst Köhler, served as the managing director of the IMF from 2000 to 2004 by virtue of being a European.

This lack of progress has not been due to a lack of initiative or leadership on the part of Japanese policymakers. In several of the major international organizations that were established after the reemergence of Japan as an important international player, Japanese policymakers have played an active role commensurate with the country's geopolitical and economic influence. In the World Trade Organization (WTO),

Japan has occupied an important agenda-setting position as part of the “G4” along with Canada, the European Union, and the United States. Japan was also a founding member and has been an active participant in the G7/G8. Perhaps most significantly, Japan has played a strong leadership role in the Asian Development Bank since that institution's inception.

Japan has also made significant progress within organizations to which it is a latecomer. Although still underrepresented, Japanese nationals have gained ground in major UN organs, for example more than doubling in number in the International Labor Organization, UN Development Programme, UN Children's Fund (UNICEF), and the UN World Food Programme from 1995 to 2007.¹⁵ Japanese nationals have also occupied important leadership roles in international organizations, as epitomized by the former UN High Commissioner for Refugees Sadako Ogata. Japanese voting shares in the IMF and World Bank are also gradually moving in the direction of better reflecting Japan's weight in the world economy.

Given this history, Japan is in an excellent position to advocate for redistributive change in major international organizations. Countries currently undergoing rapid development will face many challenges similar to those Japan has faced over the past 60 years. In addition, given the tendency for international organizations to lock in initial conditions to varying degrees, the opportune moment for institution building and reform for both the United States and Japan is now. Particularly in the case of Japan, relative decline in both geopolitical and economic terms appears inevitable due to demographic decline and the rapid growth of developing countries. Institution building and reform provides one method to soften the blow of such declines and maintain the profile of Japan in international relations.

The Rise of Asia and International Organizations

Since the end of World War II, East Asia has often been characterized as a region with weak international organizations. There has been no regional integration project comparable to the European Union. Cooperation on a wide variety of issues has tended to be ad hoc rather than institutionalized. Regional organizations, such as the Association of Southeast Asian Nations (ASEAN), have generally been weak or limited in scope, with some notable exceptions such as the Asian Development Bank.

However, in recent years there have been indications that the pattern of institutionalization in Asia is shifting. Since the end of the Cold War, regional cooperative arrangements have emerged and grown. With the addition of China, Japan, and South Korea, a revitalized ASEAN+3 is becoming a locus of economic cooperation. Many observers believe that the Six-Party Talks could be institutionalized to manage a broader set of security issues beyond North Korea. The Chiang Mai Initiative, a currency swap arrangement, has now been multilateralized and may eventually develop into a monetary fund. Trade agreements are proliferating and could ultimately facilitate the creation of a regional free trade area.

Under the right circumstances, regionalism can complement the broader global order. However, to a significant extent, recent regional initiatives reflect an underlying dissatisfaction with the global institutional architecture. The Chiang Mai Initiative emerged after the Asian financial crisis, building on a widespread sense that the IMF underrepresented Asian interests and therefore imposed overly harsh conditionality on the affected states. Paralysis at the Doha Round negotiations of the WTO has facilitated the rapid expansion of bilateral trade initiatives. The North Korean

nuclear problem is precisely the sort of collective security issue the UN Security Council was envisioned to deal with, but the rigidity of both its membership and its decision-making procedures has rendered this impractical.

ASEAN+3 countries account for about a third of the world's population. The region already accounts for about one-third of global oil consumption and CO₂ emissions, and this is only likely to grow in the future. Over the course of the 21st century, Asia's economic and geopolitical weight in the world will, in all likelihood, come to rival that of 19th-century Europe. With Asia's dramatic rise, Asian problems will become increasingly indistinguishable from global problems.

Thus, a critical question in the coming decades will be whether the contemporary international organizational architecture will be able to smoothly incorporate the rising states of broader East Asia. Sweeping geopolitical shifts have often created instability in the international system—the waning of Pax Britannica in the early 20th century precipitated two world wars and a global depression, as the world lacked a geopolitical and economic stabilizing force in times of crisis. The rise of Asia will likely provide the first significant stress test for the global organizational architecture that the United States has constructed and underpinned since the end of World War II. If Asian states disengage from the US-backed international order, the outcome will likely prove destabilizing. It would create a situation akin to US nonparticipation in the League of Nations in the interwar years. Without the active involvement of some of the most important players, international organizations will become less effective at facilitating cooperation and resolving serious disputes. International relations will become more anarchic and cooperation more ad hoc unless we can find ways to effectively manage this transition.

Policy Prescriptions

Institution building is often precipitated by major international shocks and the emergence of novel problems requiring active international cooperation. The conditions are ripe for an active US-Japan partnership to reform existing institutions and construct new international organizations to manage contemporary challenges. This section outlines several promising avenues for cooperation.

