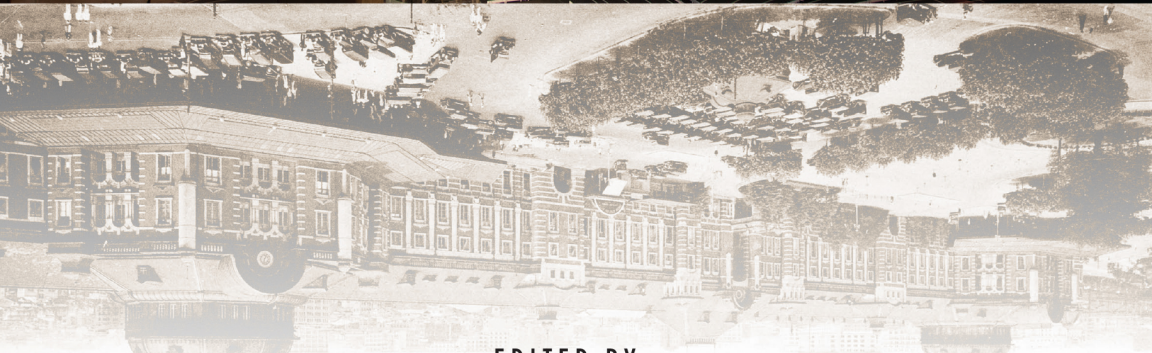


# SYNCRETISM:

The Politics of Economic Restructuring and System Reform in Japan



EDITED BY

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# 1 Introduction: Syncretism in Japan's Political Economy Since the 1990s

NEW, TRADITIONAL, AND HYBRID FORMS COEXISTING

*Kenji E. Kushida and Kay Shimizu*

Japan had a remarkable twentieth century. It began as a rapid industrializer and, despite its wartime devastation, grew economically to become second only to the United States. Yet during the last decade of the century, Japan faltered, spectacularly. In the 1990s, Japan's economy had the slowest growth among the major advanced industrial nations. Observers both inside and outside of Japan pointed to an ever-expanding list of structural, political, and economic problems facing the country. Extensive scholarship has been devoted to understanding the lack of change in Japan despite (or because of) its lackluster economic performance following the 1990 burst of the asset-price bubble.<sup>1</sup>

Japan's first decade of the twenty-first century was both disappointing and bewildering, producing wildly contrasting evaluations. The domestic and international press, as well as the Japanese public at large, have come to call this period the "second lost decade," characterized by policy paralysis and overall lackluster economic growth. Japanese often reflect on the decades since 1990 with pessimism.

1 For example, see Jennifer A. Amyx, *Japan's Financial Crisis: Institutional Rigidity and Reluctant Change* (Princeton: Princeton University Press, 2004); Richard Katz, *Japan, the System that Soured: The Rise and Fall of the Japanese Economic Miracle* (New York: M.E. Sharpe, 1998); Edward J. Lincoln, *Arthritic Japan: The Slow Pace of Economic Reform* (Washington, DC: Brookings Institution Press, 2001); Bai Gao, *Japan's Economic Dilemma: The Institutional Origins of Prosperity and Stagnation* (New York: Cambridge University Press, 2001); William W. Grimes, *Unmaking the Japanese Miracle: Macroeconomic Politics, 1985–2000* (Ithaca, NY: Cornell University Press, 2001); Adam S. Posen, *Restoring Japan's Economic Growth* (Washington, DC: Institute for International Economics, 1998).

However, for those who study Japan more closely, the same decades reveal nothing short of a broad transformation in many of the core tenets of Japan's postwar political economy.

