

REVIEW ESSAY

The Domestic Political Economy of Japan's New Geoeconomic Strategy

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ABSTRACT

Japan has long strived to acquire a more influential voice in trade negotiations, but it failed because of the lack of decisiveness rooted in the resistance from those who have vested interests. However, a series of domestic reforms undertaken since the 1990s have made it possible for Japan to play the leadership role in new rule-making of international trade. After the Donald Trump administration withdrew the United States from the Trans-Pacific Partnership, Japan took the initiative to conclude the new agreement called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. How have domestic factors pushed Japan to step up as a new leader in rule-making of international trade? How have the economic rise of China and the relative decline of U.S. hegemonic power impacted Japanese domestic politics and economics? What implications do Japan's new roles have for security and prosperity of the Asia-Pacific region? By exploring empirical evidence drawn from five new books, we argue that the commitment to domestic economic reforms has enabled Japan to play the leadership role in the rule-making of the international economic order.

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The Domestic Political Economy of Japan's New Geoeconomic Strategy

Tobias S. Harris. *The Iconoclast: Shinzō Abe and the New Japan* (London: Hurst & Company, 2020), 456 pages, hardcover, \$15.78.

Saori N. Katada. *Japan's New Regional Reality: Geoeconomic Strategy in the Asia Pacific* (New York: Columbia University Press, 2020), 319 pages, paperback, \$35.00.

Patricia L. Maclachlan and Kay Shimizu. *Betting on the Farm: Institutional Change in Japanese Agriculture* (Ithaca, NY: Cornell University Press, in press), 228 pages.

Ulrike Schaede. *The Business Reinvention of Japan: How to Make Sense of the New Japan and Why It Matters* (Stanford, CA: University Press, 2020), 261 pages, hardcover, \$29.08.

Mireya Solís. *Dilemmas of a Trading Nation: Japan and the United States in the Evolving Asia-Pacific Order* (Washington, D.C.: Brookings Institution Press, 2017), 283 pages, hardcover, \$34.99.

Japan has long been the most important ally of the United States in East Asia and is widely viewed in Washington as a pillar of stability in the Asia-Pacific region. The country's trajectory has been one of dazzling heights and dizzying falls. After World II ended, Japan quickly evolved to become a U.S. partner in preserving the postwar international economic and political system, continuing this role well into the 21st century. Even as Japan acted as America's security partner in the Asia-Pacific region, during Japan's miracle-growth years there was talk of

Japan surpassing the United States as the world's largest economy.¹ Japan grew at 10.4% per year for 23 years between 1950 and 1973. However, after 1973 growth dropped sharply, and since then Japan's growth rate has never been above six percent. While up until the 1990s the United States was concerned that Japan's prowess in manufacturing would lead to the deindustrialization of the United States, for the last three decades the United States has worried that economic stagnation in Japan could bring the global economy to a grinding halt. The "lost" three decades of the Japanese economy since the 1990s have prompted a collective turn away from Japan and a general agreement has emerged that the days of Japan acting as an important world power are over.

However, now the rise of China has pushed Japan to face a new regional reality in the Asia-Pacific region. Responding to the new geopolitics of the changing power structure, Japan has become a leader in new regional free trade agreements (FTAs) and, more broadly, the liberal international order. Although the Japanese economy has still stagnated and remained sluggish—with the recent COVID-19 pandemic only exacerbating its issues—and the fundamental problems rooted in rapidly aging society have yet to be resolved, Japan is far from a waning power, rather it is what Mireya Solís calls an "underappreciated power." Solís points out that Japan has successfully adjusted to the new geopolitical and economic reality by staying away from the populist backlash to globalization, leading FTAs, and (so far) maintaining the positive-sum economic partnership with China while the United States has framed its relationship with China as a zero-sum battle.²

¹ Barry Naughton introduces the definition of a growth miracle as growing at 7% or more for 25 years. See Barry Naughton, *The Chinese Economy: Adaptation and Growth* (Cambridge, MA: MIT Press, 2018), 7–12.

² Mireya Solís, "The Underappreciated Power: Japan After Abe," *Foreign Affairs*, Vol. 99, No. 6 (November/December 2020), 123–32.

Five new books demonstrate how Japan has conformed to the rules of engagement in the new geoeconomics by committing to domestic economic reforms—although much remains to be done. Each book has much to say about how domestic factors have pushed Japan to step up as a new leader in the evolving new liberal international order in the Asia-Pacific region, how the rise of China and the relative decline of U.S. hegemonic power have impacted Japanese domestic politics and economics, and what implications Japan’s new roles have for security and prosperity in the Asia-Pacific region. The five books under review all uniquely demonstrate how the interactions between domestic politics and international relations have formed Japan’s new geoeconomic strategy. While the authors’ analyses are occasionally at odds and there are different shadings of emphasis among them, there is consensus on one point: Japan is an indispensable ally vital for the United States to manage the rise of China in the new regional reality of the Asia-Pacific. By exploring empirical evidence drawn from these five books, we argue that the commitment to domestic economic reforms has enabled Japan to play the leadership role in the rule-making of the international economic order.

China’s Rise and Japan’s Response to the New Globalization

Japan hit the start of the 21st century amid the stagnant growth that had already lasted a decade since the bubble burst in the early 1990s. Responding to the banking crisis of 1997–1998, the Bank of Japan took fevered measures such as lowering its interest rate to zero (called the “zero interest rate policy” [ZIRP]) in 1999 and easing monetary policy by purchasing assets and providing liquidity to the market (known as “quantitative easing” [QE]). However, both ZIRP

and QE were proven to be ineffective by 2003.³ Japan continued to have stagnant growth because it failed to undertake meaningful domestic economic reforms to override vested interests and foster productivity. As a result, although striving to be influential in trade negotiations, Japan was virtually inactive and a passive follower in the international trade system, relying on the customary strong ties with the United States.

Meanwhile, China's economic rise became evident in the 1990s. Although Japan was not overtaken by China as the world's second-largest economy until 2011, with Japan's growth rate at nearly zero and China being one of the fastest-growing economies in the world, the writing was on the wall far before 2011. Mireya Solís emphatically asserts that China's rise has given Japan a strong incentive to play proactive roles in international trade negotiations, writing: "At a time when Japan is concerned about being overshadowed by a rising China, and when its reliance on foreign markets as sources of growth will only increase...getting trade policy right has never been more important" (p. 1). In other words, China's rise has no doubt strengthened Japan's commitment to reinventing business and tackling structural reforms to foster international competitiveness in an increasingly globalized world.

