Japanese Spirit, Western Economics: The Continuing Salience of Economic Nationalism in Japan

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Japan is arguably the single most important country in the International Political Economy (IPE) literature on economic nationalism. The spectacular success that the Japanese state has enjoyed, both during the Meiji period in the late 19th century and during the high growth decades of the Cold War, in promoting economic development has made the country the most effective advertisement for economic nationalism since interest in the concept began to re-emerge in the early 1970s. The precise mix of policies that Japan has employed in spurring economic growth is, of course, the subject of scholarly debate. However, there is widespread agreement that mechanisms like industrial targeting, directed lending, protection and subsidies for infant industries, efforts to procure and indigenise technology, and state control over finance have been central to Japan's success. While Alice Amsden coined the phrase 'getting the prices wrong' to describe South Korea's industrial policy, the willingness of the Japanese state to change price incentives in the economy has been a key part of the country's economic nationalism. During the 1980s, Japan's 'developmental state' was touted as a model not only in the rest of Asia, where various states made efforts to emulate Japanese policies, but even in the United States itself. At a more theoretical level, much of the discussion about economic nationalism in IPE took Japanese policies as paradigmatic.

Given that Japan's economic success had so much to do with the study of economic nationalism as a phenomenon and its advocacy as policy, it is not surprising that Japan's prolonged doldrums during the 1990s have encouraged critics of nationalist economics. Japan's 'lost decade', and the 1997 Asian financial crisis which laid low many other states ostensibly following the Japanese model, have been widely seen as decisive refutations of economic nationalist policies. Indeed, with the Asian crisis coming so quickly on the heels of the collapse of the Soviet Union, liberal economists (particularly in the United States) were quick to argue that both communist and nationalist economic policies had been decisively refuted and that liberalism was now the only game in town. Whatever usefulness Japan's nationalist economic policies may have had in earlier decades, they were hopelessly obsolete in an age of economic globalisation and served only to drag down both Japan and, possibly, the world economy as

1 Alice Amsden, Asia's Next Giant: South Korea and Late Industrializations (Oxford University Press, 1989), Chapter 6.
a whole. Thus, while vested interests and 'reactive nationalism' will likely continue to prop up Japan's postwar political economy, efforts being made in Japan towards liberalisation, internationalisation, and globalisation represent the best, if not only, hope for the country's future. Frank Gibney has stated the argument succinctly:

Given the lightning moves of world trade, finance, and investment, however, in the new computer-networked society, the once marveled 'bureaucratic development state' has become a badly worn piece of furniture. So are the premises of economic nationalism that once sustained it.

Defences of economic nationalism and of the developmental state have certainly not disappeared from the political economy literature. Some scholars have presented alternative views of the Asian crisis, arguing that the worst-hit countries had either dismantled key parts of their 'developmental states' or had never had such states to begin with. Others have argued that while Japan certainly needs to undertake reform, the postwar system contains valuable elements that should not simply be jettisoned en route to the introduction of 'Anglo-Saxon', laissez-faire capitalism. In this paper, however, I would like to take a somewhat different perspective on the future of economic nationalism in Japan. Building on recent work in IPE that has reformulated the concept of economic nationalism, I will argue that nationalism has itself been an important force in shaping the drive for economic liberalisation in Japan and the specific forms that that liberalisation has taken.

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In making this argument, I will focus on two different aspects of the multifaceted concept of 'nationalism'. In the first section, I stick fairly closely to the goals (if not the policies) that have been associated with Japanese 'neomercantilism' in the mainstream IPE literature in claiming that a critical motivation behind economic liberalisation in Japan has been the effort to promote the country's power in the international arena. Liberal economic policies, in other words, are (to some extent) being introduced for nationalist reasons. My argument here differs slightly from work by Rawi Abdelal and Stephen Shulman that argues that in studying economic nationalism, 'scholars should independently define nationalists, and then examine their foreign economic policy preferences both theoretically and empirically in the realm of international economic integration.' My work, like theirs, defines nationalist economic policy in terms of motivations rather than content. However, I begin not with the views of nationalist political parties but rather with the goals that have been widely ascribed to the Japanese state in the IPE literature. If these goals are taken to be economic nationalist ones, then economic nationalism remains alive and well in calls for liberalisation in Japan. This section of the paper thus builds on the work mentioned above in trying to distinguish nationalist from liberal reasons for liberalisation. Second, I demonstrate that the perceptions of the Japanese 'national character' held by liberalisers (both in Japan and abroad) have affected the kinds of reforms that Japan has been called on to undertake. Liberalisers have been profoundly concerned that the national identity of the Japanese people will itself present a barrier to liberalisation and internationalisation, and have advocated a wide range of measures aimed at reeducating the Japanese as more 'liberal' or 'international'. I argue further that the current crisis in Japan regarding the nature of the links between the Japanese economy and the Japanese national character is a central part of Japan's prolonged malaise.

I would like to stress here that my objective in this paper is not to argue that these alternative understandings of economic nationalism can provide a full explanation of liberalisation and deregulation in Japan. A wide range of factors contributes to the shaping of actual policy outcomes, including the organisational structures of industry and the bureaucracy, the electoral system, pressure from outside the country (gaiatsu), sectoral characteristics, and pressure from pro- and anti-liberalisation forces. My

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8 Shulman, 'National Sources', p. 368.
aim, rather, is the more modest one of suggesting that the two variants of the concept of 'economic nationalism' highlighted above will retain significant importance in any explanation of Japan's liberalisation.

**Nationalist motivations for liberalisation and deregulation**

Japan is a country without resources so it must create a free trade world. [...] In a sense, Japan must promote free trade and technological development in order to survive.