In the economy, the financial system, which was once dominated by main-bank-centered financing, increasingly has come to accommodate a capital market-based system. Employers depend much more heavily on non-regular workers, overwriting the once predominant image of lifetime employment in large firms.<sup>2</sup> Foreign multinational corporations have made significant inroads into traditionally closed sectors such as banking and insurance. Corporate governance practices have changed with the adoption of holding companies and international accounting standards. Regulatory changes in a wide range of sectors have reshaped industry dynamics, including retail, finance, pharmaceuticals, telecommunications, and distribution.<sup>3</sup> Large firms have become increasingly more selective and specialized in their product and service offerings, with a new focus on profitability and returns on investment.<sup>4</sup> And new firms, such as Softbank, Rakuten, and Uniqlo, have grown into major global corporations, reshaping their respective industries to become symbols of the "New Japan" and are characterized by visionary and daring entrepreneurs, disruptive market strategies, a global outlook, and a new dynamism.

Politically, major changes have been under way. In 1993, the Liberal Democratic Party (LDP) lost power for the first time since 1955, but less than a year later it quickly regained power by entering into a series of coalition governments. A shift in electoral rules restructured the logic of electoral competition, and a wave of scholarship was devoted to understanding the broad effects of this institutional change.<sup>5</sup> A decade later, in 2005, the LDP won a landslide victory due to mold-breaking Prime Minister Koizumi Junichirō, who was not a product of standard LDP factional politics. He captured widespread popular support by promising to destroy the "old LDP" by reforming it. But the LDP's revival was short-lived as Koizumi's

2 See Shimizu, chapter 6, in this volume.

3 Kenji E. Kushida, "Inside the Castle Gates: How Foreign Companies Navigate Japan's Policymaking Processes," Ph.D. diss., University of California, Berkeley, 2010.

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

5 For example, see Frances McCall Rosenbluth and Michael F. Thies, *Japan Transformed: Political Change and Economic Restructuring* (Princeton: Princeton University Press, 2010); Ellis S. Krauss and Robert Pekkanen, *The Rise and Fall of Japan's LDP: Political Party Organizations as Historical Institutions* (Ithaca, NY: Cornell University Press, 2011); Ikuo Kabashima and Gill Steel, *Changing Politics in Japan* (Ithaca, NY: Cornell University Press, 2010).

successors succumbed to intra-party jostling and backtracked on many of the Koizumi-era reforms. In 2009, Japan experienced its first direct electoral change in power during the postwar period, with the Democratic Party of Japan (DPJ) ousting the LDP from power.<sup>6</sup>

In policymaking, new regulations and practices changed the relationship between politicians and bureaucrats, reducing bureaucratic discretion. At the end of the millennium, elite ministries that were rocked by scandals in the 1990s were reorganized. Most notably, the powerful Ministry of Finance (MOF) was broken apart.<sup>7</sup> The political leadership increasingly asserted greater authority over bureaucrats with a strengthened Cabinet Office and more political appointments to top ministerial positions.

The role of informal coordination between politicians, bureaucrats, and economic actors—the so-called “iron triangle”—was also weakened, driven by regulatory changes and normative shifts following the burst of the bubble in 1990. In a variety of domestic-oriented sectors, new business strategies swept away traditional business models that had emphasized government relations. In finance, for example, a regulatory overhaul led to new competitive dynamics, rendering the “MOF handlers” (*MOF-tan*), employees devoted to cultivating relations with MOF officials, obsolete.<sup>8</sup>

Although Japan’s political economy has transformed decisively and irreversibly, it has also exhibited a remarkable amount of structural resilience.<sup>9</sup> In the economy, few major firms went bankrupt or were sold off. Longstanding interfirm relationships, such as those between the main banks and the *keiretsu* corporate groups, did not disappear; instead, they bifurcated, with the main banks strengthening control over weaker firms and the *keiretsu* groups changing their functions. Nor has long-term employment in large firms fully disappeared. It has only declined in numbers as firms have increased their reliance on temporary workers in order to cut costs.

On a more basic level, Japan’s national debt, though climbing to over 200 percent of GDP by 2010, was purchased almost entirely by domestic entities and kept within Japan. With Japanese banks, insurers, public pension funds,

6 For an overview of Japan under the DPJ, see Kenji E. Kushida and Phillip Y. Lipscy, eds., *Japan Under the DPJ: The Politics of Transition and Governance* (Stanford: Walter H. Shorenstein Asia-Pacific Research Center, Stanford University, 2013).