Although the Japanese economy was stagnating, there was still a growing network of Japanese companies expanding their global value chains (GVCs) in the Asia-Pacific region. Since the 1990s, manufacturers have been procuring parts produced beyond national borders, GVCs of multinational corporations have spread all over the world, and it has become common practice for different stages of manufacturing production to be located in different countries,

³ Takatoshi Ito and Takeo Hoshi, *The Japanese Economy*, Second Edition (Cambridge, MA: MIT Press, 2020), pp. 535–41.

which Richard Baldwin calls the “New Globalization.”⁴ The development of GVCs in the Asia-Pacific over the last two decades has brought a new international division of labor between developed and developing countries, which includes both authoritarian and democratic countries.⁵ Under this division of labor, components, parts, and intermediate goods are manufactured in several countries, assembled elsewhere, and then exported to global markets. China’s economic rise since the 1990s has occurred under the New Globalization. In her previous book, Ulrike Schaede noted that Japanese companies focused on core areas and spun off unrelated businesses—which she defined “choose and focus” (*sentaku to shūchū*) strategies—in the early twenty-first century.⁶ Since then, Japanese producers have concentrated on high value-added, upstream stages of the GVCs based international division of labor.

The Asian market was growing, and with it began a flurry of imports and exports throughout the region as less developed economies in Southeast Asia such as Indonesia, Malaysia, the Philippines, Thailand, and Vietnam began participating in the manufacturing process for Japanese producers. Saori Katada shows that intraregional trade (both exports and imports) within emerging and developing Asia expanded from 7% in 1985 to approximately 20% of the share of world trade in 2018, and it was because of the emergence of the regional GVCs led by Japanese firms (pp. 60–1). The Japanese government began to see value in opening its markets, slowly expanding bilateral FTAs, which started with Singapore, as “Japanese trade

⁴ Richard Baldwin, *The Great Convergence: Information Technology and the New Globalization* (Cambridge, MA: Harvard University Press, 2016).

⁵ Fukunari Kimura, “How Have Production Networks Changed Development Strategies in East Asia?” in Deborah K. Elms and Patrick Low, (eds.), *Global Value Chains in a Changing World* (Geneva: WTO Publications, 2013), pp. 361–84; Henry Wai-chung Yeung, *Strategic Coupling: East Asian Industrial Transformation in the Global Economy* (Ithaca, NY: Cornell University Press, 2016).

⁶ Ulrike Schaede, *Choose and Focus: Japanese Business Strategies for the 21st Century* (Ithaca, NY: Cornell University Press, 2008).

officials broke the long-standing taboo over negotiating preferential trade agreements in the late 1990s” (Solís, p. 129). However, as the negotiation process of the World Trade Organization stalled in the 2000s many nations in the Asia-Pacific region concluded FTAs without Japan, and “there was serious concern among Japan’s trade stakeholders that Japan would play a marginal role in the ever-growing surge of preferential trade agreements” (Solís, p. 135). By 2014 Japan had concluded 14 FTAs, which covered only 22% of Japan’s total trade, far behind both developing countries such as Mexico (82%) and Malaysia (63%) and developed countries like South Korea (40%) and the United States (40%) (Solís, pp. 18–9).

However, it was the Trans-Pacific Partnership (TPP) that gave Japan the opening to dramatically increase the proportion of their trade covered by FTAs. The TPP was expected to play an important role in the rule-making for further developing the GVCs in the Asia-Pacific region. Prime Minister Abe Shinzō, cited by Tobias Harris, fully supported the agreement in his policy speech to the Diet in January 2016: “The TPP is truly a grand plan for the long-term future of our nation” (p. 260). When President Donald Trump rescinded the United States from the TPP immediately after his inauguration in January 2017, Japan took the initiative to conclude the new agreement called “TPP 11”: that is, the same set of rules agreed upon by the original 12 signatories but not requiring the U.S. participation. Despite the U.S. departure, all the 11 remaining countries resumed negotiations under Japan’s leadership. The TPP—which was signed in March 2018 and went into effect at the start of 2019 as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)—has inspired a host of other FTA negotiations. Despite the delay the TPP experienced due to the U.S. withdrawal, the TPP has had an undeniable influence on these negotiations as an important model for forthcoming FTAs. Japan and the European Union referred to the TPP’s agreed rules to craft the Japan-EU

Economic Partnership Agreement, which was signed in July 2018 and took effect in February 2019. The renegotiation of the North American Free Trade Agreement among Canada, Mexico, and the United States also used the TPP's agreed rules as a benchmark to conclude the United States–Mexico–Canada Agreement (USMCA), and as a result many provisions in the USMCA were lifted directly from the TPP even though Trump criticized the TPP and praised the USMCA. Japan, for the first time, led trade negotiations abandoned by the United States to conclude an FTA without U.S. participation. This marked a new era for Japan on the international stage and shows a remarkable shift in Japanese foreign policy never seen before.

Japan's Domestic Economic Reform and New Geoeconomic Strategy

How did Japan go from a follower to a leader in the rule-making of international trade? We argue the domestic economic reforms that began at the turn of the century have materialized and allowed the Japanese government to pursue the FTAs in the 2010s. The vested interests that businesses and farmers had were changed, giving the government room to negotiate reciprocal economic deals with as many countries as possible and casting a wider net of alliances across regions to include places where bilateral deals are difficult.