–Imai Takashi, Chairman of Keidanren (Japan Federation of Economic Organisations), 7 January 2002

It is not at all difficult to understand why globalisation and economic liberalisation are taken to be inimical to Japanese economic nationalism. Japan has emerged as a key country in the literature on economic nationalism because the country's rapid industrialisation since the Meiji era has been promoted by developmentally oriented state intervention. The willingness of the state to involve itself in guiding the economy away from the outcomes that would prevail under free-market conditions and towards prioritised sectors is at the heart, for instance, of Chalmers Johnson's conception of the 'developmental state.' For Johnson, the developmental state in Japan worked according to a 'plan rational' logic which differentiated it from 'market rational' countries like the United States and 'plan ideological' states like the USSR. **Liberalisation and deregulation both represent mortal challenges to such a political economy:** the former because arranging outcomes in an open economy with significant foreign participation is much more difficult than trying to shape an economy that is protected and primarily 'national'; the latter because scope for administrative discretion and the imposition of regulatory solutions are crucial to the model. More recently, Richard Samuels and Eric Heginbotham have made a coherent statement of Japanese economic nationalism in the foreign policy sphere, arguing that Japan follows a 'mercantile realist' strategy organised around advancing the

1 (1999); Frank Gibney, ed., *Unlocking the Bureaucrat’s Kingdom: Deregulation and the Japanese Economy* (Washington, D.C.: Brookings Institution Press, 1998). Vogel writes that 'Japan's distinctive approach to liberalization has been characterized by slow and incremental change; elaborate political bargains, typically involving compensation for the potential losers from reform; considerable efforts to prepare industry for competition; and continued bureaucratic monitoring and manipulation of the terms of competition.' Vogel, 'Can Japan disengage?', p. 15.


country's technoeconomic position in the international system. Japan, they argue, has balanced against the United States economically while bandwagoning with it militarily, and has used industrial and trade policy in order to promote critical high technology industries. Here again, the Japanese state is playing a key role in determining the trajectory of the economy, a role that presumably would be threatened by liberalisation and deregulation. The desire to smash this 'plan rational' or 'mercantile realist' state has been clearly stated by reformers both inside and outside of the country. Ichiro Ozawa's Liberal Party, for instance, has put strong emphasis on the need to shift from a state-led to an individual-led economy, and the need to reorient Japan's political economy away from its prioritisation of producers and towards consumers.

The fact that liberalisation, deregulation, and globalisation pose a serious threat to Japan's postwar political economy does not necessarily mean, however, that they are inimical to economic nationalism. Recent scholarship in IPE has argued that economic nationalism should be identified not in terms of the policies it advocates (for instance, industrial policy or trade protectionism), but rather in terms of its nationalist motivation or connection with national identity. This perspective opens up the possibility that even liberalising or deregulatory policies can be seen as instances of economic nationalism if they are promoted for nationalist reasons. Eric Helleiner, for instance, has recently identified a group of 19th century 'liberal economic nationalists' who advocated liberal policies in the belief 'that these policies would strengthen national identities, the prosperity of the nation and/or the power of their nation-states.' Similarly, Glenn Drover and K. K. Leung have argued that nationalists in Quebec have used the liberalisation of trade as a means of promoting nationalist goals. The identity that most of the IPE literature perceives between economic nationalism and statist, protectionist economic policy is thus coming to be seen as a false one.

Precisely what this means for the analysis of economic policy formation, however, is not clear. A shift in focus from policies to motivations and identities - from what people do to why they do it - in the use of the term 'economic nationalism' obviously implies that analysis of the reasons for policy implementation must be foregrounded. At present, however, the literature does not contain a set of distinctions that would allow contrasts to be drawn between nationalist and non-nationalist motivations for liberalisation that is equivalent to Rawi Abdelal's
distinction between statism and economic nationalism. Given the extraordinary pervasiveness of nationalism in modern thought, this situation leaves open the danger that the literature will simply move towards redefining almost all behaviour as nationalist. This lack of attention to the motivations for liberalisation - or, rather, an assumption that these motivations are obvious - has also characterised much of the literature advocating economic liberalisation. It is telling, for instance, that the chapter on 'Arguments for Change' in Edward J. Lincoln's *Arthritic Japan* is devoted almost entirely to detailing the inefficiencies of the Japanese political economy. Precisely why inefficiency is a problem, and on whose behalf it needs to be overcome, are questions that the chapter does not address. Later in the book, however, Lincoln argues that only liberalisation that is driven by a groundswell of support from below (as opposed to being pushed primarily by bureaucrats) counts as 'true' liberalisation.

I would like here to put forward three 'liberal reasons for liberalisation' which can be counterpoised to the nationalistic motivations that will be detailed below. The first two of these are derived from liberal political philosophy, while the second relates more to liberal political economy. First, liberalisation can be inspired by an ideological commitment to utilitarianism, that is, the idea that economic policy should aim at the greatest total welfare for the greatest number of people. The argument that economic protectionism and regulation lead to inefficiency and (static and dynamic) welfare losses has been central to the push for liberalisation and deregulation around the world, and to the extent that the problems with these welfare losses are conceptualised in terms of their divergence from utilitarian ideals (rather than, say, in terms of the problems they cause for state power), it seems reasonable to view this motivation for liberalisation as a liberal one. (This view, obviously, implies acceptance not only of utilitarianism as an ethical principle but also of the basic correctness of neo-classical economics.) Critically, however, utilitarianism must be conceptualised at the global (or at least supranational) level in order to be truly liberal; it is not enough to promote 'utilitarianism in one country,' as such motivation likely has more to do with nationalism than it does with liberalism. It is not clear that even such a cosmopolitan utilitarianism can be cleanly separated from nationalism. Liah Greenfeld has argued, for instance, that the central importance accorded to the economy in modern life itself derives from nationalism.

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15 Abdelal, *National Purpose*.
fundamental equality between co-nationals which lies at the heart of the national 'horizontal community', doctrines like utilitarianism (which transfer that equality to the global level) would make no sense. However, if liberalism is going to retain any content at all, cosmopolitan utilitarianism must surely qualify as liberal.

