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THE THIRD TRANSFORMATION OF JAPAN

An institutional narrative on agglomeration economies in Abenomics

Master's Thesis
in Economic Geography

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1 INTRODUCTION

1.1 Research motivation

The year AD 2013, or Heisei 25 in the Japanese Imperial Calendar and the Year of the Snake in the Chinese Lunar Calendar, has passed, and it has proven to be an eventful year in modern Japanese economic history. For Japan, there is a newfound optimism in the air which has been embodied in the expectations set upon the first Premier of Japan to have an economic policy named after him, Shinzō Abe. His Abenomics is depicted as having three ‘arrows,’ corresponding to economic reforms in fiscal and monetary policy, as well as an extensive and detailed industry growth strategy. Abenomics is to put an end to the over two decades of economic malaise and stagflation known as the Heisei recession.

While I was studying in Tokyo as a graduate student in 2012 and 2013, Abenomics was gathering hype. Combined with my interest in the distinct institutional and cultural settings of Japan, as well as its eventful history and development, I was drawn to studying this most recent chapter in Japanese economic history as it was unfolding along with its surrounding institutions. After all, institutional Japan, like the country itself, can seem somewhat mysterious in the conceptions of a common westerner such as myself.

The Abenomics Growth strategy consists of three major action plans, or ‘arrows’ as called by the Abe Cabinet. First, the Industry Revitalization Plan is intended to tackle mostly domestic, structural issues hindering competitiveness, the functionality of domestic market, and economic growth. Second, the Strategic Market Creation Plan is meant to address societal and environmental issues, as well as those matters regarding quality of life. Third, the Strategy of Global Outreach is set to integrate Japan with world markets in order to obtain access and footholds while also gaining resources and inward investment, building partnerships, and to promoting Japan globally. The first of these plans, and its structural reform in particular, will be examined in this study due to its strong regional component. While this aspect is of particular interest to economic geography, the first plan was also the first to be addressed in detail by the government, and due to the mounting domestic structural problems, it has also invoked an overwhelming media coverage over the other two. Thus, examination of the first arrow easily fulfills the scope of a Master’s thesis. Could the buzz around Abenomics herald a new, third period of laudable economic transformation and agglomeration in Japan? If not, Japan faces the danger of a sovereign debt crisis, as its domestic debt sets the world record ratio to GDP. (Japan revitalization strategy – Japan is back 2013, 1, 3; Japan: The ifs and buts of Abenomics 2013; Wolf 2013; OECD Economic surveys Japan 2013, 5.)

The Growth strategy's industry revitalization plan – the structural component of the Abenomics – and respectively the government communication “Japan revitalization strategy – Japan is back” was published in June 2013. Therefore, there are no published academic studies available at the time of this study, which would address the plan directly. Hence, an opportunity to study this contemporary event in history by analyzing media was seized. In evaluating the Abenomics and its structural – Growth strategy – reform, an institutional analysis acknowledging, or rather, observing and analyzing the western bias can at the least, paint a picture of perceived reality along with its implications to the real economy. As per the media pieces and accumulating knowledge and commentary on Abenomics and its performance, in order to draw a clear boundary, the turn of the year 2013 to 2014 is considered the cross-sectional limit after which published information has not been considered.

What is so peculiar about Japan that distinguishes Abenomics from any given economic reform hyped by politicians? In addition and relative to other distinct institutions, the answer lies in the time frames in which these different developments have (for better or for worse) taken place. The economy and society of Japan is well known for its rapid development from feudal fiefdoms ruled by Daimyo warlords and the Samurai class, with the Shogun ruling from above all, including the ceremonial emperor. As recently as 1852, Commodore Perry and his American armada shelled buildings near Edo, or modern day Tokyo, thus intimidating the Japanese to open up their country for foreign trade after centuries of isolation. This marked the end of the Togugawa Shogunate and heralded the Meiji Restoration, the modernization of Japan. The Japanese are a proud and patriotic people. The Samurai had lived for centuries according to Bushido, or their warrior code. Consequently this humiliation resulted in a massive military mobilization of the economy, which ultimately led Japan into the Pacific War only to be humiliated in the end once again by the Americans. The war resulted in the total destruction of the Japanese economy and infrastructure. Yet, the ensuing occupation brought about an economic recovery, the scale of which the world had never before witnessed. By the 1980s, Japan was the second largest economy in the world and led in various technologies, second only to the United States. However, the tide was to turn once again. The 1990s revealed a very different Japan. Monolithic industrial structures incapable of coping with fast-paced technological and economic shifts brought about by the information era's “new economy” put Japan into a vicious cycle of deflation and stagnation – a predicament from which Japan still seeks to free itself. (cf. Miyashita & Russell 1994; Porter, Takeuchi & Sakakibara 2000.)

The following two ‘lost decades,’ referred to in Japan as the Heisei Recession after the concurrent and current Emperor and era (according to the Japanese Calendar), have been subject to great interdisciplinary examination. As these two lost decades of stagflation near the halfway point to becoming three, this thesis aspires to add to the wealth of literature regarding the economic geography of Japan in a form of an institutional narrative

on Abenomics. This is to be achieved by drawing from governmental, international media, and intergovernmental organization sources for the institutional analysis, helped by an analytic framework for an economic agglomeration ‘virtuous cycle’ derived for the purpose of this study from New Economic Geography (NEG) theorem of spatial agglomeration economies.

1.2 Study background

The structural issues addressed by the Growth Strategy can be traced back a long history, however, the year 1991 can be seen a point of culmination, since it brought an end to a longstanding economic growth in Japan, preceded by an overheated bubble economy in the 1980s. Thereinafter, Japan suffered from the preceding over-investment along with inflexibility of government policy. The Asian financial crisis in 1997 and 1998 made it quite clear the 80s performance levels were an unlikely recurrence with conventional Japanese policies. Several structural obstructions remain to be cleared before Japan may again truly prosper. These include the problem of most rapidly aging and declining population in the OECD. The world record debt ratios and ever widening sustainability gap are serious threats. The shrinking workforce means lesser contributions to pension- and social welfare funds while the beneficiaries to these funds increase by the day. The general population in Japan is rather concerned with preserving ethnic unity and pureness. With its institutional consequences, this stands in the way of immigration, and the western kneejerk fix to the looming demographic crisis and labor shortage. Growth through entrepreneurship is not achieved without facing its cultural hurdles either. The Global Entrepreneurship Monitor (GEM)¹, the most extensive comparative entrepreneurship survey by nation, scored Japan the lowest in venture creation. Disregarding the first decade of reconstruction after WWII, the number aspiring entrepreneurs has remained way under par by western standards. (Futagami & Helms 2009, 72.)

The financial crisis and the new nature of fast-paced, innovation economy is imposing changes on large, traditional Japanese corporations and threatens to repeal the practices of lifetime employment and seniority-based wages, and this has been a commonly examined subject among academia and popular discourse. The cost-cutting and restructuring hits hardest the poorly protected segment of ‘part-time’ workers, although, redundant salarymen, the modern day equivalent of the Samurai class if you will, have also become more commonplace of late. Adding to the injury, the birth-rate in Japan has been on the decrease. Expecting women to traditionally leave the workforce upon getting married, only to re-enter as ‘part-timers’ after child rearing, does not exactly help on any of these

¹ <http://www.gemconsortium.org>

accounts either. (Futagami & Helms 2009, 72; Japan's goals in the 21st century 2000, 8–19.)

In contrast to the pessimistic outlooks, Japan still possesses a reputation of excellence in a few key industries such as consumer electronics and car-manufacturing. Consequently, the economic and technological development of postwar Japan, often dubbed as miraculous, was a subject of major scholarly interest within western academia, eager to learn the lesson therein. The aforementioned problems facing contemporary Japan are also frequently addressed in the academic and public discourse of the west. Calls for taking progressive action regarding policy has begun to challenge the prevailing attitudes, and hence, are given serious consideration, and increasingly so by powerful Japanese bureaucrats. Abenomics is designed to address all of these concerns in a rather detailed manner. However, in order to do so, Abe must first decisively end the vicious cycle of stagnation and deflation, thus gaining and retaining the political clout necessary to bring about systemic reform. (cf. Karan 2010, 4–8.)

The challenges are many, as are they intertwined. Furthermore, Japan's stagnation continues while the country seems to face constant difficulties in embracing the new economy of the information age. This new economy and new economic geography consists of primarily service-based sectors utilizing innovative technologies, such as the software industry, wherein people rely on computers and the internet. However, apart from the gaming industry, most others in Japan remain globally uncompetitive. Switching from a manufacturing-based economy to a digital, service based economy would fit poorly within the Japanese institutional setting, as would the demanded step from incremental process based-innovation to disruptive product-based innovation. (cf. Porter et al. 2000, 5; OECD Economic surveys Japan 2011, 2–3; Karan 2010, 194, 379.)

1.3 Research mission and structure of the study

The premise of this thesis is that while it is useful to model and conceptualize the economy in measurable mathematical terms, economics is still fundamentally a social science, as is human geography. Hence, the economy is loaded with a plethora of socially constructed phenomena which carry different ramifications and orders of priority to various stakeholders. Therefore, it is justified to expect for a major enterprise such as an economic reform of the third largest economy on earth to have an infinite number of socially constructed variables. This information may otherwise be shrouded in bias and dissonance and, on the other hand, be invisible or immeasurable to the quantitative equilibrium-models.

This Master's thesis is an exploratory qualitative study – a narrative case study on the economic reform of Japan and Abenomics. It seeks to depict the dialogue between public

discourse and governmental communication in order to create a picture of how this phenomenon has been socially constructed. The proceedings include a descriptive, analytical narrative with implications for future research, as well as possible future implications for the economy of Japan, itself. In practice, this entails an institutional content analysis with structural emphasis, in combination with practical analytic tools borrowed from critical discourse analysis. Discourse is examined in order to assess the implicit intertextual agenda within texts. In essence, the research questions of this study concern Abenomics as the policy means to revive the economic agglomeration cycle in Japan from two perspectives:

- 1) What challenges do the prevailing Japanese institutions pose for the reform currently underway?
- 2) From the perspective of economic agents, what are the implications of current policies in terms of development in regional and local institutional environment?

These two research questions suggest that the purpose of this study is to describe the economic situation in Japan as comprehensively as possible, as well as to understand the relevant path dependence and institutional setting in order to draw conclusions. Answering these questions also enables the discovery of any implications for further research, and even prospective directions for steering of future policy.

This thesis is structured as a narrative on the economy of Japan. The introduction to the subject matter in this **Section 1** is followed by the foundations of and justifications for the theoretical approach of this study examined in the consecutive **Section 2**. The theoretical section begins with the observation of institutional turn, followed by a framework for cultural observations in institutional research. Consecutively, the NEG theorem is examined. This enables modeling agglomeration as a virtuous, self-reinforcing cycle, corresponding with the intent of Abenomics policies, as it is perceived and depicted by this study. This depiction also corresponds to the respective idioms of ‘kick starting the Japanese economy a new’, or ‘steering it back on the path of growth’, which are of seemingly common occurrence among the scrutinized narratives.