Japanese businesses have responded to the rise of reformism. As described by Ulrike Schaede, “deregulation and the rewriting of most of Japan’s domestic business laws combined with the emergence of competitors in South Korea and Taiwan, the globalization of supply chains, and finally the rise of China...annihilate[d] Japan’s postwar business model of exporting well-made consumer goods” (p. 8). Schaede argues that Japan’s leading companies have slowly repositioned their business models to adapt to the economic rise of China and the globalization of supply chains by shifting from high value-added business-to-consumer manufacturing to even

higher value-added business-to-business manufacturing, which requires high-skilled labor and technological expertise that lend Japan deep competitive advantage (chapter 4). This wave of “choose and focus” strategies concentrating on higher value-added, upstream parts-supplying stages of production has shifted Japanese industry from “Made in Japan” to “Japan Inside” (Schaeede, pp. 76–81). “Japan Inside” relies on high-tech materials and specialty chemicals being exported from Japan for use in products like automation equipment, automobiles, and cellphones. The highly-technical intermediate parts are assembled in South Korea and Taiwan and the end parts are assembled in China, but crucial inputs come from Japan. Schaeede calls Japan’s position in this new international division of labor in GVCs the “aggregated niche” (pp. 78–80). Companies have consolidated their “aggregated niche” positions by taking the “choose and focus” strategy. Here we see why support for FTAs grew in the business sector: businesses wanted to take advantage of lower import-export costs and further expand their GVCs.

Although the business sector was quickly warming up to the ideas of FTAs, the Abe administration still had to listen to the anti-trade voice. The agricultural sector, and its interest group Japan Agricultural Cooperatives (JA: *Nōkyō*) specifically, remained staunchly protectionist and became the most vocal opponent to the rule-making of GVCs based international trade, especially the TPP. The group’s political power was not rooted in its economic competitiveness but based on its collusive organizational structure.⁷ The JA was notorious for its strong collusive relationship with politicians during the dominant rule by the Liberal Democratic Party (LDP). It functioned as an electoral machine of the LDP by systematically gathering the vote behind individual politicians while pressuring the LDP

⁷ Patricia L. Machlachlan, “The Electoral Power of Japanese Interest Groups: An Organizational Perspective,” *Journal of East Asian Studies*, Vol. 14, No. 3 (December 2014), pp. 429–58.

politicians who had strong collusive relations with the JA to defeat or weaken reformist efforts to adapt agriculture to the new economic conditions brought by urbanization and globalization. The bureaucracy (i.e., Ministry of Agriculture, Forestry, and Fisheries [MAFF]) maintained its strong influence by coordinating the relationship between the LDP politicians and the JA.

However, Patricia Maclachlan and Kay Shimizu underscore a growing wave of reforms coming from both inside and outside of the JA, which have slowly transformed the agricultural sector in Japan and made the JA more susceptible to the Abe administration's demands to reform and open. Although the TPP negotiation seemed to be over opening the Japanese agricultural market, Maclachlan and Shimizu argued in their previous article that the Japanese motivation for agricultural reform was made by the *domestic* necessity for reform.⁸ In their new book under review of this essay, they show that Japanese agriculture had been in crisis long before TPP negotiations started (pp. 52–7). This is due to the notable change that has occurred in the agricultural sector: namely, the aging population of farmers leading to the more ominous problem of a successor shortage. As Yamashita Kazuhito,⁹ an agricultural specialist in Japan, notes: Japanese agricultural production decreased from 11.7 trillion yen in 1984 (the highest ever) to 8.2 trillion yen in 2011; 60 percent of farmers were older than 65 years of age in 2010 (increased from 10 percent in 1960); 400,000 hectares of farmlands were abandoned by 2010.¹⁰

Maclachlan and Shimizu suggest that “Japanese farmers are rapidly aging—and at a rate much faster than that of the general population...causing the successor shortage” (pp. 53 and 55) for the following three reasons: declining rice prices; shrinking domestic demand for food,

⁸ Patricia L. Maclachlan and Kay Shimizu, “Japanese Farmers in Flux: The Domestic Sources of Agricultural Reform,” *Asian Survey*, Vol. 56, No. 3 (May/June 2016), pp. 442–65.

⁹ When introducing a Japanese source, we put the author's surname first and given name last.

¹⁰ Yamashita Kazuhito, “Nōgyō to Tochi Mondai” [Agriculture and the Farmland Issue]: *Tochi Sōgō Kenkyū* (Fall 2014), pp. 3–16.

especially for rice; and the dismantling of redistributive policy supports for farmers (pp. 55–6). One important change was the repeal of the 1942 Staple Food Control act, “which had authorized the government to purchase rice...at high prices from domestic producers via JA and then sell it through licensed vendors to consumers at reduced prices” (p. 60), in 1995, and “the law’s repeal and replacement by the more liberal Staple Food Act freed rice farmers to sell all their rice through private wholesalers or directly to retailers—a major blow to JA” (pp. 60–1). In addition, farmers within the JA became more entrepreneurial by branching out into more profitable types of food (namely organic produce) and growing higher quality and more value-added crops. Moreover, Japan’s food supply chains have been changing since the 1990s (pp. 73–9). By creating a brand based on food corporations, farmers can cultivate a loyal customer base at a regional level. Some innovative farmers are even engaged in “contract farming” (*keiyaku nōgyō*), getting exact numbers to produce from corporate customers. For example, Mr. Shimada in Kumamoto Prefecture “communicates directly with his corporate customers to decide what and how much parsley or shiso to produce and at what price” (p. 73). Although only some farmers or co-ops engage in branding and other market-oriented strategies, numbers are increasing slowly. Moreover, “Japanese processors are also diversifying their stakes in food supply chains and in ways that can benefit producers” (p. 76). While many of Japan’s large food processors “are relying on cheap food imports for their ingredients...smaller processors...are figuring out how to source their ingredients from domestic producers” (p. 76). These internal developments at the grassroots level have reduced the influence and power of the JA and made their lobbying arm significantly less powerful, allowing for Japan’s unprecedented leadership in the rule-making of international trade.

Although Japan's pro-active participation in the world economy may seem a surprise, in reality it is the culmination of decades of reformism starting in the 1990s, which has decreased the power of the agricultural lobby, namely the JA, and a slew of unprecedented agricultural reforms began to take effect. Each reform, on its own, may appear to be watered down, but Maclachlan and Shimizu argue that it is the cumulative effect of lots of small—and often inadequate—reforms that have brought these changes. However, even with these changes Japan remained on the fringes of FTAs until the second term of the Abe administration started in 2012.