A commitment to economic freedom as a basic human right independent of its welfare implications - that is, a rights-based, rather than utility-based, view of liberalisation and deregulation - constitutes a second 'liberal reason for liberalisation.' The argument for liberalisation here is that states are illegitimately infringing the rights of their citizens when they prevent them from engaging in commerce across national borders or impose regulations upon their behaviour beyond the minimum degree of regulation justified by the theory of the 'night-watchman' state. Associated with thinkers such as Friedrich Hayek and (more popularly) Ayn Rand, this view has greatly increased in prominence in the 'Anglo-Saxon' countries in particular since the early 1970s.

Third, I would argue that liberalising or deregulatory outcomes may also be seen as having had liberal origins if they are brought about by political pressure mobilised by a coalition of groups and individuals that are concerned primarily with promoting their own individual economic self-interest. This force for liberalisation is well-articulated in an influential article by Jeffrey Frieden and Ronald Rogowski, who argue that increasing internationalisation creates incentives for competitive sectors in domestic economy to push for liberalisation.18 Note here that this set of 'liberal reasons for liberalisation' allows liberalisation to be both top-down or bottom-up: it can be instigated by rulers who are committed ideologically to liberalism, for instance, or by actors in civil society pushing their own self-interest.

How does liberalisation and deregulation in Japan look from this perspective? The amount of public commentary recommending liberalisation and deregulation on what are basically liberal grounds has dramatically increased since the collapse of the bubble economy in the early 1990s. It is now very common to hear economists, journalists, business leaders, and politicians calling for consumers to be set free and for the construction of a society that is based upon the desires and freedom of the individual.19

19 For a selection of proposals that basically fit within this framework, see for instance Itô Takatoshi, Shôhisha Jûshi no Keizaigaku: Kisei Kanwa wa Naze Hitsuyô Ka (Economics as If Consumers Mattered: Why Is Deregulation Necessary?) (Nihon Keizai Shinbunsha, 1992); Keidanren, 'Jiyû - Tômei - Kôsei Na Shijô Keizai o Mezashite: Kisei Kanwa no Tame no Teigen (Towards a Liberal, Transparent, Fair Market Economy: A Proposal for Regulatory Loosening)' (Keidanren, 1992); Yashiro Naohiro,
What is perhaps more striking about Japan, however, given the supposed global hegemony of liberalism and the long-term stagnation of the economy, is how weak civil society pressures for liberalisation – whether motivated by liberal thinking or not – have in fact been. Japanese business associations have been somewhat half-hearted in their calls for liberalisation, and consumer groups, for the most part, have either not supported liberalisation or else have actively opposed it. Steven Vogel's observations regarding the general resistance of Japanese consumers not only to liberalisation but even to the very idea that they should define themselves as 'consumers' are particularly striking, given that standard economic analysis suggests that Japanese consumers have a great deal to gain from deregulation of Japan's producer-oriented political economy.\(^{20}\) Vogel argues further that the recognition by Japanese political parties of widespread industry and consumer opposition to liberalisation helps to explain why '[n]o Japanese political party has ever stood unequivocally in favor of economic liberalization, and no party is likely to do so in the foreseeable future.'\(^{21}\) What proposals for liberalisation have been put forward are widely seen to be extremely vague.\(^{22}\) Lincoln, similarly (though more despondently), calls attention to the absence of any real groundswell of support for economic liberalisation in Japan.\(^{23}\)

On the other hand, a number of aspects of the rhetoric of liberalisation and deregulation in Japan suggest that these policies may be being pursued for nationalist reasons. As noted above, in this section I will keep mainly to discussing liberalisation in terms of the major goals that have been associated with economic nationalism in Japan in the mainstream literature on the subject (that is, to motivations that Abdelal argues should be seen as more 'statist' than nationalist\(^{24}\)); in the next section I will shift to broader connections between economic policy and national identity. A first possible nationalist motivation for liberalisation and deregulation in Japan is alluded to by the quotation at the head of this section: these policies are often seen as being vital for

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\(^{21}\) Vogel, 'Can Japan Disengage?', p. 9.


\(^{23}\) Lincoln, Arthritic Japan.

\(^{24}\) Abdelal, National Purpose, p. 2.
the salvation or survival of the nation. As Stephen Shulman has argued, 'the idea that nationalists pursue mercantilist or protectionist policies because they seek to promote the wealth and strength of the nation or the state that represents it ignores the fact that in practice liberal economic doctrine pursues fundamentally similar ends.' Economic globalisation is frequently presented by both reformers and those who are sceptical of reform efforts as posing a threat to Japan. The most often-used metaphor is that of the 'return of the black ships,' or kurofune. The 'black ships' here refer to the American vessels commanded by Commodore Perry which forced the opening of Japan to trade in the 1850s and brought to an end the sakoku, or 'closed country,' period (on which more below). This is an extraordinarily versatile metaphor in Japan, in that it can be used to describe virtually any external force that is likely to change the country in some way; the 2002 World Cup, for instance, has been described in terms of the kurofune, as has Tokyo Disneyland. Iwabuchi Koichi writes that the Japanese media often compares the impact of transnational satellite broadcasting to the black ships, with the implication 'that Japan can no longer enjoy a self-contained domestic market, but rather is now under threat of being forced to open its doors to the world.' In the economic realm, thus, the metaphor is often used to argue that some aspect of economic globalisation requires that Japan open its borders and deregulate its economy in order to survive. It is important to note here that the kurofune argument is not used by all liberalisers: some, indeed, reject the idea that economic globalisation represents a threat to Japan, preferring to see it instead in more liberal terms as an opportunity. The prevalence of the metaphor, however, suggests that this view of liberalisation as a response to threat rather than as potentially beneficial is fairly widespread.