The final subsection of the theoretical section presents a synthetic framework that captures the virtuous agglomeration cycle, and is formulated for the purpose of this study to complement the main institutional approach. Basically, the frame presents institutions at the core of the analysis, and respectively, in the core of the agglomeration cycle. Hence, for the case of Abenomics and Japanese economy, institutions can be examined as a facilitator to agglomeration on one hand, but as an obstruction on the other. **Section 3**, presents the design and methodology of the study, along with a description of the analysis process, and concludes with an evaluation of the study as a whole. **Section 4**, marking the

empirical portion of the study, examines the relevant historical- and institutional evolution of Japan in order to assess the current reform underway. This is done through literature. Prior to the institutional analysis, in **Section 5**, the institutional frame is elaborated on by findings in prior research, meaning, cultural, empirical observations concerning Japan. In addition, general cultural predeterminants behind the prevalence of certain economic attributes such as entrepreneurship are examined. Both empirical observations; the evolutionary socioeconomic path and the cultural attributes, are central in the primary data analysis in **Section 6**, as they substantiate the institutions depicted at the core of the synthetic theoretical frame. The Section 6 analysis is where the synthetic theoretical frame is utilized; an institutional analysis complemented with a frame for cyclical agglomeration process in motion. This constitutes the constructed institutional narrative on Abenomics. The final **Section 7** presents the overall conclusions drawn from the different source materials, and from the respective analysis. The conclusions are also accompanied by briefly summarized context reviews.

1.4 Economic agglomeration literature

The unconventional geographical economics (NEG) aspect in the institutional approach of this thesis warrants an examination on the literature concerning economic agglomeration. The NEG derived model in this analysis is considered means to assess the intended macro-effects of Abenomics, however, there is a vast body of literature concerning studies of business agglomeration and clusters, comprising different approaches. Clusters have achieved a certain buzzword status both in public discourse, as well as in social science involving multiple disciplines of various interests. In regional science and economic geography, where interest has perhaps been most longstanding, notable works include Michael Storper's (1997) theory of how regions may sustain their viability in a world of multinational corporations, as well as the work of AnnaLee Saxenian (1994; 2006), who contributed via her close examination of the benchmark cluster agglomeration of Silicon Valley, California. Ann Markusen (1996) examined the relationship between regional- industrial policies, going so far as to suggest the redundancy of regional policies altogether. Michael Porter found this counterintuitive and, instead, argues for the advantages of local policy-making on account of flexibility in accordance to regional characteristics in infrastructural and institutional economy. (Porter 1996, 89.)

Arguably the most well-known of works cited, not only in economic geography but in business, economics and multiple other disciplines, are those of Michael Porter (1994; 1998; 2000) regarding regions and clusters following his (1987; 1990) research on competitive advantages of nations. Porter built his cluster theory on the foundation of his

diamond model of national competitiveness². This cluster theory diamond model is illustrated in **Figure 1**.

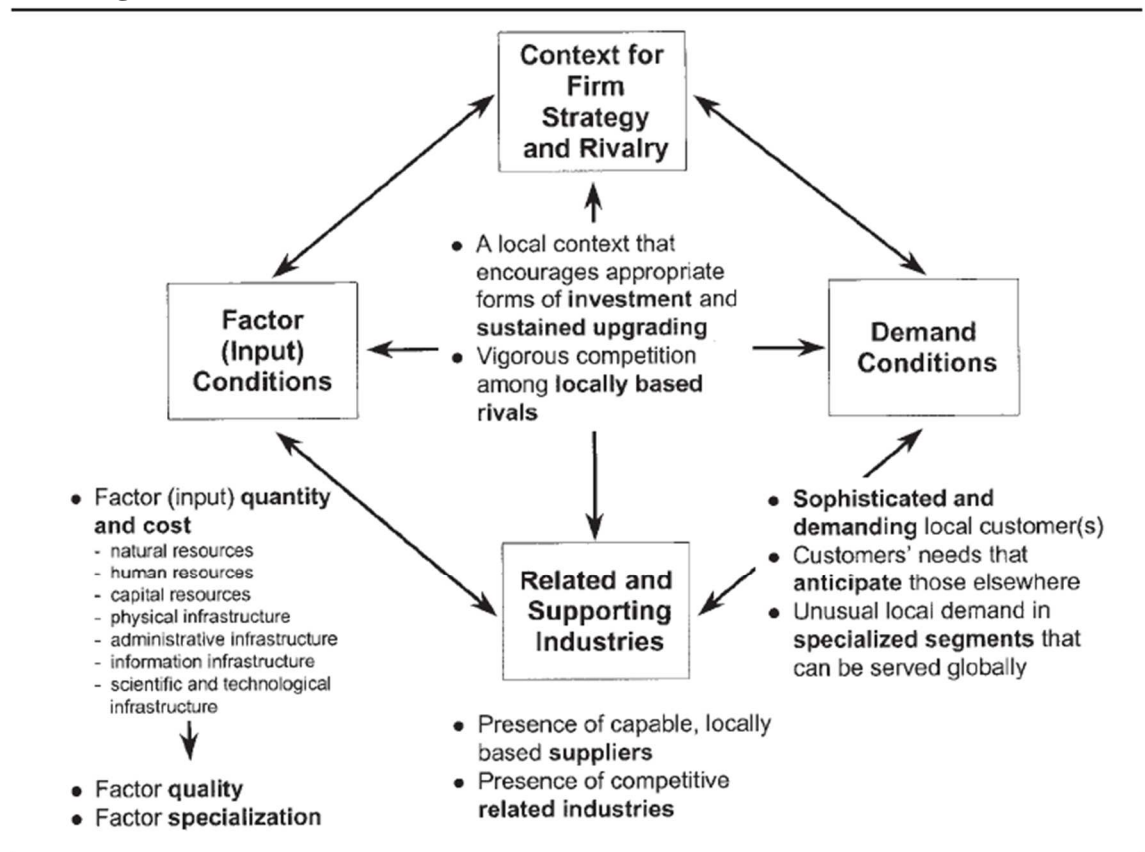


Figure 1 Sources of locational competitive advantage (Porter 2000, 20)

A significant body of literature has accumulated to continue and elaborate upon this work contributed by various scholars, most notably by Porter, himself. Indeed, the diamond model would have served as a proper reference and framework for analysis for this study as well. As will be observed, Abenomics will address virtually all of the components found in this model in one way or another. However, Porter et al. have also studied and addressed rather thoroughly the implications of his theory in policy-making. Hence, there is a little perceived leeway as to what original content could be deduced and proposed within the framework of this theorem and its literature when considering the scope of this Master's thesis. The extent of policy-guidelines in Porter's model can be observed in **Figure 2**.

² While not agglomeration or theoretical literature concerning the mission and theoretical choices of this study, it should be noted early on that Porter, accompanied by Takeuchi and Sakakibara (2000), conducted a study which produced the book, *Can Japan Compete?* This book is quoted in this thesis as well – not only to recognize the authority of Porter in the field, but also because it weighs in on several continuously relevant matters, regardless of the theoretical standpoint.

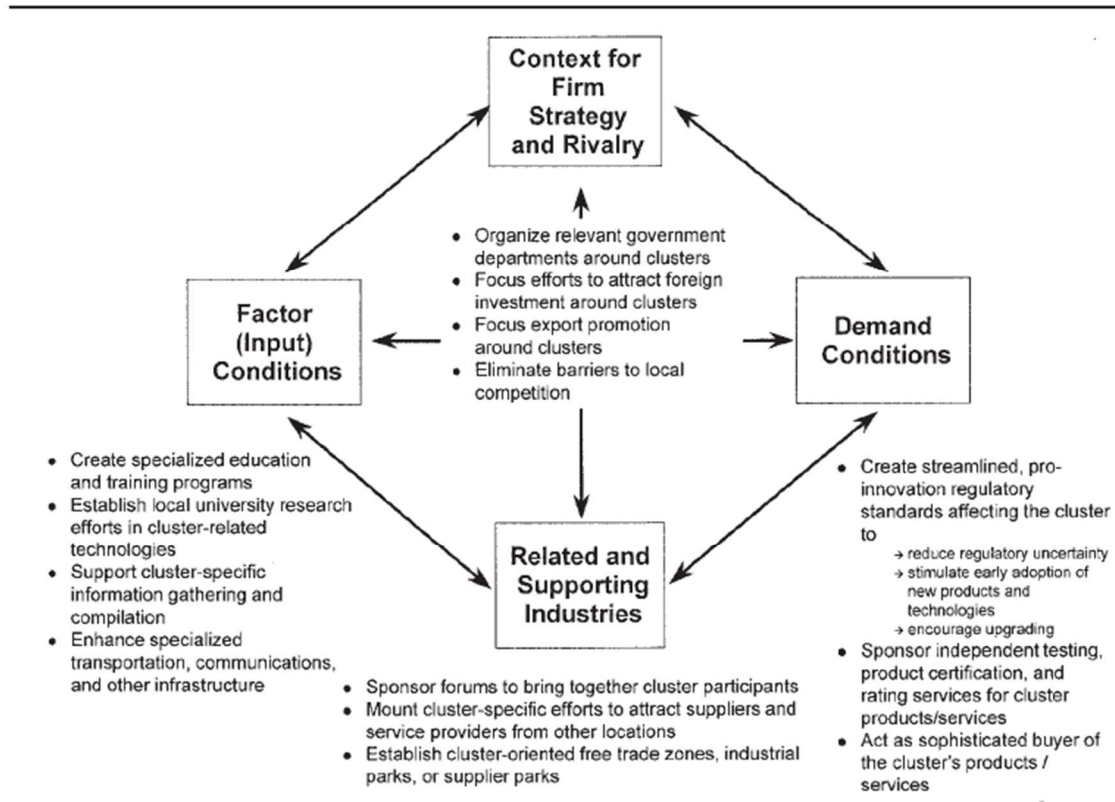


Figure 2 Government influences on cluster upgrading (Porter 2000, 28)

In light of **Figure 2**, it would certainly suffice to break down the policies in Abenomics within the propositions of Porter et al., but also run the risk of producing redundant information and obvious conclusions. Consequently, much of the western commentary on Japan reflects this paradigm as it is rendering it, in effect, inescapable to a certain degree. Even if this meant it could serve as a proper framework for the criticism, it would render the reinforcement of this bias questionable in the analysis of the case as a whole³.

Porter was faced with mounting criticism throughout the 1990s concerning the originality of his model. Eventually, he had to admit as to from where his ideas originated, and address the novelty value of cluster theory (Motoyama 2008). Consequently, among others, Porter (2000, 33) pays homage to Paul Krugman (1986; 1993) and his work on industrial policy and protection of industries in particular, which was based largely on the evidence gathered from Japan. Porter (2000, 14) argues that cluster theory is a complete

³ In fact, at Porter Prize Conference in Tokyo on December 5th 2013, Porter (2013) himself revisited his Porter et al. (2000) *Can Japan Compete?* In his presentation he evaluated Japan's progress since the year 2000 and the prospects of Abenomics within the framework of his diamond model. He addressed some of the themes also studied here but, as fortune would have it, this was published simultaneously with the conclusion of this study and therefore leaving it unaffected. Henceforth, it provided additional justification, in hindsight, for the theoretical solutions of this study in an effort to ensure the supplemental value added to it.

mirror image of industrial policy, since the latter tends to centralize intervention. Given the institutional history and context of Japan, this introduces a sort of contradiction of interests: Japan's policy may still be centralized in terms of authority, but it certainly seems contrary to homogeneous as far as its different regions are concerned.