The power behind Japanese reformism has been consolidated thanks to the political and administrative reforms in the 1990s. A Japanese prime minister now has institutional conditions to implement his or her policy as a “strong prime minister” (*tsuyoi shushō*).¹¹ When Prime Minister Nakasone Yasuhiro tried to implement the privatization of public corporations in the 1980s, he had to do it without institutional tools to exercise his leadership. Abe implemented the JA reform using favorable institutional conditions to exercise his strong leadership—while he has much less charisma than the typical “strong prime ministers” such as Nakasone and Koizumi Junichirō (Harris, chapter 14).¹² Without the institutional conditions, the Japanese government might have withdrawn from the TPP when the United States withdrew, accommodating the anti-reformist pressure from the MAFF. In that sense, Japan could take the initiative in the rule-making of international trade because a Japanese leader could focus on reformist policies by overcoming the anti-reformist backlash from the beneficiaries of the vested interests.

¹¹ Machidori Satoshi, *Shushō Seiji no Seido Bunseki: Gendai Nihon Seiji no Kenryoku Kiban Keisei* [The Japanese Premiership: An Institutional Analysis of the Power Relations] (Tokyo: Chikura Shobō, 2012).

¹² For the comparison of Nakasone and Koizumi, see Patricia L. Maclachlan, “Ideas, Interests, and Institutions: Japanese Postal Privatization in Comparative Perspective,” in Leonard J. Schoppa, (ed.), *The Evolution of Japan's Party System: Politics and Policy in an Era of Institutional Change* (Toronto: University of Toronto Press, 2011), pp. 119–49.

Political Economy of Japan's Reformism

For a long time, Japan's relationship with the United States, especially attitudes toward the Japan-U.S. Security Treaty determined the division between "right" (*u-ha*) and "left" (*sa-ha*) in Japanese politics. The overall trend was that the right, corresponding with "hawks" (*taka-ha*), appreciated and supported the alliance with the United States, while the left, corresponding with "doves" (*hato-ha*), criticized and argued against the treaty-based alliance with the United States. The attitudes toward security issues trumped those toward economic issues. Thus, even when Japan had severe trade frictions with the United States in the 1980s, confrontational American attitudes in the negotiations did not sway the right's support for the bilateral security alliance.¹³ However, this trend has changed. The division between the right and the left has become meaningless in the last three decades since the Cold War ended, parties in Japan's party politics have become more centrist in recent years,¹⁴ and a new division has emerged in Japanese politics over the attitudes toward domestic economic reforms and state-market relations.¹⁵ On the one hand, "conservatives" (*hoshu-ha*) try to protect the vested interests (*kitoku ken'eki*) that were created during the dominant rule by the LDP.¹⁶ On the other hand, "reformists" (*kaikaku-ha*) try to advance economic reforms that would severely undermine the vested interests supporting the LDP-dominant regime.

¹³ Leonard J. Schoppa, *Bargaining with Japan: What American Pressure Can and Cannot Do* (New York: Columbia University Press, 1997).

¹⁴ Kabashima Ikuo and Takenaka Yoshihiko, *Ideorogii* [Ideology] (Tokyo: University of Tokyo Press, 2012).

¹⁵ Leonard J. Schoppa, "Path Dependence in the Evolution of Japan's Party System since 1993," in Leonard J. Schoppa, (ed.), *The Evolution of Japan's Party System: Politics and Policy in an Era of Institutional Change* (Toronto: University of Toronto Press, 2011), pp. 14–42.

¹⁶ As one can easily see from this definition, conservatism in Japanese politics is not related to the conservative ideology in American politics.

1955 saw the merge of two major parties, the Liberal Party and the Democratic Party into the dominant party, the LDP. The Liberal Party had been headed by Prime Minister Yoshida Shigeru, architect of the Yoshida Doctrine—a foreign policy strategy that prioritizes economic growth over military development. Under the Yoshida Doctrine, Japan would remain demilitarized and rely on the United States for protection and access to thriving American markets. Opposition came in the form of the Japan Democratic Party (JDP), founded by Hatoyama Ichirō and Kishi Nobusuke, who usurped Yoshida as prime minister in 1954. However, in response to the creation of the Japan Socialist Party (JSP), the Liberal and Democratic Parties merged into the LDP in November 1955; touting values such as “economic planning to achieve ‘economic independence’; a robust social safety net; ‘peace diplomacy’ to conclude peace treaties and normalize relations with former adversaries and colonies and to join the UN; and revision of the constitution and other occupation-era laws, the redevelopment of Japan’s armed forces, and the removal of foreign troops from Japanese territory” (Harris, p. 16). The LDP went on to dominate Japanese politics for the next 40 years.

After almost four decades in power, the LDP finally was pushed into opposition in 1993. Along with the end of the Cold War, the traditional right-left, or hawk-dove, division that had defined Japanese politics during the Cold War had already been anachronistic. Leonard Schoppa describes that until the 1980s “Japanese politics revolved around the competition between the dominant LDP and the always-losing but resilient Japan Socialist Party (JSP).”¹⁷ The collapse of this LDP-JSP division was evident when JSP President Murayama Tomiichi became prime minister of a coalition government of the JSP with the LDP and a small party (New Party

¹⁷ Leonard J. Schoppa, “Introduction: From the 1955 System to the ‘2000 System,’” in Leonard J. Schoppa, (ed.), *The Evolution of Japan’s Party System: Politics and Policy in an Era of Institutional Change* (Toronto: University of Toronto Press, 2011), p. 3.

Sakigake) in 1994. In his Diet speech on July 18, Murayama declared that his administration would maintain the Japan-U.S. Security Treaty and recognize the constitutionality of the Self-Defense Forces (SDF), although the JSP platform had declared that both the Japan-U.S. Security Treaty and the SDF were unconstitutional, and its goal was abolishing them. With this “historical transformation” of the JSP’s position on the security issue, the hawk-dove division collapsed and became meaningless in the context of Japanese politics.¹⁸

At that time, the Japanese public was increasingly frustrated due to the economic stagnation starting with the bubble burst in the early 1990s. The 1990s was called the first “lost decade” and the average annual growth rate was around 1 percent. In the meantime, the administrations during the 1990s attempted to revive the economy by expanding fiscal expenditure.¹⁹ The Japanese public identified conservative policies to protect the vested interests as a cause of the long-term economic stagnation, giving support for the reforms that would break the structure of vested interests. Thus, in discussions about the Japanese economic recovery, reformist arguments emerged. For example, in 1999 the Council on Economic Strategies (*Keizai Senryaku Kaigi*) under Prime Minister Obuchi Keizō proposed that the Japanese economy needed structural reforms such as deregulation and privatization to strengthen the supply side of the economy.²⁰ However, structural reforms would not be realized until Koizumi became prime

¹⁸ Shinoda Tomohito, *Seiji Shudō vs. Kanryō Shihai: Jimin Seiken, Minshu Seiken, Sei-Kan 20-Nen Tōsō no Uchimaku* [Political Leadership vs. Bureaucratic Rule: LDP Administrations, DPJ Administrations, and Competition for Leadership Between Politics and Bureaucracy During the 20 Years Behind the Scenes] (Tokyo: Asahi Shimbun-sha, 2013), p. 79.