A second, and related, element of Japan's liberalisation and deregulation which can be understood in economic nationalist terms (again, the term is being used here to refer to the 'statist' goals of economic nationalism as usually understood in IPE rather than to new understandings of economic nationalism relating to identity) is policy change which is brought about in response to foreign pressure, or gaiatsu. The United States has been exerting almost constant pressure on Japan to liberalise and deregulate its economy since the 1960s, with the scope of reforms advocated widening over time. The amount of weight accorded to gaiatsu in the academic literature on Japan's liberalisation has lessened in recent years, with more consideration being given to the way that external

25 Shulman, 'National Sources', p. 367.
26 Aviad E. Raz, Riding the Black Ship: Japan and Tokyo Disneyland (Harvard University Asia Center, 1999).
pressure interacts with forces for change within Japan.\textsuperscript{28} It is interesting to note here, however, the often-made argument that pro-liberalisation forces in Japan use external pressure to argue that the country has no choice but to accede to American demands. In such appeals, again, actors within Japan can avoid making a direct appeal to liberal principles in support of their projects but instead frame liberalisation in terms of Japan's relations with a powerful external actor and, indeed, of Japan's position in the international system as a whole. While arguments that change is inevitable because of foreign pressure can obviously be made simultaneously with liberal calls for liberalisation, such calls do tend to reinforce a common theme in the history of Japan's economic nationalism: that sweeping changes must be made in the country's organisation because of pressure from the international system.

Third, liberalisation is often promoted in Japan for the purpose of the promotion of the economic competitiveness of certain key sectors or of the national economy as a whole. Although the two can overlap, this argument for liberalisation stresses not so much the utilitarian greatest good for the greatest number as it does national or sectoral competitiveness in the international system. Leon Hollerman has stated this argument clearly, writing that from the 1960s 'big business was able to make its case for liberalization in the name of the national interest. It was clear that business had to be unshackled in order to stand its ground in competition with the West.'\textsuperscript{29} The argument that Japan's liberalisation has been primarily oriented towards promoting the national interest has been made since at least the 1980s, when Harumi Befu and Chalmers Johnson claimed that early moves towards the \textit{kokusaika} (internationalisation) of the Japanese economy were oriented primarily towards this goal; indeed, Befu argued that Japan would become more nationalistic the more 'internationalised' it became.\textsuperscript{30} More recently, Lincoln has argued that deregulation in Japan will be 'clearly producer oriented' as fears of declining national competitiveness prompt the bureaucracy to ease some regulations.\textsuperscript{31} The financial sector provides a useful example of such thinking. It is often argued that the difficulties Japan's financial institutions have faced in international competition derive not simply from

\textsuperscript{28} Schoppa, Bargaining with Japan; Kusano, 'Deregulation in Japan'.
\textsuperscript{30} Harumi Befu, 'Internationalization of Japan and Nihon Bunkaron', in: Hiroshi Mannari and Harumi Befu (eds), \textit{The Challenge of Japan's Internationalization} (Kodansha International, 1983); Chalmers Johnson, 'The Internationalization of the Japanese Economy', in \textit{ibid}.
\textsuperscript{31} Edward J. Lincoln, 'Deregulation in Japan and the United States: A Study in Contrasts', in: Frank Gibney (ed.), \textit{Unlocking the Bureaucrat's
the excesses of the bubble years, but also from the lack of exposure of these institutions in the domestic market to international 'best practices.' In this context, liberalisation and the exposure of Japanese firms to foreign competition become aspects of the promotion of a key national sector. As Sakakibara Eisuke, the Director-General of the International Finance Bureau, put it at the time (paraphrasing Edmund Burke), 'sometimes in order to conserve what is good for the country you have to implement very radical reforms.'

Particularly interesting in this context is the attitude of the Ministry of International Trade and Industry, the famous MITI which, Chalmers Johnson argued, was responsible for coordinating Japan's industrial policy after World War II. In the early 1990s, MITI made a much-heralded turn towards promoting economic deregulation and liberalisation, a stance which has increasingly brought it into conflict with more conservative ministries. In this turn to deregulation itself, however, we see strong echoes of the major goals of Japan's postwar industrial policy. In a 1994 magazine article entitled 'MITI Transforms Itself into the Ministry of Deregulation', for instance, the overwhelming concern of the bureaucrats interviewed is the transformation of Japan's industrial structure and the improvement of industrial productivity, goals which have always been key objectives for MITI. What seems to be changing here, then, are MITI's methods rather than its goals. MITI's Administrative Vice-Minister (the highest bureaucratic post) expressed this point of view very clearly when he argued that 'deregulation itself is a central pillar of industrial policy.' MITI's thinking here meshes well with the widely voiced idea that Japan's economic system, while successful during the catch-up period, is no longer appropriate in an age of globalisation and needs to be liberalised in order to secure national and sectoral competitiveness. The key issue, of course, is whether national competitiveness is seen as a goal as such, and it seems that it still is.

When Japanese economic nationalism is understood in terms of a set of specific policy preferences – industrial policy, for instance, or trade protectionism – liberalisation and deregulation constitute obvious threats.


33 Called METI since the 2001 reorganisation of the ministerial structure.

34 'Kisei Kanwa Suishinshō ni Henshin (MITI Transforms Itself into the 'Ministry of Deregulation')', Nikkei Business, 24 October 1994. The quotation from Kumano is on p. 16; the Japanese is 'Kisei kanwa ni
However, each of the three motivations for liberalisation and deregulation that I have noted above – ensuring the nation's survival, responding to foreign pressure, and promoting the international competitiveness of key sectors or of the economy as a whole – resonate strongly with the goals of post-Meiji Japanese economic nationalism. None of these reasons for liberalisation is inconsistent with the advocacy of what I have termed more 'liberal' arguments for change in Japan's political economy. However, to the extent that these motivations prevail over more liberal ones in government rhetoric, in the thinking of businesses, and in the minds of the Japanese public, liberalisation may be seen as a nationalist project consistent with Japan's economic nationalism from Meiji on (indeed, we might remember here that the introduction of capitalist economics was a key part of the Meiji project).