After the examination of Porter's diamond cluster theory, justifications for an alternative approach were derived. In order to escape the thorough framework of cluster theory and to achieve the most flexible frame to match the scope of this study, the conceivable option was to go back to the fundamentals of economics. More precisely, the mathematical equilibrium forces in spatial economics theorized by the Krugman et al, only without applying the actual quantitative models in the analysis, rather, only portray the 'intended effects'. New Economic Geography (NEG) school of thought regards the agglomeration economies as a process of auto-reinforced virtuous or cycle, a sum of forces at play forming a bell curve in natural, linear progression. Using the fundamentals of NEG, this thesis aspires to approach the subject with a simplified model, leaving more room for deduction outside the western hegemony for cluster agglomeration and, hence, for the particular institutional quirks and characteristics of Japan. Essentially, the aim is to take a well-known model from economics and extract a simplified framework for agglomeration economies that can be incorporated with the complexity of institutionalism in attempt to avoid the simple repetition of the consensual benchmarks imposed upon Japan. Consider, if you will, the institutions as the enabler and the cause or, respectively, as the obstacles to overcome, and agglomeration as the desired effect for policy-measures. In this manner, iteration between the institutional environment of Japan and the evaluation of current policy goals and measures with the rudimentary NEG toolbox, provides the framework for the analysis. Much in accordance with the example set by Michael Storper (2013, 42), who incorporates NEG into his theoretical synthesis of economic geography when examining urban economy formation and planning. While NEG does not tell where agglomeration happens, it maps the forces at play once set in motion.

NEG as a standalone theorem has faced a fair amount of critique, a bulk of it from geographers. For instance, the novelty value of NEG in theoretical substance has been questioned. Furthermore, in the view of many geographers, it is not feasible to portray the complexity of economic geography in mere simplified mathematical models. Yet another major concern, one that has always bothered Krugman as well, declares NEG as dated in its focus on the old production economy. (Daniels 2008, 296; Krugman 2011, 2; Storper 2011, 12–13.) In his commentary on Krugman's address of this issue, for instance Michael Storper (2011, 13) states information–relationship–learning fundamentals in agglomeration are indeed challenging to measure, however, this is the case with all economies of agglomeration. No matter the level of sophistication in the models of NEG, ultimately, the mathematical restraints in considering the third, ever more important, funda-

mental of agglomeration does handicap the field. Consequently, some attempts at modelling of interaction, learning, face-to-face contact, and/or spatially-limited relationships have emerged within NEG literature. In the innovative clusters of interest in today's economy, the networks present a plethora of interactive variables, making conventional NEG modelling virtually impossible. This is to say, the framework must be augmented to capture the outputs of information age agglomerations, and venture beyond the domain of tangible products. Geographers could have plenty to offer in this regard. Their contribution would place considerable weight on these 'subtle' (as currently considered in NEG) drivers for agglomeration. (Storper 2011, 13.)

Spatial economists incorporate the dimension of space into economics, which went effectively unpronounced in mainstream economics before Krugman took the initiative in the 1980s. Economics is predominantly concerned with modelling of general phenomena. Geography, on the other hand, may take interest in particular spatial entities (Storper 2011, 3). Geographers take more interest in the effects of the economic phenomena bear to the spatial entities. However, according to Storper (2013, 93) the two approaches can converge in an effort to capture the catalyst for the circular causality effect which comprises agglomeration. "Thus," he states, "the features of a region – such as its historical experience and unusual skills – make it possible for the unique founding events to occur and take root, and agglomeration process this initial advantage, but the deep initial advantage is not itself accidental." Therefore, considering institutions as the cause or, respectively, the obstacles to be overcome, and agglomeration as the desired effect, the iteration between the institutional environment and the evaluation of policy goals and measures should be justified.

In this study, the NEG is used as a tool to frame the agglomeration, although this is an unconventional incorporation, since the analysis applied is institutional, with a heavy cultural emphasis. It should hence be acknowledged, that an economic geographer takes generally a more well-rounded approach in conceptualizing economic phenomena. In a view shared by many geographers, the economists tend to homogenize the economic world in a neoclassical manner. Issues particularly pointed out by geographers include assumptions made for the models to work, such as the rational agent. The institutional and cultural approach in this study, renders such assumptions impossible, and the lack of mathematical modelling would make them redundant in any case. (Daniels 2008, 296–298; Gregory, Johnston & Pratt 2009, 499–500; Mc Cann & Van Oort 2009, 19; Sokol 2011, 25–36.)

In addition to the previously stated, theory-oriented reason, the NEG model was also included in this study in accordance to analytical points made by Storper (2011, 4): This study is set out to map a context for reform that is complex in geographic, economic and interdisciplinary terms, as virtually all parts of society are affected and involved (not to mention the linkages to global economy). In this respect, the thesis is a fine example of a

complex and especially 'noisy' subject area all too common to geographers. In this vein, the NEG derived framework is a means toward a simpler, more comprehensible analysis of complex phenomena providing the qualitative institutional study a circuitous model for agglomeration. (Krugman 2011, 3; Storper 2011, 14).

2 THEORETICAL APPROACH

2.1 Institutional theory

2.1.1 *The rise of institutional analysis*

In order to study and understand the context of Japanese business creation, it is justified to approach the subject via an examination of how institutions shape culture, behavior patterns, expectations, and opportunities within any given society. Although institutions were identified and analyzed quite early by social scientists, organizations and distinctive types of social norms did not become a focus of study until relatively recently. Dating back to a period between 1937 and 1947, the origins of organizational studies saw the appearance of the influential publications of Gulick and Urwick (1937), Barnard (1938), Roethlisberger and Dickson (1939), and Simon (1947). In organization studies, the work of connecting organizational analysis and institutional arguments commenced in the 1940s. (Scott, 1995, 21.) In economic geography, an expansion of its theoretical foundations, methodologies and empirical reach has taken place since the 1970s (see e.g. Peet 1989), paving the way for a pronounced ‘institutional turn’ which was raised to prominence during in the 1990s. Therein was understood that an economic landscape cannot fully be assessed without considering the social institutions within. An increasing focus has been placed upon the ‘socio-cultural’. In this regard the economic process is, rather, a socio-cultural process. (Martin 2003, 77.)

Institutional theory addresses the function of social, political, and economic systems and establishments whether formal or informal, as well as whether codified and explicit or implicit and tacit, through which economic agents operate and gain their legitimacy. Institutions are commonly defined as “rules, norms, and beliefs that describe reality for the organization, explaining what is and is not, what can be acted upon and what cannot”. (Hoffman, 1999, 351.) The implicit, embedded understanding within a culture, shapes and legitimizes social behavior, the formal and informal social designs. Institutions, thus, can be defined as scripts for “stable designs for chronically repeated activity sequences,” deviating from these designs bears consequences of some extent and variety. (Jepperson, 1991, 145.) Like people, organizations are also subject to institutional pressure. Institutional environment is therefore “characterized by the elaboration of rules and requirements to which individual organizations must conform if they are to receive support and legitimacy” (Scott, 1995, 132). Institutional constrain on behavior can be pictured as ‘three institutional pillars’. The regulative pillar represents the threat of formal sanction; the normative pillar consists of acceptable norms, common morals and ethics; and the

cognitive pillar represents the perspectives and interpretations of the world actors are part of. (Scott 1995, 51–52.)

In economic geography, an institutional approach entails that the evolution of the economic landscape is taken into consideration to a high degree. This is a fundamental aspect to this study as well, explicated in **Section 4**, where the institutional frame is substantiated with respective empirical observations concerning Japan. Institutions are characterized by inertia and durability. These are the features that provide the structured frameworks necessary for the coordination and continuity of economic activity which make complex exchange possible across both time and space. Institutions are path-dependent, meaning they evolve incrementally in a continuity preserving manner. (Martin 2003, 80; North 1990, 118.) In other words, they carry history. In this role, for instance, they function as a catalyst for increasing returns, positive externalities and technological development that shape the fortunes of local and regional economies. The impact of institutions is unquantifiable in contrast to the economic modelling of processes regarding the agglomeration itself in NEG examined in **Section 2.2**.

2.1.2 Culture

One of the most prominent forces behind institutions is culture. The culture of Japan is examined throughout this study and, therefore, a brief review of the academic literature on culture is in order. Culture has been defined in numerous ways, but because the perspective of this thesis is economic, the definition widely cited by management studies is hereby brought into consideration. In his pioneer contributions of the mid 1980s, the Dutch sociologist Geert Hofstede (1984, 82) defined culture as collective programming of the mind. This is what distinguishes and characterizes groups and societies in contrast to each other. Culture is mindsets passed from parents to children, teachers to students, between friends and colleagues. Culture reflects the general outlook on life, like values, the notions of good and evil, collective beliefs, the nature of truth and falsehood, artistic expression, and the difference between perceived beauty and ugliness. Culture becomes concrete in institutions and tangible products of a society which, in turn, further reinforce this mental programming. (Hofstede 1984, 82.)

Management and economics research containing a cultural aspect often considers the cultural variables that developed in the wake of Hofstede's (1984, 2001) formative work. His contribution showed in concrete how culture is a multiform quality and how individual and societal values are an extension of national culture. In this view, characteristics across cultural units (mainly nations) are simplified and categorized into five quantifiable dimensions. According to Hofstede, the five bipolar dimensions are defined as follows (1984, 82—84; 2001, 359, 363):

- Large vs. small power distance (PDI) measures the tolerance towards inequality in prestige, influence, wealth and status.
- Individualism (IDV) differentiates individualistic and the collective societies.
- Masculinity (MAS) indicates the prevalence of hard, 'masculine' values such as quantity, performance, and status as opposed to softer, 'feminine' values like quality of life, caring, and humbleness.
- High vs. low uncertainty avoidance (UAI) measures the tendency of seeking certainty by e.g. legislation, rules, religion or technological applications.
- The long-term vs. short-term orientation (LTO), measures the collective preference towards Confucian virtue, or respectively, the future-orientation emphasizing e.g. education, or investment rather than on short-term gains.

With regard to themes involving entrepreneurship within this study, by using Hofstede's concept of culture, a body of research indicates that entrepreneurship is more prevalent when cultural parameters indicate high individualism, low uncertainty avoidance, low power-distance, and high masculinity (Hayton et al. 2002, 34). Arguably, this also seems rather intuitive, as it accommodates common sense. Consequently, the conceptualization of culture in regard of entrepreneurship has been around quite some time. Famous examples include Schumpeter (1934) in economics and Weber (1930) in sociology. However, Hayton, George & Zahra (2002, 48–49) pointed out a lack of an alternative in modelling of the causal significance for culture. Basically, they thus acknowledge the paradigmatic status of the Hofstede-dimension. Consequently, the Hofstede cultural framework remains the linking tool used between culture characteristics and economic activity. This becomes evident in Hayton et al's (2002, 48–49) review in which they list critical reviews and limitations to the model. For instance, only a limited number of alternative culture characteristic studies on venture creation volume exist. For examples, refer to Davidsson (1995) or Davidsson and Wiklund (1997). These studies acknowledged the caveat of treating a single country (Sweden) as a homogenous entity. Though distinct regional units of culture within countries have been identified, broad cultural characterizations of Hofstede framework maybe insufficient in capturing the heterogeneity within nations; no matter how distinct the regions may be. (Hayton et al. 2002, 35, 37.) In order to retain a pragmatic approach within this study, the regional variation is noted where applicable. In terms of theoretical framework and scope, however, Japan is considered a homogeneous cultural unit of interest.