¹⁹ Takenaka Heizō, *Kōzō Kaikaku no Shinjitsu: Takenaka Heizō Daijin Nisshi* [The Truth of the Structural Reforms: Minister’s Diary of Takenaka Heizō] (Tokyo: Nihon Keizai Shimbun-sha, 2006), p. 15.

²⁰ *Ibid.*, p. 16. Prior to Koizumi, in the 1980s Nakasone raised expectations that the government should advocate for reform. See Richard J. Samuels, “Leadership and Political Change in Japan: The Case of the Second Rinchō,” *Journal of Japanese Studies*, Vol. 29, No. 1 (Winter 2003), pp. 1–31.

minister in 2001 because of strong opposition from the “Iron Triangle” (*Tetsu no Sankakkei*), consisting of interest groups (*gyōkai*), politicians (*seijika*), and bureaucracy (*kanryō*), whose vested interests the conservatives tried to protect.²¹

Harris describes Koizumi as a major turning point, running on a platform of raising anti-factionalism, destroying the old LDP, elevating reformism, and implementing top-down leadership once in office (p. 80).²² “Destroy the LDP!” (*Jimin-Tō o bukkowasu!*). When Koizumi campaigned for the LDP’s presidential election with this phrase in 2001, many people were taken aback. A candidate for the party’s presidential election said that he would destroy the party over which he would preside. Of course, Koizumi never meant that he would destroy his own institution but instead that he would sever LDP ties to vested interests that slowed reform. In this way, Koizumi positioned himself as a leader of the reformists and characterized those who opposed his reforms as the “opposition powers” (*teikō seiryoku*). Moreover, Koizumi located the conservative-reformist division in the context of inter-factional rivalry within the LDP. Thus, as Koizumi came from the Seiwakai faction, his “destroy the LDP” slogan was directed at the Keiseikai faction that had occupied the dominant position in the LDP. Indeed, he faced a lot of opposition powers from Keiseikai during the campaign. For example, Nonaka Hiromu, a leading Keiseikai lawmaker, criticized Koizumi when the 2001 party presidential election took place:

“Mr. Koizumi is saying that even a negative growth will be fine [for the sake of his reforms]. If

²¹ Ibid., p. 17.

²² Margarita Estévez-Abe analyzes the relative contributions of structure versus agency as drivers of reform under Koizumi. See Margarita Estévez-Abe, “Japan’s Shift Toward a Westminster System: A Structural Analysis of the 2005 Lower House Election and Its Aftermath,” *Asian Survey*, Vol. 46, No. 4 (August 2006), pp. 632–51.

so, Japan will sink.” Koizumi argued in response to Nonaka: “if you are not ready to break off with the vested interests, the LDP will never change.”²³

Overall, Koizumi’s reforms and politics were extremely popular during his tenure. When Koizumi stepped down in 2006, many believed that Japanese politics had changed sufficiently for the trend and momentum of Koizumi’s reforms to continue.²⁴ Under the new electoral system where the leadership of the ruling party’s president mattered, the LDP had changed electoral strategies to acquire votes in urban areas, responding to the new electoral rules implemented in 1994.²⁵ Moreover, with the new administrative institutions to strengthen the prime minister’s leadership in the decision-making processes, Abe, Koizumi’s successor, seemed resolved to continue the reforms that Koizumi had started. However, interestingly, Koizumi’s successors overturned most of the reform policies and tried to go back to the “old politics,” taking care of the vested interests of the old LDP-dominant regime. Abe and his successor, Fukuda Yasuo (succeeding Abe in 2007), both failed to carry out reform policies, and the momentum for structural reforms waned.²⁶ The LDP lost the plurality in the Upper House in the 2007 election, and after that Fukuda was unable to pass any bill in the Diet.²⁷ Fukuda’s successor, Asō Tarō,

²³ “‘Hashi Ryū’ Erababa Jimin-Tō wa Kaimetsu” [The Election of Hashimoto Ryūtarō Will Destroy the LDP], *Foresight*, April 1, 2001, <http://www.fsight.jp/7494> (accessed December 24, 2014).

²⁴ Estevez-Abe, “Japan’s Shift Toward a Westminster System.”

²⁵ Steven R. Reed, “The Evolution of the LDP’s Electoral Strategy: Towards a More Coherent Political Party,” in Leonard J. Schoppa, (ed.), *The Evolution of Japan’s Party System: Politics and Policy in an Era of Institutional Change* (Toronto: University of Toronto Press, 2011), pp. 43–62.

²⁶ Tomohito Shinoda, *Contemporary Japanese Politics: Institutional Changes and Power Shifts* (New York: Columbia University Press, 2013), pp. 108–17; Shinoda, *Seiji Shudō vs. Kanryō Shihai*, pp. 121–8.

²⁷ Sugawara Taku, *Yoron no Kyokkai: Naze Jimin-Tō wa Taihai-shitanoka* [The Twisted Interpretation of Public Opinion: Why the LDP Was Completely Defeated] (Tokyo: Kōbunsha, 2009), pp. 72–3.

became prime minister in 2008 while promising to protect the LDP's vested interests that had been "destroyed" by Koizumi, and during his tenure (2008–2009) the momentum for structural reforms was completely lost.²⁸ A new party, the Democratic Party of Japan (DPJ), and three more prime ministers attempted reform between 2009 and 2012, but consistently encountered obstacles to success before eventually losing the Lower House to the LDP in 2012.