7 For details, see Tetsuro Toya, *The Political Economy of the Japanese Financial Big Bang: Institutional Change in Finance and Public Policymaking* (New York: Oxford University Press, 2006). For a list of prominent bureaucratic scandals in the 1990s, see Jennifer Ann Amyx and Peter Drysdale, eds., *Japanese Governance: Beyond Japan Inc.* (London: RoutledgeCurzon, 2003).

8 Amyx, *Japan’s Financial Crisis*.

9 See Kushida and Shimizu, chapter 3, in this volume.



and households accounting for about 80 percent of Japanese Government Bond (JGB) purchases, a sudden run on the Japanese national debt is hard to conceive, particularly when the banks are aided by government-orchestrated mergers, and regional banks are required to buy low-risk assets. This underlying fiscal and financial stability contrasts with the sovereign debt problem in crisis-stricken Europe, for instance, in Greece and Spain where the national debt is largely held by foreign entities.<sup>10</sup>

Politically, even the charismatic Koizumi failed to usher in an entirely new era of reform and policy-oriented politics. His successors reverted to traditional LDP-style, non-populist politics by readmitting the LDP members that Koizumi had expelled. They even promulgated platforms aimed at “undoing the damage caused by the Koizumi reforms,” which, as we will see later, were ultimately rejected by voters. Nor did the DPJ’s historical win usher in decisively new politics because it too appealed to rural voters through direct financial assistance, and it became embroiled in intra-party infighting that hindered policymaking. In many areas, despite initial promises, DPJ policies did not differ much from those of the LDP.<sup>11</sup> On the contrary, the Great East Japan Earthquake disaster of March 2011 seemed to magnify the DPJ’s lack of leadership experience, accelerating voter disillusionment and dissatisfaction with the DPJ; the LDP came back with a landslide victory in the December 2012 Lower House elections—albeit with a similar number of votes as when they lost.<sup>12</sup>

### The Puzzle: Restructuring and Reform in Japan

The core questions that we seek to answer are about the dynamics of change and continuity: What drove the changes and shaped their trajectories? What was the pattern of change? Why do we see dramatic transformations as well as deep-seated continuities and resistance to change?

This volume originated as a conference held in 2006 at Stanford University. In hindsight, it was a propitious time to begin an analysis of how Japan was transforming. This was during the tail end of the major economic and political reforms, but it was followed by a period of significant reversals

10 For details on the technical difficulties of selling off large quantities of JGBs and Japan’s capital-flight experience, see Masahiro Yamaguchi, *Naze Nihonkeizai wa sekai saikyo to iwareru no ka* [Why the Japanese economy is considered the world’s strongest] (Tokyo: Toho Shuppan, 2012).

11 Kushida and Lipscy, eds., *Japan Under the DPJ*.

12 For more on the 2012 Lower House elections, see Robert Pekkanen, Steven R. Reed, and Ethan Scheiner, eds., *Japan Decides 2012: The Japanese General Election* (New York: Palgrave, 2013).

of fortune for the economy, for reform, and for the LDP. As the contributors revised, updated, and added new chapters, it became manifestly clear that many of the forces driving the Japanese political economy beyond 2010 cannot be understood without a clear picture of the late 1990s and early to mid-2000s. We firmly believe that any analysis of how, moving forward, the country will change must be rooted in an understanding of the transformation that has occurred since the 1990s.

### Japan's Syncretic Model of Change

We contend that the transformation of Japan's political economy since the early 1990s is best characterized as syncretism, that is, new ideas, organizations, and practices combining and coexisting with previous ideas, organizations, and practices.<sup>13</sup> We observe traditional and new elements of the Japanese "model" coexisting with one another, such as long-term employment and increasing reliance on a whole new market of temporary workers. We also observe hybrid forms of organization and strategies, such as multiple employment systems within single firms—a track with higher upfront pay and lower job security and another track with seniority wages and higher job security. This combination of new, old, and hybrid elements best captures both the dramatic transformations and long-established characteristics that we are witnessing today.