2.2 Economic agglomeration and New Economic Geography

While this study is primarily concerned with institutions and the implications thereof in an economic reform, the reform itself is highly macroeconomic in terms of goals. Notwithstanding the fact that, parts of it may be referred to directly as ‘institutional reform’ as well. Be that as it may, the theoretical, analytical frame of this study calls for means to assess the goals and motivation for the reform, i.e. a model of economic agglomeration, or in turn, a model with which to understand the strive to put the deagglomeration of Japanese industry on reverse. In order to derive the toolbox for this study, the NEG model of spatial economics was chosen. Mainly, to accommodate – in terms of analytical modeling – the need to ‘kick start a cyclical, self-reinforcing economic effect’, as to be observed in the government reform plans in the analysis. The frame derived for this study is visualized and examined in the succeeding section. Prior to this, it should be examined where the components are in fact derived from.

NEG models are, as is the nature of models in economics, equilibrium seeking mathematical depictions of related factors in simplified (isolated) phenomena. However, this institutional study is not concerned with equilibriums. Rather, here the NEG produced theoretical observations suffice as to depict the agglomeration as a cyclical process. However, the mathematical nature of this model becomes evident already by considering the fundamental concepts behind NEG models, such as *factor prize equalization* which depicts the equilibrium in interregional production factors and their remunerations (Fujita & Thisse 2008, 110).

Another fundamental in NEG literature is the *spatial impossibility theory*, which states that there will be no competitive equilibrium once transport costs are accounted for (Fujita & Thisse 2002, 38–39). While for this study, the fundamentals mean little on their own, they are worth mentioning as the basis for the theoretical modelling work by Paul Krugman, along with other spatially oriented economists, which has produced a series of outcomes, incorporating the spatial dimension into economics. From this theory-family, three key concepts, were selected to constitute as the cyclical frame for this study. This simplification should be justified considering, that NEG literature often refers to agglomeration in a cyclical, cumulative manner. The cycle is completed with an additional, closely related, fourth concept, introduced after the NEG specific components. The three NEG concepts to be utilized in the analytical frame of this study constitute:

- The Home Market Effect (the size and attractiveness of the market)
- Core periphery model and labor mobility (comparative assessment incorporating the human factor)
- The bell-shaped curve of spatial development due to input-output linkages (how economic development curves in natural development)

First off, *the home market effect*, serves as though a glue holding the cyclical model together in this study. This is because the ripple effects of different stimuli are arguably the easiest to fathom in terms of market size and its overall attractiveness to different factors. NEG - Home market effect is credited to Krugman (1980) and his studies concerning the role market size played in location decisions of companies among two regions. The two regions were simplified as to only carry the industry sectors of manufacturing and agriculture, which in turn, had only the production-factors of capital and labor. This model does not take into account the fact that people move and migrate. However, in its simplification, it concludes that the larger market will always prevail over a smaller one, as this location minimizes costs of shipping into both regions, including the smaller one, due to economies of scale. Furthermore, companies desire to access markets with more buying power and a favorable infrastructure. Yet, there is also a major flipside to this attractiveness. When more companies cram together, it intensifies the competition. This generally has a negative impact on profit-margins. Competition is thus regarded as one of the most prominent dispersion forces, albeit often alleviated by companies via forms of differentiation. (Fujita & Thisse 2008, 112; Krugman 1980, 951, 958.) The home market effect is considered a standalone component in the cyclical framework for this study.

The incorporation of the human factor and its mobility is a second, major building block of the analytical agglomeration frame for this study. Respectively, human resources and the labor market (and immigration) are of apparent priority on all sides of the discourse concerning this reform. The NEG- *Core-periphery model with labor mobility* is also credited as Krugman's (1991) work. It depicts the endogenous process whereby a country differentiates into an industrialized 'core', and an agricultural 'periphery'. This is to address the phenomenon where demand follows the location of industry – the dual role of labor force as both consumers and workers (Krugman 1991, 483). This strongly exhibits the self-reinforcing nature of the cyclical economic agglomeration. Unlike remunerations from capital factors, which may be spent external to the target region, the fruits of labor are likely to be spend again in the same regional economy (Fujita & Thisse 2008, 113). Organization of labor bears major structural peculiarities characteristic to Japan, which will be observed in literature, and subsequently used and scrutinized in the analysis. In addition, stimulating the domestic (consumer) demand occupies a major role in Abenomics.

Unlike the two previous models, *the bell-shaped curve of spatial development due to input-output linkages* is not a model, but rather, an analytical outcome whereby the forces of agglomeration are predicted to eventually turn against agglomeration itself, thus resulting in deagglomeration. Paraphrasing Fujita, Krugman and Venables (1999, 260), cost of trade, and the decline thereof, initially cause the inequality among countries, however,

ultimately begin conversely working towards equality. In this fashion, the economic agglomeration takes a curve shaped like a bell. The progress is relative to Simon Kuznets (1930, 200–209) ‘secondary secular movements’ (Kuznets’ cycles of 15–20 years), whereby demand becomes saturated in time, technical development slows and new trends emerge. This evolution brings forth change in capital-labor ratios, distribution, and general roles of industries and organizations. This provides macroeconomic, theoretical rationale as to where Japan stands in terms of economic development, notwithstanding the institutions. However, this part of NEG literature also addresses the fact, where other company’s output is often an input for another, thus it takes into consideration the agglomeration of complete value chains (Krugman & Venables 1995, 859–860). These value chains are also embodied in the cyclical agglomeration frame for this study. Value chains of tightly associated companies are of great institutional importance in Japanese economy, as is observed in the literature on Japanese socioeconomic evolution in **Section 4**.

In addition to the three points derived from NEG, the consideration of *agglomeration of externalities* is in order as they also occupy a spot as a component in the cyclical agglomeration frame for this study. Externalities are not NEG specific per se, although often addressed within NEG literature. Agglomeration (of) externalities are, rather, something which demands recognition due to the observed importance, but are difficult to model mathematically. They are inherent to economic agglomeration and are a form of scale economies. Thusly they are recognized by economists and various other scholars of the economy, dating back to very formative times of economic scholarship. **Table 1** provides a brief summary of typical externalities cited in the analysis. Interchangeably, term scale economies of agglomeration also refers here within this study.

Table 1 Scale economies of agglomeration (Nallari, Griffith & Yusuf 2012, 44)

Type of economy of scale	Static or dynamic	Example
Internal		
1. <i>Pecuniary</i>		Firms are able to purchase intermediate inputs at volume discounts
<i>Technological</i>		
2. Static technological	Static	Average costs fall because of fixed costs of operating a plant.
3. Dynamic technological	Dynamic	Firms learn to operate a plant more efficiently over time
External or agglomeration		
<i>Localization</i>		
4. "Shopping"	Static	Shoppers are attracted to places where there are many sellers
5. "Adam Smith" specialization	Static	Outsourcing allows both the upstream input suppliers and downstream firms to profit from productivity gains because of specialization.
6. "Marshall" labor pooling	Static	Workers with industry-specific skills are attracted to a location where there is greater concentration.
7. "Marshall-Arrow-Romer" learning by doing	Dynamic	Reductions in cost arise from repeated and continuous production activity over time and spill over between firms in the same place.
<i>Urbanization</i>		
8. "Jane Jacobs" innovation	Static	The more different things are done locally, the more opportunity there is for observing and adapting ideas from others.
9. "Marshall" labor pooling	Static	Workers in an industry bring innovation to firms in other industries; this is similar to nr. 6, but the benefit arises from the existence of diverse industries in one location.
10. "Adam Smith" Division of labor	Static	Similar to nr. 5 above, the main difference being that the division of labor is made possible by the existence of many different buying industries in one location.
11. "Romer" Endogenous growth	Dynamic	The larger the market, the higher the profit; the more attractive the location to firms, the more jobs there are, the more labor pools there are, the larger the market and so on.
12. "Pure" agglomeration		Fixed costs of infrastructure are spread over more taxpayers; diseconomies arise from congestion and pollution.

These three components of NEG associated agglomeration, and agglomeration externalities as a fourth to complete the cycle, serve as a crude, simplistic model for a

Myrdalian process of economic agglomeration. According to Myrdal (1957), a stable equilibrium is in most cases a false analogy, assuming social process progresses linearly. Rather, it strives toward an equilibrium in a circuitous manner. It could be described as a state of equilibrium between forces, a circular and cumulative causation. (Myrdal 1957, 12–13.) Thus, the model for this study is Myrdalian, rather than interactive as is the Diamond model, considered in **Section 1.4**. In theory, this cumulative causation can be ‘kick-started’, so to speak. Next subsection synthesizes the framework for this study, the four points examined here and the main institutional approach.

2.3 Synthetic theoretical framework

As was established in the preceding section, the analytical framework in terms of agglomeration is derived from the NEG literature to depict a virtuous cycle of economic agglomeration. But unlike NEG, this model presents an overall consideration given to institutions that affect each component within the process. In terms of theoretical approach within this study, it should be emphasized here that it is strictly institutional. NEG only provides the complementary frame for economic agglomeration, the theoretical tools for assessing the motivations for Abenomics. The reasons for depicting such a phenomenon in a cyclical pattern, rather than the interactive diamond model of cluster theory, are founded in the rhetoric associated with Abenomics; whereby, one must end the perceived and pronounced vicious cycle and kickstart the lost, virtuous cycle referring to the economy of Japan. Hence, the theoretical framework presented here is rather simple, so as to provide theoretical rationale in the face of expected ripple effects of Abenomics. The ripple effects, in the context of rhetoric concerning Abenomics, portray this economic growth process as something in need for initial stimulus, and subsequently, a sound structure to reinforce this stimulated, initial growth in a cyclical manner, i.e. the effects ripple from one stimulated factor of the economy to the other. (For instance, increase in capital/ labor results in augmented home-market effect, which attracts more of the aforementioned). However, institutions remain the main focus overall, and literature is examined in order to substantiate and manifest the institutions and the related path dependence, which form the core of the analysis in **Section 6**. Even if used extensively in the analysis, this literature is examined in **Section 4**, since the respective institutional observations made are empirical by nature and origin.

Conferring back to **Section 1.4** and to Porter’s diamond model, one may observe that, fundamentally, both models depict similar phenomena. However, the model presented here strives for a more simplified illustration of reality, and for a cumulative causation to better grasp the motivation behind Abenomics policies. This simple Myrdalian cycle provides ample room for interpretation and deduction when applied in the analysis and, thus,

should allow for a more liberal examination of the institutional peculiarities of Japan. **Figure 3** illustrates the cycle of agglomeration as perceived and applied within the analysis of this study.