Abenomics, the Trans-Pacific Partnership, and Beyond

Abe was back: the LDP won a landslide victory in the Lower House election in 2012 and Abe became prime minister again. In the election, Abe promised to resume structural reforms although he did not promise to resume the Koizumi reform. However, he ran the electoral campaign promising to protect the LDP's traditional vested interests—including agriculture and the postal system—although apparently being committed to structural reforms. His ambivalent attitude toward structural reforms is shown in the LDP's slogan for the election, "take back Japan" (*Nippon o tori-modosu*), suggesting that the LDP would take back the vested interests.²⁹ Abe never clearly defined what this slogan would mean but promised to resume structural

²⁸ Takenaka Heizō, *Nippon Saikidō: Kō Sureba Nippon wa Yoku-naru!* [Japan Reset: How Japan Should Be Back!] (Tokyo: PHP Kenkyūjo, 2013), pp. 17–8.

²⁹ Isoyama Tomoyuki, "'Abe Naikaku' no Keizai Seisaku no Genjitsumi" [The Reality of Economic Policies by the "Abe Cabinet"], *Foresight*, November 29, 2012, <http://www.fsight.jp/11970> (accessed January 19, 2015). This concern culminated in January 2013 when Abe raised the concept of "rice paddy state capitalism" (*inaho no kuni no shihonshugi*) to argue that the Japanese economy is different from another country's market economy. However, Abe dropped this concept later. For example, he did not use this concept in his speech in London in June, although apparently conservative cabinet members such as Asō wanted him to do so. See Isoyama Tomoyuki, "Kabuka Kyūroku no Kage de Susumu Abenomikusu 'Kankotsu Dattai' no Sakubō" [The Maneuver to Sever the Abenomics Behind the Sharp Drop of Stock Prices], *Foresight*, May 30, 2013, <http://www.fsight.jp/16961> (accessed January 19, 2015); Isoyama Tomoyuki, "Abe Shushō ga G8 de Shimeshita 'Dai-San no Ya' eno Kakugo" [Prime Minister Abe's Determination to the "Third Arrow" Shown in the G8 Summit Meeting], *Foresight*, June 27, 2013, <http://www.fsight.jp/17848> (accessed January 20, 2015).

reforms to regain Japan's economic growth without mentioning the Koizumi reforms. The voters did not forget that Abe had failed to advance the Koizumi reform in his first tenure (2007–2008) even though having started the tenure with a very high approval rating thanks to Koizumi's popularity. However, poor governance by the DPJ from 2009 to 2012 made the voters feel that any prime minister other than a DPJ one would be better.³⁰ Moreover, Abe's economic advisors included some of the reformists working for the Koizumi administration, such as Takenaka Heizō, and hence the reformist voters preferred the LDP to the DPJ.³¹ The reformists thought that it would be Abe, not a DPJ prime minister, who might be more likely to be committed to structural reforms, because the DPJ administrations had argued that Koizumi was committed to “excessive reformism.”³²

Harris underscores how Abe used the mistakes he made during the first term of his administration as lessons to create an effective and strong administration at the start of his second term in 2012 (pp. 188–92). For example, Abe institutionalized the prime minister's control over national security policy by founding the Japanese version of National Security Council (*Kokka Anzen Hoshō Kaigi*), modeling after the U.S. National Security Council (pp. 215–7). Moreover, he strengthened prime minister's top-down policy-making by establishing the Cabinet Bureau of Personnel Affairs (*Naikaku Jinji-kyoku*) to centralize personnel decision-making for the central government's ministries and agencies. With a strong bureaucracy behind him Abe wielded his new powers for reforms concerning Japanese businesses and agriculture,

³⁰ “Hayakumo Sangiin-sen o Misueru ‘Abe Jimin-Tō’ Yoyū no Konkyo” [Why “Abe's LDP” Can Already Afford to Consider the Upper House Election], *Foresight*, December 7, 2012, <http://www.fsight.jp/11992> (accessed January 19, 2015).

³¹ Takenaka Heizō, *Nippon Saikidō*, pp. 62–79.

³² *Ibid.*, p. 48.

along with leading Japan towards unprecedented foreign policy moves a prime minister had never before been allowed to take.

On January 20, 2017 when Trump came into office, he pulled the United States out of the TPP. With the fate of the deal in question, it was Abe who took over the leadership position and successfully renegotiated the trade deal without the United States involvement, a feat only possible due to administrative reforms that had both consolidated power in the prime minister's office and decreased the LDP's reliance on interest groups such as the JA. One example of a reform utilized by Abe originated with Koizumi: cross-ministerial coordination for Japan's FTA policies (Katada, p. 102). This has facilitated the government-led liberal strategy staple to Abe's term as prime minister. Abe thought that the reductions of tariff and nontariff barriers, as well as the commitment to regulatory reforms, brought on by new rules and regulations within the agreement would serve as a vital push for the revival of the Japanese economy in the face of the second 'lost' decade (p. 110). In addition, Abe was able to use his position to convey a signal of "negotiated decisiveness." In a nutshell, as Solís summarizes: "The combination of centralized decisionmaking (enabling significant policy departures) with political pragmatism (moderating the reach of reforms) is evident in the decision...to seek TPP membership, and in the subsequent reforms...as the government sought to give traction to the liberalization *cum* reform agenda without sacrificing its political imperatives" (p. 149). This is how the Abe administration was able to gain popular support for the TPP, an agreement that provides substantial growth and reform dividends while promoting the GVCs based trade in the Asia-Pacific region.

Abenomics and the Transformation of the Japanese Economy

Abe campaigned on a promise to revitalize the Japanese economy, which had been stagnant for over two decades by the time for his second term. His reform plan was called Abenomics, and his new monetary policy stopped the deflation that had lasted since 2008.³³ However, monetary policy was merely the first “arrow” of the “three arrows” (*san-bon no ya*) of Abenomics. The second arrow was the expansion of fiscal stimulus to support the economy in the short term, and the third arrow was a growth strategy to promote investment, enhance the mobility of the labor market, create new markets, and advance global economic integration, as well as concluding free trade agreements such as the TPP.³⁴ The key was how fast Abenomics could move from the first two arrows to the third arrow.³⁵ Easing monetary policy was necessary to stop deflation and the fiscal expansion policy would not create losers in the short run. However, the growth strategy policies, such as deregulation and the TPP, would immediately create winners and losers.³⁶

Whether Abenomics was successful is a hotly debated topic. Joshua Hausman and his co-authors argue that the first arrow of Abenomics was successful as it brought a weaker yen, higher stock prices, and lower nominal rates.³⁷ However, Abenomics did not entirely cure Japan’s

³³ Ibid., chapter 1.