In politics as well, new phenomena, such as greater electoral volatility and an emerging system of alternations of power among the parties, coexist with traditional forms of local electoral campaigning focused on more narrowly targeted support to rural and agricultural areas. Politicians with new strategies, such as Koizumi, were succeeded by traditional LDP interest-group leaders such as Asō Tarō. Even the DPJ quickly adopted many of the LDP's traditional tactics of appealing to the countryside. Yet the new focus on the media and on popular appeal did not disappear, as Osaka mayor Hashimoto Tōru rode a wave of populism to form a national-scale party, the Nippon Ishin-no-Kai (Japan Restoration Party), making a splash in national politics. With deregulation of campaign laws in 2013 enabling the advent of Internet-based campaigning, additional changes lurk on the horizon.

13 Syncretism, often used in the context of cultural or religious combinations, refers to the process of melding multiple forms of beliefs or practices. In Kenji E. Kushida, "Inside the Castle Gates: How Foreign Firms Navigate Japan's Policymaking Processes," Ph.D. diss., University of California, Berkeley, 2010, Kushida applies it to the context of Japan's transforming political economy. See also Kenji E. Kushida and Kay Shimizu, "Syncretism: The Politics of Japan's Financial Reforms," *Socio-Economic Review* 11, no. 2 (2013): 337–69.

### Contributions to the Volume

The chapters in this volume provide important pieces to answer the puzzle of continuity and change in Japan since the early 1990s. Kushida and Shimizu, in chapter 2, first provide an overview presenting key data regarding Japan's political economy during the past twenty years.

In chapter 3, Kushida and Shimizu examine Japan's financial system, both the conventional financial sectors, such as banking, securities, and insurance, as well as the massive postal savings system. They argue that Japan's pattern of change is syncretic, whereby new ideas and practices are coexisting with pre-existing organizations and norms. Regulatory reforms allowed new entries, new possibilities for reorganization, and new strategies. Yet, although some financial institutions aggressively pursued new opportunities, others retained traditional organizations and strategies, and still others became hybrids. This has resulted in a syncretic system.

The authors go beyond the characterization of these transformations as syncretic to contend that a specific set of political dynamics shaped Japan's process of change, a process that they refer to as *syncretization*. This distinctive pattern of regulatory reform consisted of a strong political leadership pushing through reforms in the face of traditionally powerful interest groups. Such a pattern of reform left room for the long-standing and powerful interest groups to slow down or even reverse the reforms when the political impetus for reform waned.

In chapter 4, Ulrike Schaede stresses the extent to which the core tenets of the Japanese economy were transformed. She argues that Japan underwent a strategic inflection point between 1998 and 2006, when a reconstitution of the legal setting for business irreversibly transformed industrial dynamics and corporate strategies. She contends that in the new competitive environment, the traditional roles of the main banks, *keiretsu* business groups, and cross-shareholdings grew obsolete, and their continued existence was the result of inertia. Moreover, because they were a drag on the corporate strategies needed to compete, they provided examples of what not to do, actually driving change by pushing competitiveness-oriented firms away from these arrangements. This chapter reveals some of the dynamics of syncretism, as some firms moved toward new strategies and organizations while others, although outcompeted, failed to disappear overnight. This resulted in multiple coexisting norms and practices or hybrid forms.

Gregory Noble, in chapter 5, analyzes Koizumi's reform coalition: how it operated and the constraints it faced. He argues that Koizumi's reform coalition consisted of three complementary elements: political leadership from Koizumi himself, support from big business, and academic analysis by

economists who provided the intellectual foundation for Koizumi's neoliberal reforms. Koizumi held together this coalition with pragmatism and persistence, despite broad opposition from a variety of forces, some even within the LDP. Koizumi's reforms were, however, also constrained by the main constituents that supported him, namely big business and the middle class, who were not fully dedicated to neoliberal competition and preferred to see society and government absorb some of the risk. Noble's chapter sheds light on how Japan underwent bold reforms in certain areas in the early to mid-2000s, and how opposition to these reforms later led to retrenchment once the political impetus for reform eroded.