Determining the relative weight of these positions in debates over Japanese economic policy is an empirical project which goes beyond the scope of this paper. However, the rhetoric that has accompanied Prime Minister Koizumi Jun'ichiro's calls for economic reform provides an intriguing window onto the possibility that liberalisation is a nationalist project. There is certainly nothing unusual about the idea that economic reform is likely to be painful for some, and it is not strange that politicians promoting liberalisation might spend a good deal of time asking people to steel themselves against this pain. Given that the primary economic justification of deregulation and liberalisation is that these policies increase economic efficiency and leave the community as a whole better off, however, it seems natural that politicians would be more likely to accentuate the positive rather than the negative aspects of deregulation. Given this context, it is not surprising that Koizumi's repeated calls during 2001 for the Japanese people (kokumin) to bear the pain (itami) of reform provoked a certain amount of comment. Whether intended or not (and the vagueness of Koizumi's calls for 'structural reform,' which will be discussed below, may have contributed to this outcome), the primary image conveyed by Koizumi's speeches was not the positive vision of a new Japan but rather the pain that would have to be shouldered in order to get there. Indeed, to some observers, Koizumi's constant reiteration of the reformist slogan 'no pain, no gain' emerged as the most critical issue of the July 29, 2001 House of Councillors election. Notable here is the fact that while reformers did indicate that the worst of this pain would be borne by workers in inefficient, protected

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sectors,' Koizumi's exhortations were directed to the citizenry as a whole rather than primarily to these workers. The overall impression one is left with is a call to the citizenry to shoulder burdens for the sake of a great national project. Hayano Toru, in an article for the Asahi Shinbun, has summed up the message being conveyed as follows: 'This is a challenge not for Koizumi alone, but for everyone in the country. Give a hand to help Koizumi face this challenge.' Hayano's article is particularly nice because it compares Koizumi's calls with a previous case of national exhortations aimed at convincing the citizenry to bear pain for the sake of a liberal project: Prime Minister Hamaguchi Osachi's efforts to return Japan to the gold standard in 1929. Hamaguchi's campaign included a leaflet written under his name entitled 'I appeal to all of you – the people of Japan,' which included the line 'You have to have the courage to bear the small complaints in your daily lives for the good of the future.' The project was also promoted by a popular tune called the 'Austerity Song.'

Liberalisation, deregulation, and the Japanese 'national character'

When Koizumi speaks of the pain that must be endured in order for economic reform to take place and for the Japanese economy to recover, the pain he refers to is economic: in particular, the loss of jobs that will inevitably accompany the mass bankruptcy of inefficient companies. The rhetoric and proposals of those who wish to reform Japan suggest, however, that the country's citizens are likely to face painful adjustments in ways that go far beyond the economic. Both in Japan and abroad, there is a strong sense on the part of the reformers that liberalisation will not truly take hold in Japan until there have been wide-ranging changes in the psychology of the Japanese people – that is, in what we might call the Japanese 'national character.' While the specific changes that are called for vary, there is a strong sense that there is something about 'Japaneseness' that both holds back the move towards deregulation and greater participation in the international economy, and would continue to inhibit such participation even if regulations were fully rolled back. Rather than seeing the Japanese as rational consumers who will naturally prefer cheaper goods and deregulated markets, reformers argue that the nation needs to be re-educated before liberalism can properly take hold in Japan.

These claims resonate powerfully with a new focus on identity, rather than policy, in the IPE literature on economic nationalism. Various

36 For instance, Sakaiya Taichi, former Director-General of the Economic Planning Agency and a reformer, stated in an interview that 'the people who will suffer the most pain are workers of small businesses and self-employed people.' Ibid.

scholars have recently argued that the way that the nation is perceived or 'imagined' by its constituents can have important implications for the kinds of economic policies the country adopts. Rawi Abdelal, for instance, has argued that the economic policy trajectories of post-Soviet states, and in particular their efforts to integrate with or draw away from the Russian economy, have been profoundly influenced by variations in national identity. In this section, I take up this new approach to the study of economic nationalism in two different ways. First, I identify two common themes regarding the nature of Japan's national character in the works of reformers both inside and outside the country: the country's 'insular' mentality, and the putative fondness of its citizens for regulation. Without committing myself to either understanding of Japan's national identity, I suggest that the perceptions of the reformers have real consequences for the kinds of reforms they advocate and have resulted in real policy consequences. I then make a more general claim that during the 1990s Japan entered a period of 'identity crisis' regarding the relationship between the national identity and the economic system, and that this crisis is an important factor in slowing political economic change.

Koko ga hen da yo Nihonjin! Japan's sakoku mentality and the Japanese need to be regulated

In his book Importing Diversity, sociologist David McConnell spends a good deal of time on the issue of Japan's insularity, and highlights several points which are common to work on the topic. First, he notes that most observers see Japan's insular mentality as creating problems for the country, most notably in its foreign policy, but also in its ability to adapt to change. Second, he shows that the sense that Japan is an insular country is shared both by the Japanese and by foreigners. With respect to foreign criticism of this aspect of Japan's national character, McConnell writes that now Japan is being asked to go beyond appropriating skills and knowledge to transforming its entire value system. What foreign criticism amounts to is a demand that the Japanese reconstitute

38 George T. Crane, 'Economic Nationalism: Bringing the Nation Back In', Millennium, Vol. 27, No. 1 (1998); Helleiner, 'Economic Nationalism'.
39 Abdelal, National Purpose.
40 The title of a popular Japanese television variety program MCed by Beat Takeshi, in which Japanese and foreigners argue over the good and bad points of life in Japan. The title might be translated as 'Hey, you Japanese, this place is screwed up!'
themselves and their society so as to make them more compatible with international norms and institutions."^{42}

On the Japanese side, similarly, his study shows that the question of how Japan can be 'internationalised' is being taken up with great seriousness by the Japanese government. As early as March of 1980, for instance, MITI issued a report blaming Japan's economic system for its failure to produce 'internationalist' workers who would be able to maintain the country's economic competitiveness."^{43} Finally, McConnell argues that it will be extremely difficult for Japan to change this situation, stating that while Japan does have a long history of adaptation to other cultures, the 'social, cultural, and historical barriers to a broader formulation of Japan's national purpose are truly formidable.'^{44}