³⁴ Ibid., chapters 1–2.

³⁵ Ibid., pp. 211–3.

³⁶ While Abe’s goal was reducing the public construction budget, it was Asō who advocated for expanding fiscal stimulus to increase expenditure for public construction, which a Japanese journalist, Isoyama Tomoyuki, calls “Asonomics.” Asō became vice prime minister and financial minister in the Abe administration. When he was prime minister, he had tried to overturn the Koizumi reform as much as possible. See Isoyama Tomoyuki, “Abenomikusu vs. Asōnomikusu” [Abenomics vs. Asonomics], *Foresight*, January 31, 2013, <http://www.fsight.jp/14220> (accessed February 19, 2022).

³⁷ Joshua K. Hausman, Takashi Unayama, and Johannes F. Wieland, “Abenomics, Monetary Policy, and Consumption,” in Takeo Hoshi and Phillip Y. Lipscy, (eds.), *The Political Economy*

deflation; interest rates were roughly the same in 2019 as they were seven years earlier at the start of Abenomics and there has yet to be an increase in consumption growth.³⁸ How to encourage inflation continues to elude policy experts as the Japanese economy seems to defy the typical outcomes of expansionary monetary policy.

Although Abenomics did not completely revitalize the Japanese economy, there were still important transformations that took place because of Abenomics, which had profound effects on not only the economy but also foreign policy. The third arrow of Abenomics, increasing private investment, required Japan to open its markets more than it ever had before. As part of this policy, Abe announced that his administration would promote regional economic growth and integration in Southeast Asia (Harris, p. 198).

Katada suggests that the acceleration of globalization, domestic political instability with the disruption of the LDP rule, and economic stagnation since the 1990s have loosened the strong ties among politicians, bureaucrats, and interest groups (pp. 69–75). Businesses have acted with less government oversight and therefore with less constraint, meaning that the government's ability to guide the economy through influence over businesses has been severely weakened (pp. 75–6). GVCs have proliferated and outbound foreign direct investment (FDI) has increased (p. 83). As a result, protecting supply chains became a priority for the Abe administration. To achieve the third arrow of Abenomics, the administration needed to pursue a strategy that would promote FDI and GVCs based trade, and hence Japan began leading the rule-making of international trade and entering into bigger trade deals than ever before.

of the Abe Government and Abenomics Reforms (New York: Cambridge University Press, 2021), pp. 139–69.

³⁸ *Ibid.*, p. 147.

The biggest step in the Abe administration's commitment to reformism came with Japan's involvement in the TPP. The TPP was expected to play an important role as a rule maker in further developing the GVCs in the Asia-Pacific region. As Solís notes, despite agricultural opposition, the business community touted the TPP's ability to "crack open more infrastructure markets abroad, achieve a seamless customs regime for imports and exports, promote e-commerce, prevent the piracy of Japanese products, nurture the export of Japanese agricultural products, and secure a stable supply of safe food imports" (p. 168). The private sector's push for TPP ratification was critical for politicians to support it, and it was ratified on January 20, 2017. Through the TPP, Japan reduced and even eliminated agricultural tariffs— although the Abe administration named five products (rice, wheat, meat, dairy products, and sugar) as the "sanctuary" (*seiiki*) and positioned them as pillars of Japanese protection against pressures to open the agricultural market (p. 174).

As new Asian markets have developed, Japanese companies have learned that to remain competitive they must move beyond manufacturing products; Japan cannot compete with the cheap, unskilled workforce at the disposal of rising economies. Therefore, companies have upgraded into "higher technology realms...afford[ing] deep competitive advantage" (Schaeede, p. 71). To move up the "smile curve of profits," Japanese management has reoriented their companies towards a specific core competency (choose) and then broken new ground in exploration and innovation in that core competency (focus) (p. 73). The world has seen a rise in products which contain small, specialized parts and fine chemicals inside a larger product (such as automobiles and cell phones), with the indispensable, specialized parts being made in Japan. The "Japan Inside" strategy means that Japanese companies have capitalized on their competitive advantage in making specialized parts vital to the larger product and made full utilization of the

GVCs previously established (p. 77). Japanese companies have been pursuing this strategy for well over two decades now. Although businesses are still influenced by the government, they have remained independent of government subsidies. With increased profits from their new strategy, the reinvention of the private business sector in Japan has been relatively painless compared to that of the agricultural sector.

Unlike internationally competitive businesses, the agriculture sector in Japan relied on protectionism and government subsidies for decades to remain profitable. While businesses were pushing for TPP ratification because they had reestablished themselves enough to be successful in a more liberalized market, the agricultural sector was far from prepared for the ramifications it would have. In addition to difficulties brought on by the TPP, the population of farmers in Japan is rapidly aging and without successors. The application of new strategies in Japanese farming will be vital for farmers' survival in the coming years. While the JA hampered innovation, now with the JA's power over farmers weakened and the export market providing new opportunities, several farmers have been employing a "choose and focus" strategy of their own.

One way farmers have begun to distinguish themselves in the export market is a focus on high-quality foodstuffs. For example, JA Uonuma Minami has developed its brand of high-quality rice, with impeccable standards of quality and prices to match (Maclachlan and Shimizu pp 153–4). They have continued to maximize their high-quality rice by adding value and accessibility to its brand with high-quality packaging, express delivery, etc. By partnering with reliable consumers, Japanese co-ops can ensure income as they work to further develop their brands and expand their consumer base. The same co-op has been expanding this strategy to include different food, such as watermelon and shiitake mushrooms. With the focus on

producing extremely high-quality products, Japanese co-ops have been able to distinguish themselves in the international marketplace and gain a foothold in the export market.³⁹

The Abe administration set out to revitalize the economy with his Abenomics strategy. Although the foundations were already in place, Abenomics worked to bring different aspects of the Japanese economy together to promote growth. Several of his main goals were accomplished, including weakening the yen and increasing Japanese outbound FDI, yet inflation remains stubbornly elusive. Abenomics had a wide-reaching impact on the Japanese economy and hastened the transformation that had already been quietly underway. With effective strategy and strong leadership backed by institutional support, Abe ensured that the Japanese economy remained relevant in international markets and Japan's diplomatic influence grew in the region.