Pursue Redistributive Reform

Major international organizations should be reformed to better reflect the interests and concerns of rising economic and geopolitical powers. The most obvious case in this regard is the UN Security Council, which will become increasingly anachronistic if it continues to deny permanent seats to major states such as Brazil, Germany, Japan, and India.

The Security Council is characterized by a fundamental dilemma. The organ is designed as a forum for great powers to consult on matters related to international peace and security. However, great power status is not clearly defined, and formulating explicit rules to characterize that status will likely prove destabilizing. For example, defining great power status in military terms—e.g., military spending or possession of nuclear weapons—will create perverse incentives to expand military power. Nonetheless, the lack of such criteria contributes to the difficulty of Security Council reform and the outcome tends to default to maintenance of the status quo.

Definitions based on economic status may be less problematic. For example, based on current figures of purchasing power GDP, the top countries in the world include the United States, China, Japan, India, Germany, Russia, France, the United Kingdom, and Brazil. This would appear to be a reasonably good

approximation of subjective judgments about contemporary great power status. Of course, criteria based on economic weight may also pose problems since countries may, for example, manipulate national accounts to exaggerate their economic weight in the world economy. But while such manipulation may result in problems on the margins, economic accounts are of sufficient importance that drastic misrepresentation is unlikely, and the problem could be tempered by remedial measures such as tying economic size to the assessment of UN dues.

Unfortunately, such unconventional rule making is rendered difficult by the decision-making procedures associated with Security Council reform. The council's current voting rules make constructive reform unlikely due to the difficulty of securing approval from all veto-holding council members as well as a two-thirds majority in the General Assembly. Realistically, this means one of two outcomes is likely over time as the global balance of power shifts: either there will be a tendency for the council to endlessly expand (members are unlikely to vote themselves off) or it will become poorly reflective of underlying realities. In either case, the result will be an ineffectual institution hindered by overcrowding or irrelevance.

Hence, I propose a dual strategy for US-Japan cooperation. On the one hand, the United States and Japan should push for UN Security Council reform that promotes greater inclusion, particularly of large, influential states such as those of the G4. On the other hand, the creation of an informal, consultative grouping of contemporary great powers should be pursued. Such a grouping might be modeled on the 19th century Concert of Europe, an institution that successfully managed multipolarity in the wake of the Napoleonic Wars. Such informal groupings are common in institutional contexts where formal rules do not adequately account for the importance

or vested interests of participants—e.g., committee systems in legislatures, or the Green Room in the WTO. Initially, membership might be extended to the United States, China, Japan, India, Germany, Russia, France, the United Kingdom, and Brazil. This setup has several advantages. First, the informal consultative group could play an agenda-setting role for key issues to be taken up by the Security Council. The Security Council would continue to provide formal and legal approval for important decisions, but the difficulties of conducting complex bargaining with a large number of actors could be remedied. Second, the informal group would have greater flexibility in adjusting membership without dealing with two-thirds approval in the General Assembly—a significant constraint on existing reform proposals. For example, if Indonesia develops as a major power in the coming decades, inclusion could be negotiated without the tedious consensus-building process characterizing UN Security Council reform. Third, as an outside option, the informal grouping could be used to apply bargaining leverage vis-à-vis the Security Council on reform proposals.

Turning to financial institutions, voting shares in the IMF and World Bank need to be further redistributed to reflect underlying economic realities. Econometric analysis by IMF staff and others have repeatedly shown that voting shares overrepresent traditional heavyweights such as European states at the expense of East Asia and developing countries. These problems remain despite the recent quota reform, which shifted a greater share of votes toward developing countries. Without further adjustment, the institutions risk irrelevance.

In addition, decision-making rules should be modified to give greater agenda-setting authority to regional actors. For example, recent history suggests that the United States may have a strong interest in

loans to Latin America, but Japan generally has a greater stake in East Asia. The current decision-making rules tend to produce outcomes facilitating excessive moral hazard in crises where US and European exposure is large, but insufficient lending in crises where Asian interests are at stake. This problem can be remedied to some extent by resolving the existing voting power imbalance as well as providing more agenda-setting power to regional actors with close economic ties to potential loan recipients. Finally, assignment of the top positions should be made truly competitive—the informal norm assigning an American and European head respectively to the World Bank and IMF should be abolished.

Decentralize Core Institutional Functions

An important impediment to more equal country-level representation in major international organizations is the location of institutional headquarters and organizational structure. Core functions of major universalistic institutions are located in the United States or Europe, making it difficult to attract top employees from Asia and impeding intellectual exchange. Greater balance among employee representation can be achieved through the decentralization and transfer of central functions to regional headquarters. As two of the leading financial supporters of these institutions, Japan and the United States can work together to champion such a shift rather than merely pressuring international organizations for greater hiring of their own nationals.