McConnell's discussion of Japan's insular national psyche appears tame when compared with some other reports. In *Cartels of the Mind*, for instance, Ivan P. Hall, an American who has spent 30 years working and teaching in Japan, launched a blistering attack on the country's exclusionary practices in such fields as law, journalism, and education, arguing that in these areas it is virtually impossible for foreigners to find permanent employment. To Hall, the 'intellectual closed shop' that the country maintains in these fields is again a function of insularity:

> [t]hat Japanese intellectuals maintain these barriers with enthusiastic conviction, and with no visible desire to reciprocate the open access they themselves enjoy in other countries, simply confirms the depth of Japan's insular mentality."^{45}

In a more formally scholarly study of Japan's efforts towards 'internationalisation' (*kokusaika*), Mayumi Itoh makes a distinction between Japan's 'outward' internationalisation, which has been mostly related to the expansion of economic influence and has been 'nationalistic and superficial,' and 'inward' internationalisation, which is 'genuine and qualitative' and 'refers to the assimilation of the Japanese mind to foreign values and the transformation of Japan's domestic systems to meet internationally accepted norms and standards.'^{46} We may note here that to Itoh, the inward project is clearly non-nationalist: as she writes, '[i]t may be argued that the necessity for an inward *kokusaika* grew out of the very success of the nationalistic and superficial outward *kokusaika*."^{47}

Itoh argues that this inward, and more important, form of internationalisation in Japan has been stymied by the *sakoku* mentality.

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42 Ibid., p. 24.
43 Ibid., pp. 17-18.
44 Ibid., p. 30.
Sakoku, or 'closed country,' refers to the policies of cutting most contact with the world beyond Japan that were pursued during the Tokugawa era, and continues to be used to refer to isolationism and insularity. (The Japanese edition of Hall's Cartels of the Mind is titled Chi no Sakoku, which might be literally retranslated as 'closed country of the intellect.') To Itoh, the sakoku mentality is a vital construct for the understanding of Japan's foreign policy, and a serious barrier to the country's liberalisation. She hypothesises that Japanese exclusionism, protectionism, racial prejudice, and xenophobia, all derived from the sakoku mentality, constitute the attitudinal prism of Japanese foreign policy decision makers (as well as of the public), which has retarded Japan's liberalization and internationalization even today.\textsuperscript{48}

Itoh, like McConnell, argues in addition that the views of sakoku Japan that are held by foreign policy makers outside of Japan (that is, foreigners' sense of the Japanese character) have been important in forming the demands that they make of Japan and the kind of behaviour they expect from the country.\textsuperscript{49}

The need for Japanese to 'internationalise' their closed minds and redefine the national character in order to become truly a part of the liberal international community has not been a feature only of policy proposals and academic reporting; the Japanese government has taken concrete, and expensive, steps towards promoting internationalisation. One of the most striking is the Japan English Teaching Program (JET), initiated in the mid-1980s, that McConnell analyzes in Importing Diversity. This program, which brings thousands of native English speakers to Japan each year to teach in the country's public schools at an annual cost of $500 million,\textsuperscript{50} was created for a number of reasons, and one of the strengths of McConnell's book is the way he weaves together the different bureaucratic and political motivations that gave birth to JET. It is quite clear, however, that a key force behind creating the program was the desire to internationalise Japanese children by exposing them to gaijin (foreigners) at an early age. Indeed, this goal may be more important in the running of JET than the project of teaching English itself, a fact that causes some disgruntlement among the foreign teachers. The JET Program, as 'the centerpiece of a top-down effort to create 'mass internationalization,''\textsuperscript{51} represents a concrete outcome of a widely held (both in Japan and abroad) sense of the Japanese national character which posits that economic

\textsuperscript{47} Ibid.
\textsuperscript{48} Ibid., p. 15.
\textsuperscript{49} Ibid., p. 7.
\textsuperscript{50} McConnell, Importing Diversity, p. ix.
\textsuperscript{51} Ibid.
liberalisation in Japan will not have the expected results, or indeed may
not even occur, until Japan has become a more 'normal' country and
conformed to global standards of mental openness.

If the discussion of Japan’s need to overcome the sakoku mentality is
mostly concerned with relations between Japanese and the outside world,
analysis of another putative aspect of Japan's national character that is
meant to be inhibiting liberalisation – the tendency of Japanese to accept,
and even expect, a high degree of regulation in their personal lives – has
more to do with social relations within the country. As with the sakoku
mentality, attention has been drawn to the Japanese desire to be regulated
by people both within and outside Japan. Several of the articles written by
American liberals in the 1998 Brookings Institution edited volume Opening
the Bureaucrat’s Kingdom, for instance, have argued that this desire will
be an impediment to the adoption of deregulation in Japan. Frank Gibney,
for instance, argues that 'sweeping deregulation' in Japan is 'not so much
a matter of policy as it is a matter of mind-set.' 52 Similarly, Edward
Lincoln writes that in Japan, 'the public is taught to acquiesce in
detailed regulation of their lives from an early age.' 53 Relatedly, Steven
Vogel has written of the tendency of consumer organisations in Japan to
lobby against liberalisation and in favour of regulation. 54 One of the most
spirited condemnations of the Japanese tendency to welcome and expect
regulation was written by Miyamoto Masao, a psychoanalyst who worked as a
bureaucrat in Japan's Ministry of Health and Welfare before turning to
writing popular books condemning Japan's bureaucratic culture. 55 Miyamoto
views the process of socialisation in Japan, and the school system in
particular, as designed to produce a 'castrated' citizenry. This state of
castration is a central impediment to deregulation and individual
initiative in Japan that will need to be confronted before any real change
can be expected:

Once castrated, humans become less aware of what is going on around
them and stop questioning what they see. [...] Naturally, it becomes
hard to generate the will to bring about change. So the status quo
continues in a virtual bureaucrats' paradise. 56

Referring back to the 'liberal reasons for liberalisation' introduced
earlier, we can argue that these reformers are berating the Japanese
precisely for not being liberals. According to these observers, then, in
Japan, liberalisation and deregulation are not simply a matter of changing

54 Vogel, 'Interests'.
55 See for instance Masao Miyamoto, Straitjacket Society: An Insider’s
Irreverent View of Bureaucratic Japan (Kodansha International, 1995).
56 Masao Miyamoto, 'Deregulating Japan's Soul', in: Frank Gibney (ed.),
Unlocking the Bureaucrat’s Kingdom: Deregulation and the Japanese
rules, opening borders, and freeing up the economy in order to give free
rein to consumer choice; rather, they involve the Japanese reconstructing
themselves as 'consumers.' Precisely what will bring this change about is
not always made clear by those who advocate it. Miyamoto, in a call which
may reflect his training as a psychoanalyst, suggests that the change must
come from within each individual; he writes that 'it is important to
liberate one's self from the regulations that have become a part of the
inner self.' Other prominent liberalisers have seen the deep-seated
resistance to deregulation and liberalisation stemming from the Japanese
national character as necessitating a radical and total systemic reform;
reform cannot simply be limited to the economy, or even to the political
system, but must extend to social organisation and ways of thought. We
might note with reference to JET, however, that it is often argued that
Japan's state itself has a key role to play in defining and guiding this
process. This argument underpins a recent comment by Tanigaki Sadakazu, the
former head of the Financial Reconstruction Committee, who quoted Finance
Minister Miyazawa Ki'iichi to the effect that now that Japan has caught up
with the West, there is no longer an image of what the people's lifestyle
(kokumin seikatsu) should be like, and that as a result there is at present
no desire to invest. According to Miyazawa (and Tanigaki), it is up to
politicians to create such an image.

I should stress here again that my aim in rehearsing these arguments
is not to commit myself to any particular image of the Japanese national
character. Determining whether the Japanese are in fact insular xenophobes
with a pathological dependence on regulation is not the point; the point,
rather, is to show that for large numbers of people committed to the
liberalisation and deregulation of Japan, both inside and outside of the
country, Japan's national character is seen to be profoundly anti-liberal.
The idea that there is something about Japanese society and psychology that
makes laissez-faire economics inappropriate for the country is not limited
to defenders of Japan's existing political economy or to proponents of
Nihonjinron theories of cultural uniqueness. It is shared, rather, by
liberalisers themselves. Ironically, the perceived need for cultural
transformation in order to bring about liberalism seems to be significantly
greater with reference to capitalist Japan than it was in post-Communist
Eastern Europe. The concept of economic nationalism – referring, in this
section, to the ways in which ideas about national identity influence
economic policy – thus seems to be highly relevant for an understanding of
the way that liberalisation is being promoted in Japan. Indeed, Japanese

57 Ibid., p. 77.
58 See for instance Ohmae Ken'ichi, cited in Sakakibara, 'Reform,
Japanese-Style'; Nachiro Amaya, cited in Gibney, 'Introduction'.
59 Tanigaki interviewed in Yamaguchi, Nihon Seiji; the quotation is from
p. 128.
'liberalisation,' requiring as it seems to the re-education of the Japanese populace under (in some formulations) the guidance of the state, is a rather strange example of the breed.

Towards a new model?

In making the above argument, I attempted to steer clear of any positive claims regarding Japan's 'national character', preferring to focus instead on the claims that are made about it by the reformers themselves. In the following paragraphs, I would like to make a slightly bolder claim about the relationship between Japan's political economy and the Japanese national identity. It is widely argued that the postwar success of the Japanese economy constituted a source of great pride (which, in the late 1980s, turned into hubris) for the Japanese people. This pride, moreover, emerged not simply from the sense that the Japanese people had created one of the world's foremost economies, but from the feeling that economic success was directly derived from the Japanese national character. Japan's labour relations, for instance, and the keiretsu style of economic organisation, were taken to be expressions of fundamental characteristics of Japanese social relations, group loyalty, and capacities to create lasting interpersonal bonds. The prolonged economic stagnation of the 1990s has, of course, shaken both pride in the economy and the Japanese sense of how the country's 'unique' social relations were able to create a superior economy. George Crane has outlined the problem nicely:

[i]n the boom years of the 1980s Japanese success was interpreted in some quarters as a manifestation of a unique national character, which has made the recession of the 1990s something akin to an identity crisis: how can we decline when we are destined to succeed?

Indeed, much of the criticism of Japanese national culture that was cited above with reference to sakoku mentality and a preference for regulation may be seen as part of a backlash against the assumption that Japan's economic success proceeded directly from Japan's cultural characteristics. While most Japanese would not accept the more dramatic of these claims, it is certainly the case that Japan's economic crisis has been interwoven with a crisis in the understanding of what Japan's national culture is and what it entails for the economy.

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60 Itoh, for instance, argues that the economic system had 'become the principal symbol of national pride' in Japan; Itoh, *Globalization of Japan*, p. 14.

61 It is not particularly relevant here that many of the relevant aspects of Japanese culture are in fact of quite recent provenance; see Johnson, *MITI and the Japanese Miracle*, and on invented traditions in Japan more generally, Stephen Vlastos, ed., *Mirror of Modernity: Invented Traditions of Modern Japan* (Berkeley and Los Angeles: University of California Press, 1997).