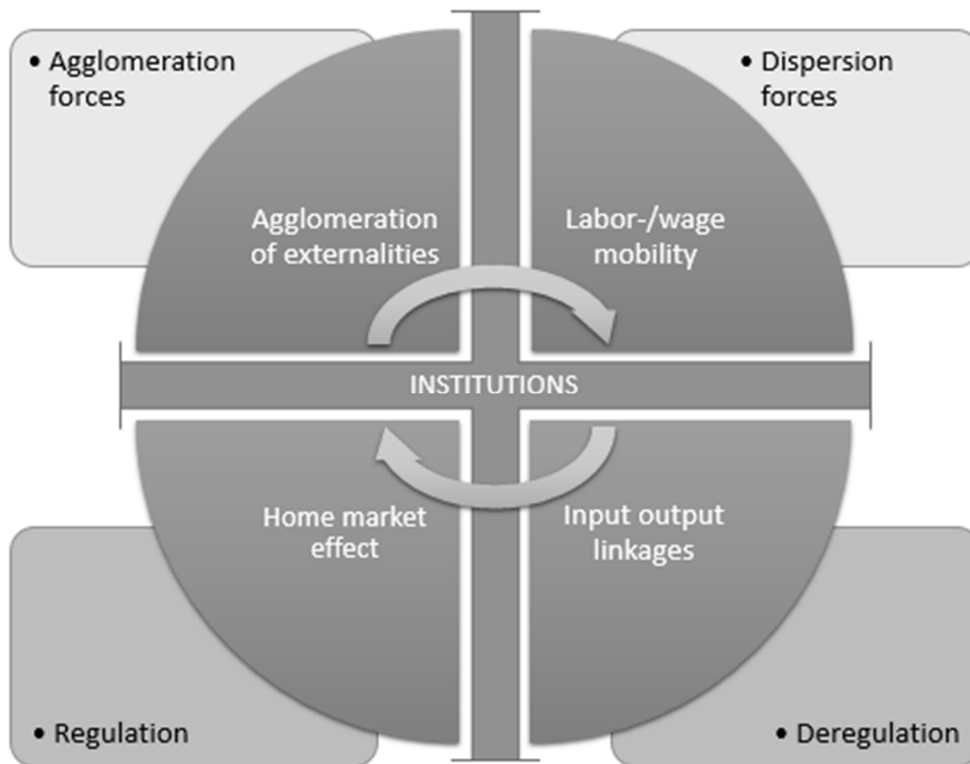


Figure 3 Spatial agglomeration framework for reform in Japan

The circular pie chart represents the core forces in the cycle of agglomeration, the effects of which hypothetically retain the potential of setting the process in motion in response to stimuli. These four forces were examined in the preceding section. There is no starting point in this cycle, per se, and the components need not be in any particular order. The top row of peripheral boxes represent the bulk of forces affecting the core process. The bottom boxes portray the measures in disposal of the government depicted simply as a two-way choice regarding regulation. In order to keep the framing simple, measures such as fiscal spending, subsidies and other such incentives are not included in the visualization, even if their importance is acknowledged in the analysis. Administrative guidance (an extra-regulatory measure particular to Japan), among other extra-legal measures, is considered part of institutions depicted as an omnipresent force at the core of the agglomeration. Note, that while all the components of the circle are derived from NEG literature, agglomeration of externalities is something immeasurable by the mathematical models in NEG as was also observed in the context of **Table 1** in the previous section. As an institutional study, however, the thesis may address externalities freely. NEG does acknowledge the importance of these externalities, but is forced to rule them out from the quantifiable models. As for the other three NEG derivative components, only the Home market effect is a standalone model. Labor-/ wage mobility stems from the

observations made in the Core-periphery model with labor mobility, and the Input output linkages, in turn, from the bell-shaped curve of spatial development.

In regard to the home-market effect in the frame and the dated production economy orientation of NEG, according to Storper (2013, 39–40) examined in **Section 1.4**, the demand side of the effect in today's economy works to attract labor-intensive services, in correlation with prospective income. Home market effect being closely associated with economies of scale, in this frame, the size of the market should also be able to be associated with network effect via respective observations made in the 'new economy'. This is a similar economic principle of scale economies, though not necessarily related to production volume, but rather to the demand side scale. A similar analogy in this study is the bandwagon effect drawn between network effect and innovative venture-activity on the supply side. Here the analysis is not after unit costs, nor is it to quantify the process to a mathematical model. Rather, in terms of institutions, the market size also implicates agglomeration of synergies. This arguably ties in with labor market pooling in **Table 1** among other agglomeration forces, especially those 'subtle' ones, mathematically invisible to NEG, but free to be addressed in the context of institutional approach. In this light, it should be noted that the intent of this thesis is not to "fix" NEG to suit the agglomeration of today, or to merge it with institutionalism theoretically. It is only perceived to provide the basis for an alternative theoretical perspective on agglomeration, in order to complement the institutional approach to this study in terms of macroeconomic rationale behind policy.

3 RESEARCH DESIGN

3.1 Research approach and strategy

This narrative case study, as with qualitative research in general, can be described as an unstructured, mainly exploratory, based upon small samples, and is intended to give insight and understanding (Malhotra & Birks 2006, 132). The material examined in this study is verbal or visual, and the media pieces include interviews of varying informality and respective analysis thereof. The material also includes literature, and other communicative documents, which all are interpreted in a cultural (institutional) context. Given the verbal subject material and the cultural aspect, the qualitative approach is arguably the most lucrative and practical for this study. (Eriksson & Kovalainen 2008, 5). The reasons why this study was decided to be conducted with a qualitative research approach can be justified by considerations introduced by Malhotra and Birks (2006, 135), including the personal preferences and experiences of the researcher, the ability of qualitative research to pose sensitive questions and to unveil underlying, even subconscious agendas. It also enables dealing with complex phenomena and obtaining a holistic view of the phenomenon of question.

The methodological decisions for this study were also made according to the research problem (Hirsjärvi, Remes & Sajavaara 2001, 126). This is a qualitative and narrative case study on the economic agglomeration in Japan from an institutional standpoint for the purpose of understanding the present prospects of ongoing Abenomics reforms. Case selection was made with the objective of accomplishing a holistic, overall description of a contemporary event in a cross-sectional manner, however, also considering the institutional evolution behind it. The enterprise was to come up with a narrative of longitudinal characteristics. A case study was considered the appropriate research method for this study for three reasons. First, the study focuses on contemporary events and people actually involved in the covered events. Second, no control over these events was possible by the researcher. Finally, the case study is considered a relevant research method for answering research questions in the form of ‘why?’ and ‘how?’ The latter of the two is emphasized in this study. (Yin 2003, 5.)

This research does not seek to answer any ‘why?’ questions indefinitely. Nonetheless, the case study was still considered as the best option for this research, much in accordance with the typology of Gary Thomas (2011), and its two elements, *the subject* and *the object*. As for *the subject*, the focus is a contemporary phenomenon of ‘practical historical unity’ in Abenomics, and the underlying principles of institutional implications are studied holistically. Regarding *the object*, it refers to the analytical frame through which the

subject is explicated and illuminated. It constitutes the means of interpreting, placing observations into a context, or presenting facts and concepts. (Thomas 2011, 17, 6, 513–515.)

There is also a hint of an ethnographic and informative field-research quality to the study, as the researcher has had personal experience living within the country and culture in question, having explored the phenomenon as perceived by prospective entrepreneurs, immigrants and future graduates, as well as having studied the subject, itself, in Japan on both the undergraduate and graduate levels. Furthermore, case studies are known to be able to present complex business issues in an accessible, colorful, and personal format. Anything else would appear counterintuitive when constructing a narrative. (Eriksson & Kovalainen 2008, 116.)

3.2 Data collection and analysis

Data for this study was collected in the fall of 2013 from governmental, intergovernmental and non-governmental publications, as well as from relevant international media coverage. This allowed for the construction of a more well-rounded narrative and dialogue with the proper social and institutional ramifications concerning the impact of the indicated reforms. While there are a few complementary references to Japanese material, English language sources were utilized with the purpose of maintaining an outside, international perspective, as well as to eliminate the need for translation that might diminish the reliability of the study.

The initial phase of the data collection process was for the researcher to further familiarize himself with the research field and subject in the form of a literature review. As the first set of primary source material, government communication, was collected and analyzed, while the information in the communication was complemented and emphasized with additional, original documents. The corresponding media coverage was simultaneously gathered and analyzed in an iterative manner. Main, primary source documents include:

- Japan revitalization strategy – Japan is back (2013) Cabinet publication 14.6.2013. Tokyo: Cabinet Secretariat, Cabinet Public Relations Office.

Supporting documents:

- Japan revitalization strategy: examples of major policies (2013) Cabinet publication 14.6.2013. Tokyo: Cabinet Secretariat, Cabinet Public Relations Office.
- Monthly report of recent economic and financial developments (2013) Bank of

Japan. 7.8.2013.

- The fourth science and technology basic plan of Japan 2011-2015 (2011) Official Government policy document: White paper. 20.9.2011. Tokyo, Japan.

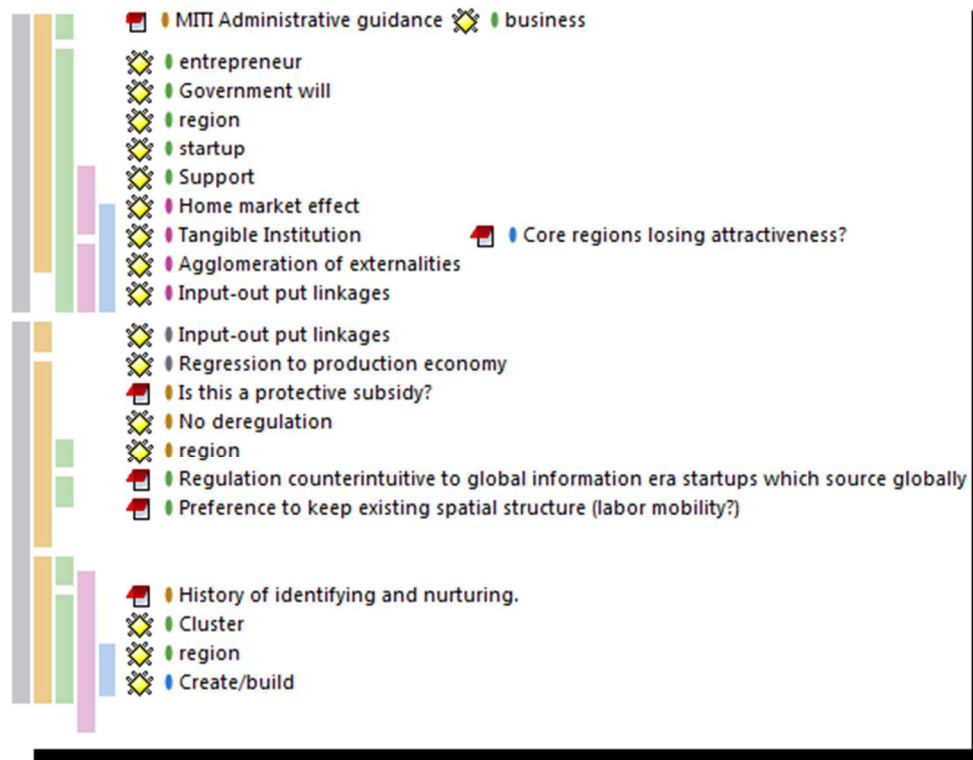
Empirical data was analyzed to present the collected material in an informative and coherent form with additional help from a secondary source report; OECD Economic surveys Japan (2013). Classifying the research into themes serves as an organizing structure for the findings and, thus, provides assistance during the analysis phase. According to Yin (2003, 109), the analysis of the case study can be difficult, as it has no defined techniques for analysis. This case proved to be no exception. In order to avoid a shallow analysis, iteration between literature, theory, and primary sources was pursued until no new discoveries occurred. Therefore, the theoretical frame was complemented with institutional, socio-cultural, empirical observations made in prior research literature (**Section 4**), in order to capture the path-dependent implications for the reform. Thus, the literature was studied with the points in mind that were explicated in the reform itself and the corresponding public commentary on the same topic. Here, the OECD study was also of use; in determining and validating relevant themes in the literature to subsequently be utilized in the institutional analysis. The studying of literature in this thesis explicates emphasis institutional approach places on the evolution of the economic landscape. The institutions in this frame constitute the cultural attributes, structural peculiarities, and tangible regulation, although, they are oftentimes intertwined and difficult to distinguish.