Persisting Issues and Future of Japan

Although Japan has made significant progress within the last two decades, there are still lingering issues that Japan will be confronting for the next decades. Foremost is the economy which, despite economic reforms under Koizumi and Abe and continuous innovation by the business sector, remains a relatively poor performer in terms of GDP growth rates. Second is the aging population, which affects not only Japan but also many Western countries and China. How Japan tackles the problem of the aging population will serve as either a cautionary tale or a model for the rest of the world.⁴⁰ Japan is also faced with the realities of a shifting global power balance, as American hegemonic power continues to come into question and China's influence

³⁹ Having said that, JA Uonuma Minami is a very rare example of co-op exporting rice. Most rice is too expensive to export, and the JA more generally has not done sufficiently to promote rice exports.

⁴⁰ For example, see "What the World Can Learn from Japan," *The Economist*, December 11, 2021, pp. 14–5.

grows. Finally, Japan has not been immune to the global pandemic and, at the time of this writing, is still imposing a strict foreign arrivals. Since Abe stepped down in 2020 Japan has been without a stable leader, having two prime ministers within two years. All these issues will continue to shape future policymaking in Japan, with a new emphasis on internationalism and reformism.

Although the Japanese economy has shown signs of improvements after several years of Abenomics, inflation has remained elusive. Harris in his afterword writes in light of the COVID-19 pandemic: “the crisis revealed the fragility of Abenomics’ achievements” (p. 331), pointing out that the Japanese economy was likely in recession in March 2020, inflation remained below 2%, and unemployment rose. He also notes the growing debt-to-GDP ratio that went along with a burgeoning deficit. However, although Abenomics may not have brought about permanent change for the better the moderate improvements are not to be scoffed at. Abenomics, while not a holistic cure, still contained seeds of significant change that positively affected the Japanese economy. For example, Maclachlan and Shimizu suggests that reforms—particularly under Abe— may seem fairly modest but taken together they have changed farmers’ incentives at the local level to the point where many farmers will expect further change even if the government drops the ball on reform. Although reform in agriculture remains promising, there is still much that must be done to ensure the survival of agriculture in Japan long-term. Future prime ministers will likely follow Abe’s lead, perhaps experimenting with the Japanese economy and reformism in even more radical ways.

Schaede also points towards promising economic growth within the private sector of Japan. With the rise in the digital economy, businesses in Japan have not remained static in their internal reforms. While China and the United States may have an upper hand in artificial

intelligence and data mining, Japanese companies are pivoting their expertise to value creation in the digital manufacturing (pp. 207–9). Although Japanese businesses have mostly transformed their industry independent from the government, the new business models in which Japanese companies specialize will be included in any potential growth strategies.

Agriculture remains a difficult sector to find success in; however, more and more co-ops have seen the benefits of specialization and individualized branding. The JA remains a force in Japanese agriculture, though a declining one. As more aggressive reforms may come in the face of further trade liberalization, the JA must continue to adapt to better fulfill full-time farmers' needs, especially the newly innovative farmers who are becoming the front runners in Japanese agriculture. One major problem that can't be solved with a new business strategy is the aging population. As market liberalization continues to put pressure on Japanese farmers, many unprofitable farms will either go under or simply cease to exist with the death of the farmer cultivating the land. Unfortunately, as Maclachlan and Shimizu discusses in their epilogue, this might also mean the death of regional employment opportunities and social networks, increasing the urban-rural divide and negatively impacting the elderly left behind. Therefore, rural Japan needs to find a way to bring people back into the community. While farms should become larger (and therefore more profitable) to attract younger farmers, perhaps the rise in remote work may give hope to these rural communities. Even as the threat of COVID-19 fades, many companies have instated permanent hybrid or remote models for employees, allowing former urban dwellers to be able to live in these smaller farm towns while still working "big city" jobs.

Abe's tenure as Prime Minister saw an unprecedented shift towards internationalism. With the leadership rallying behind the CPTPP, Abe cemented Japan as a front-running rule maker of international trade. Since the CPTPP was concluded, countries have crafted trade deals

using CPTPP's agreed rules even in deals not involving a CPTPP member country. Several nations have expressed interest in joining the CPTPP, including the United Kingdom and even China. Although there remains staunch opposition to further trade liberalization, it would be within Japan's best interests to continue exploring their newfound role as rule makers in the international trade system. As Solís emphasizes, upholding free trade and the existing international order of multilateral governance should be at the top of Japan's foreign policy agenda, especially considering China's rise (p. 221–3). Echoing to Katada, we argue that as China grows in power Japan must find a way to diffuse regional policies following Japanese liberal norms such as free trade and multilateral cooperation (p. 195). This will likely have to take place without the United States, as President Joe Biden has failed to articulate a comprehensive Asia-Pacific policy with the assurance of American involvement.

In light of the pandemic, Japan stands at a crossroads: will it continue on a path of reformism and internationalism, or slip back into its old ways? As the books reviewed here show, there is ample evidence that reform in the public and private sectors has served to benefit Japan greatly. Even though many of the economic reforms seemed to have been nullified due to the pandemic, their moderate success before 2020 should be taken into consideration when future leaders are implementing new economic strategies to promote growth. Internationalism, as well, will be vital for Japan's relevance in the international system moving forward. Japan can no longer be in the shadow of the United States and must distinguish itself from China; so far, the country has been able to do that by being a leader in establishing an updated, regional rules-based system with trade deals such as the CPTPP. Even with a sizable opposition to trade liberalization still active in Japan, the benefits these trade deals brought to the Japanese economy

and Japanese businesses speak for themselves. Hopefully, Japan will continue the path of reformism and internationalism and remain a prominent force in the Asia-Pacific region.