62 Crane, 'Imagining the Economic Nation', p. 217.
While the mainstream IPE literature on economic nationalism has, as noted above, tended to focus primarily on statist and protectionist economic policies, it is difficult not to see the tight connections drawn in Japan between national character and the organisation and success of the economy as another form of economic nationalism, albeit one more focused upon by sociologists and anthropologists than by political economists. It is thus possible to see the 1990s as having dealt a blow to Japanese economic nationalism not only in the statist, IPE sense, but also in the more sociological and identity-oriented sense: the Japanese are now profoundly uncertain about the connections between their culture and their economy. I would prefer, however, to examine this crisis of identity not so much in terms of what it says about the collapse of Japan's postwar political economy as in terms of what it implies for efforts to carry out reform and build a new economic system. In Japan at present there is a widespread sense that some kind of profound reform is required in order to pull the economy out of its slump: hence the incredible popularity of Koizumi Jun'ichiro during 2001. There is an equally strong sense, however, that this reform cannot simply involve the importing of Anglo-Saxon socio-economic institutions, and that the Japanese political economy must remain in some important sense 'Japanese': hence the vagueness of Koizumi's proposals, which most analysts agree was key to his popularity. There is virtually no agreement on what a reformed but still 'Japanese' political economy would look like. Indeed, I would argue that the interaction between these three issues (the sense that reform is necessary, the desire that it be 'Japanese' reform, and the difficulty of imagining precisely what such reform would entail) has been a significant contributing factor to the deadlock over and slow pace of reform during the 1990s. In this sense, then, it is not so much the Japanese understanding of the connections between national identity and political economy that is relevant for the reform debate, but rather the lack of such an understanding. In the absence of more inspiring efforts by intellectuals and political parties to create such a vision, it is difficult to imagine reform moving forward quickly.

Conclusions

Japan's 'miraculous' economic development in the century following the Meiji Restoration is widely considered to be the most successful example of economic nationalism in world history. The slowly-unfolding crisis of the Japanese economy during the 1990s has thus led many commentators to argue that economic nationalism has no place in a global economy and that Japan will only return to prosperity by embracing liberalisation and deregulation. Whatever successes Japan's policies may have brought about in the past, the age of economic nationalism is now over. This argument does not necessarily imply that Japan will in fact
adopt liberal policies and 'converge' on the ideal-typical Anglo-Saxon political economy; it does mean, however, that to the extent that Japan becomes liberal, it will abandon economic nationalism, and to the extent that it remains committed to nationalist economic policies, it will continue to be illiberal. Economic nationalism and liberalisation/deregulation are thus seen to be in a zero-sum relationship. In this paper, I have tried to argue that recent developments in the theorisation of economic nationalism suggest that this may not be the case. Just as Vogel has shown that the relationship between liberalisation and economic regulation is not zero-sum, and that 'freer markets' can in fact require 'more rules', so I have argued that economic nationalism can in fact support liberalisation. It is thus possible that 'freer markets' can entail 'more economic nationalism' - or, at any rate, that they can be consistent with economic nationalist goals.

This paper has used recent work in IPE to make two arguments for the continued relevance of economic nationalism in Japan's political economy. In the first section, I stuck fairly closely to the traditional sense of economic nationalism in IPE but emphasised not the specific policies that have been associated with the concept but rather the goals that it prioritises - for instance, the survival of the nation in a competitive international system and the promotion of key industrial sectors. Focusing on these motivations, and contrasting them with what I characterised as 'liberal reasons for liberalisation,' I argued that much economic liberalisation and deregulation in Japan is in fact consistent with, rather than inimical to, the goals of economic nationalism. I also suggested that much pro-liberalisation rhetoric in Japan is oriented to asking citizens to take on burdens for the sake of the nation, rather than towards emphasising the benefits of liberalisation. While I do not wish this section to be taken as an argument that Japan's government is currently pursuing a coherent economic nationalist strategy in world politics - it is too fragmented to be able to do so - I do argue that much of the motivation behind liberalisation, for instance in pro-liberalisation ministries like METI, is compatible with traditional understandings of nationalist goals.

We might note here that such nationalist motivations for liberalization are not restricted to Japan. In a recent article on the relationship between foreign direct investment, economic liberalisation, and democratisation in China, Mary Gallagher has argued that the massive flows of FDI that China has received have contributed to reformulating ideological debates in a way that supports further economic liberalisation. Gallagher argues that most post-communist transitions run into ideological difficulties because moves to privatise the economy are framed in terms of

a debate between public and private ownership which threatens core
principles of the regime's legitimacy, and thus 'the debate over
privatization leads to mortal divisions both within the party-state and
between the state and society.' The competitive pressure that foreign firms
in China exert on Chinese firms, however, means that in China it has been
possible to reformulate the debate in a way that stresses not the public-
private dichotomy but rather the competition between Chinese national
industry and foreign industry. In this debate, which does not explicitly
call the core principles of the socialist state into question,
privatisation is seen to be necessary 'so that Chinese "national industry"
... can be revitalized and strengthened to meet its global competition.'64
While Gallagher does not explicitly discuss economic nationalism, her case
that privatisation in China is being promoted for nationalist reasons
resonates with the claims made in the first part of this paper.

In the second section, I moved further away from the traditional IPE
understanding of economic nationalism to explore connections between
political economy and national identity in Japan. I focused on the extent
to which reformers, in Japan and abroad, identify elements of the Japanese
'national character' that are likely to stand in the way of liberalisation
and deregulation. The ideas that Japanese are insular and that they tend
to accede to, and even expect, high levels of regulation in their lives are
common in reform discourse, and these ideas have shaped the kinds of reform
proposals that reformers have made (biasing them towards calling for
sweeping reform of Japan's entire social system) and have led the
government to implement specific pro-internationalisation policies like the
JET Program. I also argued more briefly in this section that an identity
crisis regarding the connections between national identity and a failing
economy, in combination with a strong desire to maintain some elements of
'Japaneseness' in the economy, have helped to slow movement towards a new
economic system. Whatever one thinks of the necessity for economic
liberalisation in Japan, then, economic nationalism - both as a set of
state goals, and as an understanding of the connections between the economy
and national identity - will continue to be highly salient in Japan.

64 Mary Gallagher, "Reform and Openness": Why China's Economic Reforms