After examining the primary source material, the content analysis proceeded with the simplification and categorization of the material according to the presented themes in the synthetic theoretical framework. In practice, however, the analysis is a multi-phase process where familiarization, simplification, categorization, and interpretation take turns, but also develop simultaneously. The content analysis was made in order to enhance the informative value of the narrative without losing any of the information crucial for conclusions. (Puusa & Juuti 2011, 117.) **Table 2** provides an illustrative example of the content analysis and coding in a mature stage. At this stage some of the initial keywords have merged with actual codes. My reflective journal entries are titled with icons depicting a red memo.

Table 2 Content analysis excerpt: Japan revitalization strategy- Japan is back 2013, 75

○ **Promoting business startups by using and mobilizing regional resources**

- In order to promote business startups by using regional resources, the government will conduct support from business start-up to management know-how across the nation on a one-stop basis. Moreover, it will increase responsible entities for business startups that use regional resources such as enhancing a network of entrepreneurs through support portal websites, **conducting business competition, improving functions of shopping streets and central urban districts.**
- The government will offer comprehensive support by deploying all the political resources including the review of Act on Promotion of Business Activities by Small and Medium Sized Enterprises Utilizing Resources Derived from Local Industries with respect to business startups which use regional resources or mobilize (combine and merge) them.
- In order to build world's pre-eminent industries, the government will create new clusters centered on regional core firms and activate regional companies after redefining promising candidate sites for industrial clusters.



The excerpt illustrates the process. The highlighted text in **Table 2** links to, at the time of capture, activated journal memo-entry ‘Core regions losing attractiveness?’ The margin columns, the corresponding ones parallel to text and the respective observations below, are marked with the same color to indicate their position within the text. Initially, the data was gathered by searching keywords in ‘Japan revitalization strategy – Japan is

back' (2013) which, along with the example document 'Japan revitalization strategy: examples of major policies' (2013), helped to identify essential points of interest within the source material. Initial keyword search:

1. government (635)
2. system (225)
3. support (204)
4. promote (184)
5. measures (167)
6. companies (162)
7. japan (156)
8. business (149)
9. provisional (142)
10. private (141)
11. ...
60. industry (59)

Shortly into the analysis, keywords such as 'government' evolved into phrases such as 'government will' (437) which systematically highlighted the government's aspirations practically without fail. Keywords were also grouped together and merged to form the aforementioned themes. In accordance with the topics and themes, queries for media commentary were made to correspond to the snowball sampling method. Therefore, the exploration of the media introduced a secondary, more implicit, and less systematic hierarchy of emphasis concerning the overall analysis. Since the media, itself, is a major point of interest in this study and represents the voice of professional criticism (the opposite of government communication), a factual-basis viewpoint was widely utilized while analyzing the material, by which the emphasis given by the media was therefore considered. The premise of this view-point is that the media reflects the attitudes and voices prevalent outside Japan and holds authority in perceived reality. (Puusa & Juuti, 118.) While reflective questions used in critical discourse analysis (CDA) were borrowed and utilized in the content analysis, proper and thorough linguistic-discourse analysis was deemed beyond scope. This would have, in effect, required an additional research partner, and would not have been felicitous at the time. CDA paradigm was utilized to form a macro-level, intertextual understanding of the broad societal currents. Simplified analytical inquiry utilized, and accredited to CDA, include (Barry Carroll & Hansen 2006, 1095–1096; Fairclough 1989, 146–166, 192–194):

1. Power relations: whose discourse is conveyed on what topic? (societal and institutional presupposition) Who were consulted in the article? Who is the intended 'subject' or audience for the article?
2. What is left vague or out altogether? (ideology)
3. The prevalence of strong descriptive language with adjectives. (determination)
4. Could reformulating the text, without changing the informative substance, significantly alter the discourse, i.e. in what kind of light are people and events presented?

(ideology)

5. What is the underlying message to be conveyed? What repetition exists within the article and between different articles on the same topic?

List of non-academic and media articles collected via the snowball method and used in the analysis in alphabetic–bibliographical order:

1. Arudou, D. (2013) Japan brings out the big guns to sell remilitarization in U.S. *The Japan Times* 6.11.2013.
2. Ben-Ami, D. (2013) Will Abe's arrows hit the mark? *Fundweb* 3.7.2013.
3. Bremner, B (2013) The sugar high of Abenomics. *Bloomberg Businessweek* 6.6.2013.
4. Creating national strategic special zones (2013) *The Japan Times* 17.9.2013.
5. Japan: The ifs and buts of Abenomics (2013) *Euromoney* 16.9.2013.
6. Kameda, M. (2013) Tokyo hopes to recover its luster with special zones for foreign businesses. *The Japan Times* 23.9.2013.
7. Koo, B-K. (2013) Abenomics, finally a solution to revive Japan? *SERI Quarterly*, Vol. 6.
8. Krugman, P.R. (2013) Shinzo and the helicopters (Somewhat wonkish). *The New York Times* 18.1.2013.
9. McCurry, J. (2012) Shinzo Abe, an outspoken nationalist, takes reins at Japan's LDP, risking tensions with China, South Korea. *GlobalPost* 28.9.2012.
10. Mochizuki, T. (2013) Japan's flagship economic zones lose luster. *The Wall Street Journal* 10.12.2013.
11. No. of highly skilled foreign professionals in Japan remains low (2013) *Japan-Today* 9.7.2013.
12. Osaki, T. (2013) Pluralism Japan's answer: immigration expert. *The Japan Times* 17.7.2013.
13. 'Strategic special zone' bill advances (2013) *The Japan Times* 5.11.2013.
14. Tabuchi, H. (2013) Desperate hunt for day care in Japan. *The New York Times* 26.2.2013.
15. Torres, I (2013) Japan's day care shortage epidemic. *Japan Daily Press* 27.2.2013.
16. Tsurumi, K (2012) Competition policy. *ACCJ journal* November 2012.
17. Ujikane, K. (2013) Abenomics could widen Japan's income gap. *Bloomberg Businessweek* 24.8.2013.
18. Ujikane, K. – Sharp, A. (2013) Japan salaries extend fall as Abe urges companies to raise wages. *Bloomberg* 31.10.2013.
19. Wadhwa, V. (2010) Okinawa's doomed innovation experiment. *Bloomberg Businessweek* 25.8.2010.
20. Win some, lose some; Monetary policy in Japan (2013) *The Economist* 26.1.2013.
21. Wolf, M. (2013) Japan can put people before profits. *Financial Times* 5.2.2013.
22. Wonupmanship: Can Japan break the yen-won curse? (2012) *The Economist* 3.3.2012.
23. Yarker, J. (2013) Can Abenomics deliver? *Money Marketing Online* 1.8.2013.
24. Yokohama says it has no children on daycare center waiting list (2013) *Japan Today* 21.5.2013.

For interpretation of the findings derived from the material, they were arranged into patterns of cause and effect or, rather, intended policy in the Growth strategy and the intended economic/institutional effect. They were then compared and revalued within the context of the theoretical framework and the academic literature of the secondary sources. This type of analysis is referred to as ‘pattern matching.’ The interpretation of the analysis also possessed characteristics of logic models, due to the observation of a chain-of-effects, including a cause-effect series which was also compared to theoretical knowledge. This part of analysis is most evident in the observed institutions and cultural factors, influencing the development of the reform. (Yin 2002, 116–137; Eriksson & Kovalainen 2008, 130.)

3.3 Reliability and validity of the study

Reliability and validity, the fundamental measures of quantitative research evaluation, are subject to controversy among the academia when applied to qualitative research. In this study, reliability and validity were selected having considered alternate criterion. Dependability, transferability, credibility and confirmability would have been justifiable criteria for ‘trustworthiness’ considering the epistemological nature of this research in trying to establish an understanding of phenomenon between two parties, both having a multitude of hidden agendas and subjective standpoints. However, after considering the explorative nature of the study, a narrow scope of a vast and complex phenomenon, these criteria seemed unsuitable for a sufficient evaluation. Furthermore, an examination of qualitative reliability and validity reveals much of the study’s shortcomings, though they were for the most part acknowledged, due to tolerable physical, practical, and resource restraints present from the start of research. (Eriksson & Kovalainen (2008, 292–294.)

According to Yin (2003, 33–39), there are four evaluation criterion to be taken into consideration when conducting a case study research. Three of these criteria were considered for this specific case, construct validity, external validity and study reliability. Internal validity was excluded due to it mainly concerning causal or explanatory case studies involving testing. This case study is more descriptive and exploratory in nature and while intention and intended effect patterns are examined, there is no conceivable way to test the pattern. The bias in general, however, is considered, as observed under external validity and reliability.

Construct validity is a measure of whether or not the interpretations can be generalized and applied to other, similar cases. Valid results or valid information means that the researcher needs to be able to demonstrate that findings are not based on faulty questions, false interview technologies, or observations made during unusual circumstances (Koskinen et al. 2005, 254.). The validity of this study was ensured mainly through the

utilization of multiple sources during the data collection phase of the research. Official documented information is appropriate, especially because it is constant and can be reviewed, whereas media pieces provide an opportunity for deeper understanding of the topic and attitudes at hand that focus on the phenomenon (Yin 2003, 34–36, 85–92). The use of media articles as data can only create a picture of perceived reality, not the phenomenon itself (Gummesson 1991 according to Puusa & Juuti 2011, 77).

External validity pertains to the problem of generalization (Yin 2003, 37). In qualitative research, this means that case selection and selected samples are well grounded and argued (Eriksson & Kovalainen 2008, 293).

As a Japan specific study there is categorically less room for generalization. However, regarding this case of Abenomics, OECD Economic surveys Japan (2013): was used as a reference to validate points made in media criticism. The OECD survey served as the voice of authority and the main storyline of the narrative's critical side. Even in the absence of any validation, the findings can be generalized to reflect the broader theoretical framework presented because the articles available in English on a given topic within this study are rather supplementary. This is, perhaps, due to common base-articles and article replication, but nevertheless results in a rather coherent Anglosphere standpoint to be contrasted with the respective intended message of the government. However, the study should be conducted with more articles in several different institutional settings, languages and researchers to be able to assess the true ramifications of personal bias. In terms of economic arguments made in this thesis, similar schools of thought and results there were discovered to which to reference and confer. However, the findings should occur in other case studies by other researchers in order to further ensure external validity.

Reliability refers to the minimization of error and bias when conducting a case study. The basic objective is to ensure that a later researcher repeating a similar study would conclude the exact same findings. (Yin 2003, 37–38.) In qualitative research, there is no requirement for replication. Nonetheless, the reliability of this study was pursued in the following ways: 1) All steps of the research are documented and described in the research design section, and 2) A case study database including all material and a reflexivity journal was created to allow for later check-ups and verification of information. (Hirsjärvi et al, 2001, 215.) Though the selections are justified, the possibility for the reliability of the findings in this study is also limited due to the narrow limitations of the scale in 24 media pieces. Furthermore, a thorough discourse analysis should be conducted of the media articles to be able to form a scientifically sound picture. The scope of this study allows for a mere analytic reference from the media in corresponding themes within the source material.