Kay Shimizu, in chapter 6, examines small and medium enterprises (SMEs), which to date have received little attention in the political economy literature but deserve a much closer look, especially in Japan, where they employ nearly 70 percent of the labor force. Shimizu finds that SMEs have been bifurcating along two dimensions: by firm performance and by employment structure. On the one hand, zombie firms continue to be propped up by numerous government policies that align the interests of the lending banks, local politicians, and bureaucrats with SME borrowers. Such protective policies have also allowed the regional banks to remain above water by extending a helping hand to many of their weaker SME customers. On the other hand, Japan is also home to a vibrant group of SMEs that are competitive in the global marketplace and have become providers of niche products and parts for a wide range of businesses and their global supply chains. In order for both types of firms to remain financially viable, however, employers must rely more heavily on non-regular workers, creating a clear divide in earning power between regular and non-regular workers. Thus firm survival and low unemployment have come at a cost to Japan's non-regular workers, many of whom are young and underemployed.

In chapter 7, Harald Conrad examines the reforms in Japan's compensation system since the 1990s. He finds that even though performance factors have been gaining in importance, seniority-based wages continue to play an important role for blue-collar workers as well as for white-collar employees up to a certain managerial level. Wage systems and occupational pension systems remain highly complex, with a growing diversity of wage and benefit systems. Although overall coverage of retirement benefits has declined, the mix has changed significantly since the reforms in 2001–2, with defined contribution plans increasingly being replaced by defined-benefit pension plans. Conrad contends that even though certain aspects of human resource practices are increasingly market-based, they are hardly converging with the Anglo-American model. These findings support the volume's notion of



syncretic outcomes in Japan's political economy; companies introducing new performance factors to their wage systems often continue to use a wide range of traditional welfare benefits, whereas others create hybrid systems that combine the existing and traditional systems.

Kenji Kushida, in concluding chapter 8, analyzes foreign multinational corporations in Japan, particularly in the financial, automobile, pharmaceuticals, and telecommunications sectors that absorbed massive foreign direct investment inflows after the mid-1990s. He finds that regulatory shifts, driven by political logic, reshaped the competitive environment facing the foreign firms. Not only were formal and informal entry barriers removed, but the rules governing industry dynamics shifted to the advantage of the business models of foreign firms over those of the domestic incumbents. The distinctive characteristics of Japan's political economy, such as the main banks, long-term labor, and *keireitsu* corporate groups, which had hitherto made it difficult for foreign firms to compete in Japan, actually were transformed functionally to aid foreign firms in making inroads into Japanese markets. Foreign firms often exploited gaps in the new regulatory structure, and took advantage of their ability to offer alternative employment structures and the slow adjustment of incumbent Japanese firms. They did not replace major Japanese firms, but they introduced new norms and practices that coexisted and melded syncretically with the older, pre-existing norms and practices.

Together, the chapters in this volume portray Japan's syncretic changes since the 1990s, in which new, traditional, and hybrid elements have coexisted during its transformation.

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**J**apan's first decade of the twenty-first century is often called the "second lost decade," following the post-bubble "lost decade" of the 1990s, characterized by policy paralysis and overall lackluster economic growth.

For those studying Japan more closely, however, the same decades reveal nothing short of a broad transformation in numerous core tenets of Japan's postwar political economy. How can we best capture this transformation?

Each chapter in this volume examines a different aspect of Japan's political economy within a longer

historical trajectory, from multiple angles, to depict a flexible but resilient system. They include: a comprehensive overview of the political economy; Japan's financial system; corporate reorganization; the politics of reform; small and medium enterprises and the labor market; compensation systems; and foreign multinational corporations. The editors characterize Japan's process of change as syncretism—practices foreign, domestic, old, and new were selectively adopted, mixed, and matched, along the way creating a new and unique hybrid system.



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