Update the International Financial Architecture to Manage Developed-Country Crises

The existing international financial architecture is well suited for managing balance of payments crises in developing countries but not for crises involving developed countries such as the US subprime crisis

that began in 2008 or the euro crisis that hit in 2010. Simultaneous economic contractions across developed countries pose a different set of issues to manage, such as coordination of macroeconomic policies and the prevention of beggar-thy-neighbor policies including competitive currency depreciation and protectionism. These types of policies were at the heart of the Great Depression in the 1930s. Ad hoc consultation in this area should be replaced with institutionalized cooperation to pursue greater coordination on fiscal and monetary policy.

One new area of institutionalized cooperation worth pursuing is the management of liquidity traps such as the one Japan experienced in the 1990s. Monetary policy is generally a useful tool to manage macroeconomic perturbations, but deflationary conditions pose difficulties due to the zero lower bound on nominal interest rates. One potential multilateral solution is cooperative exchange rate intervention to depreciate the relevant country's currency. This would enable the country to "import" inflation from abroad and also stimulate economic activity via the export sector. This type of multilateral cooperation is preferable to uncoordinated currency market interventions and ad hoc interventions that require considerable political leadership to organize. The IMF and Bank for International Settlements are logical institutions in which to develop such a capacity, although an expanded G8 may also suffice. Having combated liquidity traps, the United States and Japan are well positioned to spearhead such an initiative.

Another potentially innovative area of cooperation is in credit rating. Conflicts of interest inherent in the business model of existing credit rating agencies such as Standard & Poor's and Moody's have raised serious questions about the reliability of ratings produced by private sector firms. The creation of an independent multilateral international organization to

certify private sector ratings might be one way to mitigate such conflicts of interest. The institution could evaluate and certify the rating itself or, more realistically, act as an intermediary by assigning the rating to a third-party rating agency on a double-blind basis.

Needless to say, greater oversight of increasingly globalized financial institutions and derivative securities must be pursued to better manage systemic risk. Regulation at the individual country level can only go so far in a world where securities in a single country are aggregated, sliced and diced, and sold off to financial institutions worldwide. Rather than rule-based cooperation such as the Basel Accords, institutionalized cooperation should be pursued to facilitate more integrated surveillance and regulation among financial authorities. The Bank for International Settlements is perhaps the most appropriate institution to develop such an effort.

Facilitate Institutional Competition

One of the key findings of my ongoing research¹⁶ is that the presence of multiple international organizations in a policy area is associated with fewer imbalances in representation. Underrepresented states have greater bargaining leverage when they have multiple venues through which international cooperation can be pursued. Monopolistic international organizations such as the UN Security Council, the IMF, and ICANN tend to be more rigid than international organizations in fields that are more competitive, such as trade and development. Institutional competition can also foster innovation and provide incentives for better performance. Of course, not all forms of competition are helpful—needless replication of similar functions can be wasteful, and competition in some areas can lead to lax standards and moral hazard. In some policy areas, such as the assignment of Internet domains and setting of international standards,

competition is not feasible for technical reasons.

As noted earlier, promoting an alternative great power grouping is one means of facilitating institutional competition vis-à-vis the UN Security Council. Another possibility is for an organization such as the Open Government Partnership, which establishes clear criteria for membership based on transparency and accountability, to be gradually developed into an organization that represents the interests of democratic states. Although Japan is eligible for membership, it has not yet joined the Open Government Partnership. It would appear to be in the interests of both the United States and Japan for Japan to become a member.

Along similar lines, greater institutionalization of interstate cooperation should be facilitated in East Asia and the Pacific. Regional institutionalization does not necessarily undermine global cooperation, as evidenced by the development of the European Union alongside universalistic institutions. In East Asia, political and economic differences make an integration project akin to the European Union difficult for the foreseeable future. However, joint development

of strategic resources such as disputed gas fields in the East and South China Seas could be a starting point for a confidence-building process analogous to the European Coal and Steel Community. Further institutionalization of economic cooperation via ASEAN+3 should also be actively encouraged.

Conclusion

Since the end of World War II, international cooperation has been greatly facilitated by the proliferation of international organizations. However, rigid organizations breed resentment if they do not sufficiently reflect underlying interests and capabilities. The foundations of many existing organizations were laid by the trans-Atlantic partnership of the United States and Great Britain during and after World War II. A similar trans-Pacific partnership of the United States and Japan, two leading democracies and economic powers, would be an appropriate starting point to move the center of gravity of international cooperation into alignment with 21st century realities.

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