4 ECONOMIC DEVELOPMENT AND THE INSTITUTIONAL ENVIRONMENT

4.1 Modern Japanese economy

This section is set out to examine the socio-cultural, socio economic development and evolution of Japan, as to give substance to the institutions depicted in synthetic theoretical frame in **Section 2.3**. The motivation behind the choice of issues henceforth addressed in this section, stem from previous research, and the overall discourse regarding Abenomics. The structural challenges Japan has persistently faced, are widely cited in various forms of commentary, academic and public. They take different orders of priority, but here, those are sought to be addressed which continue to turn up in different source materials. These institutional implications to the current reform, the implications central to the research questions stated in **Section 1.3**, stem from this evolution. Thus the points made here are crucial to the direction of this study as a whole.

‘Modern Japan’ is relatively young, as is observed in the following. Japanese corporations, having emerged around the 17th century, and formerly restricted to primitive industries like mining, became later known as the zaibatsu. More accurately, ever since their purpose became to industrialize, modernize and strengthen Japan and especially its military so as to be able to fend off the threat of perceived western imperialism. Arguably, this fear was not unfounded, as isolationist Japan was forced to open due to a threat of force by Admiral Perry and the American navy. This started a chain reaction which, in turn, resulted in the Meiji restoration and a dramatic overturn of the age-old shogunate. The Meiji government saw how Imperial China, the source of much of Japanese culture, was nearly defenseless in the face of the West. Should the West turn its attention to Japan, it was thought that the samurai, with their katana swords, lacking modern firearms and tactics, would fall overnight. To avoid this fate, Japan set out to adapt to and learn from its feared adversaries, so it sent students to survey and study societies worth emulating. In truth, this was done mainly to build a western-style army and navy equipped with modern, western weapons. During the Imperial wars, fought mainly in China during the first and second world wars, the zaibatsu went through an evolution fueled by political disagreement. The left dubbed them as exploitative and selfish, and the right labeled them an unpatriotic hindrance to the military. This resulted in mergers, power shifts, and a debate between pro and anti-war proponents. In the end, it was war that had enabled the zaibatsu to have grown so enormous. Mitsubishi, a name familiar to this day, emerged as the most prominent engine to the war machine. (Miyashita & Russell 1994, 21, 29–31.)

During the ensuing occupation after the Pacific War, US revised the Japanese constitution completely. Consequently, the zaibatsu were ordered to disband on grounds of being undemocratic, monopolistic, and corrupt. Yet, wartime expenses had brought the economy of Japan on the brink of ruin, manifested by alarming rates of inflation and unemployment. Concurrently, the US government saw in Japan a useful ally, a buffer for the communist Asia. The political sentiment in US turned in favor of rebuilding, since a strong Japan was in line with the US foreign policy, The Truman doctrine of ‘containment’ of the Soviet Union and communism. (Miyashita & Russell 1994, 31, 34.)

In 1948, the rebuilding commenced, canceling the dissolving of the zaibatsu. Instead, the American Supreme Commander of the Allied Powers (SCAP) vested the Japanese bureaucrats with centralized power over most of the industry. The SCAP enacted an Antimonopoly Law, and created the Fair Trade Commission (FTC) to ensure and watch over the competitive development of industry. The Japanese Ministry of Trade and Industry (MITI) did not care for FTC oversight, thus immediately after the Allied forces withdrew in 1952, the MITI commenced its “administrative guidance” for companies, which included reintroducing of official production quotas; hence, effectively stomping on the FTC. (Lincoln 2001, 18; Miyashita & Russell 1994, 34–36.)

The MITI was after another rapid development of big, zaibatsu-style, government-linked agglomerates, which would spearhead the economic growth. This time, however, the military-link was out of the question, as Japan was banned from building one. Consecutively, the FTC and the Antimonopoly law, though formally left in place, were made a mere liberal, democratic façade for the west so that Japan would appear to have taken lesson from the occupation. Japan retained its old structures, only renamed the zaibatsu as keiretsu. Furthermore, the MITI bureaucracy were left in de facto control of the Japanese economy thanks to the absence of the military, trading companies and the family ownership of the zaibatsu. Japanese politicians were also as subservient as was expected at the time. The keiretsu, hosting some major institutions, are further examined in the ensuing subsection. (Lincoln 2001, 25; Miyashita & Russell 1994, 34–36.)

The Japanese ‘keiretsufication’ was not an accident, rather, a priority on the government agenda. The law banning the zaibatsu names was repealed, and Mitsui, Mitsubishi, Sumitomo and Yasuda again took to these prewar names. Cross shareholding banned under the occupation, was consecutively allowed. Hence, the zaibatsu began forming a new. The government imposed obstructions for business financing from sources other than banks, while re-legalizing the bank ownership of stock in their clients. In effect, the government allowed the rebirth of mega-corporations, fed their growth protected from competition for them to retain, and go beyond the former strength and size. (Lincoln 2001, 25; Miyashita & Russell 1994, 34–36.)

Up until the 80s, everything went swimmingly for the Japanese economy. The government’s investment strategy yielded phenomenal gains, and, Japan was envy of the world.

The Japanese economy seemed to perform over other industrialized countries, and Japanese companies were claiming increasing global market share. The Japanese were lulled by their peculiar system, thinking it was a better, sustainable form of capitalism for the long term. High catch up growth, however, averaged at around 10% in the 60s, but corrected to an annual average of 3.8% from 1974 to 1991, due to economic maturity. The growth was still above that of the US, concurrently measured at 2.4% average. The 80s' Japan saw another surge in growth, averaging at almost 5% from 1987 to 1991. This reinforced the Japanese faith in their superior capitalism. The parties of the 80s, however, were followed by a rude awakening, as they were all over the world. (Lincoln 2001, 56–60.)

The 90s' Japan witnessed a growth average as low as 1% per annum, and negative growth for the whole of 1998. Consecutive two quarters of 1999 were negative as well. The stagnation of the 1990s followed the collapse of a speculative bubble in real estate and stock market prices of late 1980s. During the bubble, the value of yen doubled hurting the vital exports of Japan. Meanwhile, the government was caught in a middle of a long-term policy of cutting the deficit. Thus it resorted to monetary stimuli instead of fiscal-, in fending of the threat of recession, consequently, accelerating real growth. Japan then faced the inflation of asset prices, virtually blowing the borrowing for real estate and stock market investments out of proportion. The tripling of stock market and real estate prices were not backed by anything concrete, and in 1989 The Ministry of Finance (MOF) was forced to admit an unsustainable bubble did exist. MOF intervened and slashed the prices in real estate and the stock market with the intention of inflicting the pain only on speculators, however, resulting in a meltdown on both markets. This asset price depreciation ushered the economic stagnation. In 1993, aggressive stimuli by fiscal policy resulted in a dawning signs of recovery. Yet, the brief optimism evaporated in the face tax increases in 1997, which sucked the economy again into recession. (Lincoln 2001, 60–62.) Closely related to the success and demise of the Japanese economy, the next section examines the keiretsu, before delving into more recent developments. The keiretsu also embody and manifest a bulk of the economic institutions in Japan.

4.2 Keiretsu

The Japanese Keiretsu, (large conglomerate corporations and their value chains), played an important role in the miraculous growth after the dire postwar decade. This growth was facilitated by government subsidies and internal market protectionism, which both invoked a fair amount of criticism and bad blood from the west. Be that as it may, the successful recipe involved MITI regulating foreign currency allocations, imports, and even the domestic competition. The main tool and vehicle were the keiretsu. (Miyashita

& Russell 1994, 19–42.) Thus, many of the prevailing institutions in Japanese economy are affiliated with, or completely of keiretsu origin.

Morikawa's (1992, 250) definition of the prewar zaibatsu, the notorious predecessors of the keiretsu, should serve as a proper starting point for an examination. It was, in his opinion, "a business group in which one parent company (holding company) owned by a family or an extended family controlled subsidiaries operating in various industries, with large subsidiaries occupying oligopolistic positions in the respective industries". Not all keiretsu owe their rigid lineages to the zaibatsu, which would often be considered a positive trait. The once family-owned holding companies that were the zaibatsu and turned keiretsu, in fact, tend to hide this part of their corporate history (Lincoln 2001, 25; Miyashita and Russell 1994, 19–20.) The prewar zaibatsu are considered notorious because they failed, and were taken over and linked together by aggressive industrialists who then marched them off into Pacific War. This can be blamed, in part, for all that difficult history it brought upon the people who suffered as a result (Miyashita and Russell 1994, 21.) During the allied occupation, despite rebuilding the economy, the former zaibatsu were outlawed until 1999. Yet the keiretsu did not just appear, but they were not founded by the MITI either. The government did lay the ground and did everything in their power to see them grow. (Lincoln 2001, 25; Miyashita & Russell 1994, 40.) Morikawa's definition points out some structural traits, like how the holding company controlled the independent firms in diverse businesses. Six groups have predominated: *Mitsui*, *Mitsubishi*, *Sumitomo*, *Fuyo*, *Sanwa*, and *Dai-Ichi*. Other banks have also had chains of companies under their wing in a keiretsu manner, though with no lineage from zaibatsu. Consequently, while the zaibatsu were family controlled, in a keiretsu, the governance comes from the main bank and the *sōgō shōsha*⁴. Also characteristic to keiretsu is the practices of cross shareholding relationships, lifetime employment, assigned directors, intragroup financing, and intragroup trade. (Lincoln 2001, 19–55; Miyashita & Russell 1994, 43.)

The bank keeps the flow of money steady within the chain, but also fills a role of a coordinator. The bank has stock in most of the companies within the chain, and thus keeps check of their performance. It may also provide management consultancy if deemed necessary. Companies in Japan generally have a main bank, with a special relationship. The relationship is not juridical per se, unless there's ownership involved, but a longstanding partnership. The *sogo shōsha* -trading company coordinates both the intra-group and external-trade all the way up to foreign customers. Cross shareholding is seen as what keeps

⁴ General trading company, often the recognizable face of the keiretsu. Efficient in information collection. Functions today include: data analysis and market development, project management, risk management, IT-infrastructure management, Logistics, Financial management and marketing management. (Shosha functions 2013.)

the chain as one. Due to this practice, just a good one fourth of the outstanding stock, was on the market in 1994. In relation to this, Japan is notorious for its fifteen minute shareholder meetings. With fewer “outside” shareholders, the companies’ managements have freer hands and less consideration for the short-term consequences of their actions. (Lincoln 2001, 25–26, 29; Miyashita & Russell 1994, 43–52.)

Lifetime employment is one major keiretsu-associated institution. Wages and salaries also depend on the level of seniority, which generally does not benefit women. In addition to permanent life-time employees, firms often have a varying portion of employees labeled as temporary. **Sections 4.5** and **6.3.3** explain Japanese hiring practices in further detail. However, the idea and practice is to hire straight out of college and the employees serve the company until 60 years of age when retirement is mandated. The company also helps the retiree to find a ‘post retirement job’. Again, the system is not based on legislation, but is an implicit de facto practice. Naturally one may always quit, but it is generally ill-advised. Due to the prevalence of this practice, the external labor market is virtually non-existent. Horizontal rotation of positions inside a company on the other hand, is very common. The system is as rigid as it sounds, making adjustments according to fluctuations in demand difficult. Hence, large amounts of overtime, moving employees horizontally within the company, or sending them to subsidiaries is of common occurrence. Additionally, the appointment of directors in subsidiaries is another practice of strengthening the relationship between the companies. (Lincoln 2001, 38–40; Miyashita & Russell 1994, 70–73.)

Within this institutional context, there are also two important practices characteristic of Japan. *Amakudari*, or “descent from heaven”, is the institutionalized practice by which Japanese senior bureaucrats retire to high-profile positions generally in the private sector. *Amakudari* is seemingly an important artefact in the public and private sector relations in Japan. A parallel could be drawn with the ‘revolving door’ on Capitol Hill in United States, but this door revolves between politicians and industry lobbyists. The institution of these ‘revolving doors’ are generally criticized, also in Japan, but it has persevered nevertheless. Another institution characteristic to Japan, and closely related to *amakudari* is *gyosei shido*, or “Administrative guidance”. Administrative guidance in Japan is an institution of informal means of the articulation of mandatory requirements, and the principal method used by the MOF to micromanage financial markets. These two constitute the revolving door of Japanese government bureaucrats and major industry officials, through which personnel, information and culture is shared, converging towards national goals. This means, for instance, that financial reports come as no surprise to government. Private firms disclose virtually everything with bureaucrats enabling them to comment on planned measures. The bureaucrats may impede, influence, or even prevent practices they deem undesirable. They may formulate solutions and responses prior to publication of matters, as to appear ‘in control’ and cater to the culture of uncertainty avoidance. It

also enables consideration for other cultural quirks (further examined in **Section 5.1**), such as avoiding controversy, saving face. Correspondingly, it can also allow industries to make preparations for yet unpublicized regulations and policies. (Brown 1999, 32.)

4.3 Fall from grace of the economic miracle

Section 4.1 examined how the postwar economic miracle was globally awe-inspiring. As a result, the Japanese were confident they had developed a superior form of capitalism by bureaucracy that was more egalitarian and less volatile. The burst of the bubble economy of Japan in the 1990s, however, brought about an economic stagnation from which the country suffers to this day, and Anglo-Saxon capitalist commentators have questioned whether its rigid bureaucracy is more responsible for the failures of Japanese industries than for its successes. A government ordered “Japan's Goals in the 21st Century” – globalization report of 2000 was produced in the turn of the millennium. The report emphasized five challenges facing Japan: globalization, efficient global transportation, revolution of information technology, development of science and technology, and its aging population. Respectively, the report outlined four major detailed reform frames with grave institutional implications: ‘promoting a pioneer spirit’, ‘making a strength of diversity’ (immigration), ‘strengthening the underpinnings of good governance’ (political reform) and ‘In pursuit of enlightened national interest’ (diplomacy and international cooperation). While most agree that reforms are necessary, many issues addressed in the report are still hotly debated, due to institutional and cultural controversy. There seems to be little political will to make significant structural, institutional changes, and the belief in the system remains strong even after over twenty years of stagnation. (Japan’s goals in the 21st century 2000, 8–19; Opas 2008, 239; Porter et al. 2000, 1–3.)

Porter, Takeuchi and Sakakibara (2000, 4–5) conducted an extensive Porter school assessment of Japan’s competitiveness at the turn of the millennium. They recognized, in retrospect, that there are a number of warning signs in the Japanese economy that were identifiable even before the bubble burst. While the Japanese economy was soaring, it had relatively few globally competitive export industries, despite its economy being the largest behind the USA. Furthermore, even within these competitive industries, the profits have been chronically low according to international standards. Another related telltale factor was the higher profitability of American subsidiaries in Japan compared to their Japanese-owned counterparts. In comparison to the US, Japanese capital productivity has been on the decline since the early 1970s. Overall productivity was compensated, to some extent, by rapid growth in labor productivity from the 1960s through the 1980s. The low capital gains stuck due to Japanese protectionism against global finance. International

capital investors were effectively held outside, while the finance and ownership of Japanese companies remained, and remains, dominated by the keiretsu banks. (Porter et al. 2000, 4–5.)

4.4 Competitive and uncompetitive Japan

According to Porter et al. (2000), the past three decades of industry performance in Japan portray two distinctively different countries. The familiar Japan, which was praised by the West as an efficient economic powerhouse, was highly competitive. Famous industries like Japanese consumer electronics and automobiles pushed exports and productivity, thus kept the economy running. However, these industries were relatively few and far between among a profoundly different and inefficient set of industries, the other Japan. The postwar theory dictating that Japanese industries be protected and nurtured until strong enough to face international competition resulted in two segments of industries within an uncompetitive country. The first are internationally-traded industries that failed to become considerable exporters. Included therein are large sectors of the economy including agriculture, chemicals, consumer-packaged goods, medical products, software, and basically the services altogether. The pampered domestic market behind trade barriers and restraints left them externally uncompetitive. The second segment consists of ‘domestic’ industries, including retail, wholesale, transportation and logistics, construction, energy, health care services, and food preparation. These industries can be viewed as the Japanese welfare system due to their generation of numerous jobs while remaining virtually and universally inefficient. Hence, any reform toward efficiency in these industries have been blocked by government policy measures. (Porter et al. 2000, 5–6.) Already in 1997, Takashi Kitaoka, the president of Mitsubishi Electric, warned Japan in a press statement of the dire consequences from which the economy would suffer if the crippled industries were kept cradled at the expense of viable ones (Opas 2008, 256). Furthermore, as early as 1996 the Cabinet installed a committee for dismantling regulation and, thus, fostering a favorable business creation environment (Opas 2008, 264–265). The committee’s proposals were meant to be implement, yet the contemporary topics of debate show little difference as is observed in **Section 6**.

Porter et al. consider one consequence of these two Japans to be the persistent, internationally exorbitant cost of living. While the salaries in Japan remain high, despite prolonged stagnation, they are countered by expensive necessities e.g. food, housing, fuel, clothing, consumer-packaged goods, and basic services. As a consequence, the Japanese living standard remains lower than the *per capita* GDP implies. (Porter et al. 2000, 6).

Figure 5 depicts the *Purchasing Power Parity (PPP)*⁵ adjusted GDP development of Japan compared to that of the US.

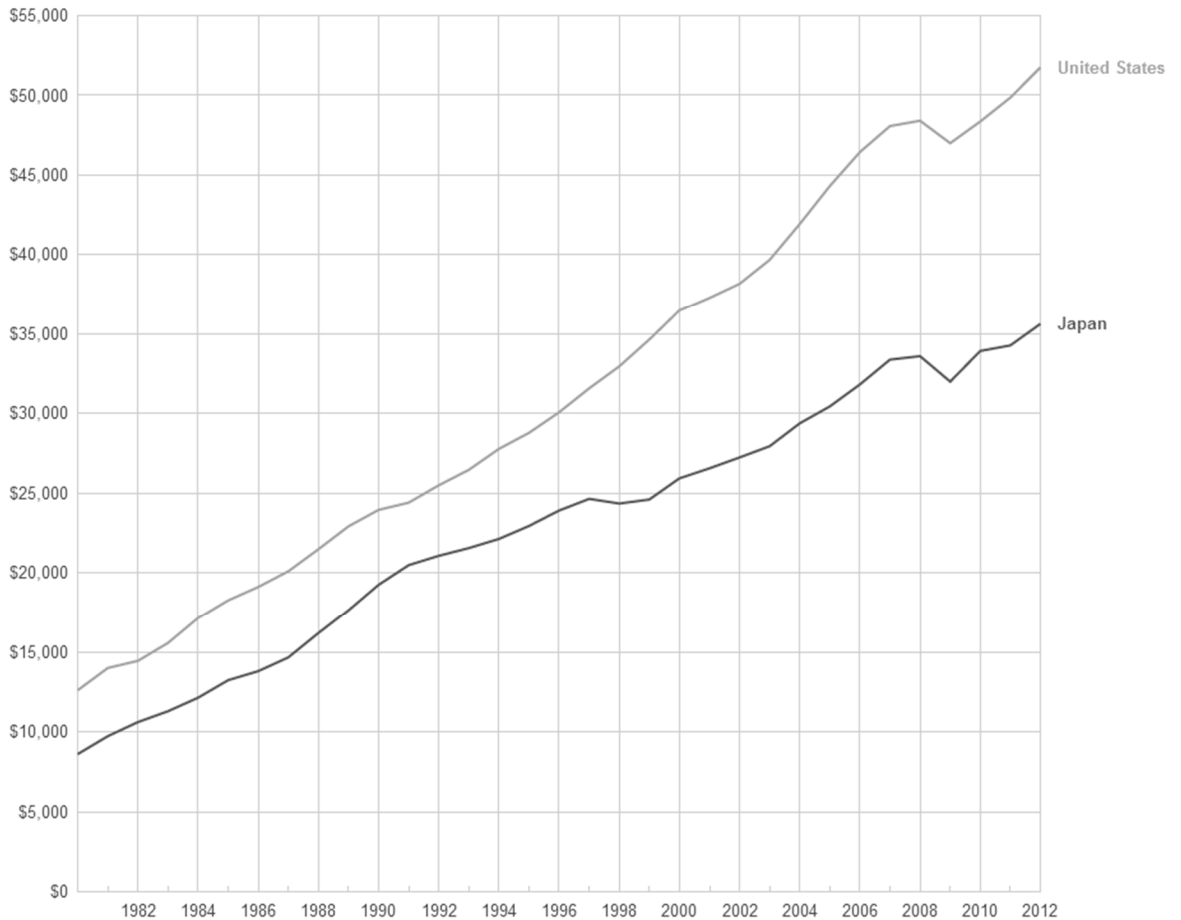


Figure 4 GDP per Capita (PPP) of Japan and the USA (World Bank 2014)

The PPP development is directly related to the ongoing economic stagnation of Japan that is further examined in **Section 6**. The two Japans were supposed to coexist. The uncompetitive international industries would be nurtured until competitive while being relatively unaffected by domestic industries that provided employment. The consumer-burdening high cost of living was justified for the greater social good. Porter et al. (2000, 10) argue that this was a false premise. Export share was achieved partly by sacrificing returns on capital rather than real innovation, and uncompetitive industries were preserved at the expense of disposable income. One by one, former juggernaut industries such as those for cameras and audio-visual electronics have lost productivity and competitiveness, and disinvested in Japan. The progress of the 50s, 60s, 70s, and early 80s that gradually led Japan towards more productivity and more technologically-sophisticated industries with respective gains in prosperity, seems to have been reversed. The disinvestment has not been

⁵ PPP constitutes careful estimates of differences in cost of living or a “basket of goods” and relative business costs, taking into account currency exchange rates.

followed by adequate new company creation and growth industries, despite the efforts of government. In 1996, the government named fifteen potential growth industries, of which five were key, including information technology, biotech, manufacturing technology-related emergent industries, and environmental industries. They remain largely the same in 2013 with a few exceptions, including culture exports and alcoholic beverages (Cool Japan). These will be examined further in **Section 6** as well. MITI and the government does not only identify industries, but also industry outlooks, strategies, and collaboration resulting in very homogenous markets and industries. This is especially the case when most big keiretsu are active in similar industries. R&D investment is strongly directed by government sponsored cooperative projects. (Opas 2008, 264–265; Porter et al. 2001, 11, 21–22, 152.)

4.5 Labor force and -market

The Japanese labor market cannot be discussed without citing the unique term *sarariiman*, or *salaryman*. This refers to the well paid, white-collar Japanese worker who enjoys many benefits, including lifetime employment, seniority wage increases, family allowances, commuter subsidies, and healthcare (Allinson 1999, 92). The salaryman often seems to be a somewhat mystifiable and glorified phenomenon from a western point of view. Arguably, such analogies could be drawn from the narratives that the salarymen represents the modern day Samurai. Unlike Samurai, however, the salaryman title is not hereditary. Instead, he goes through the rigid Japanese school system and emerges a winner simply based upon his admission to a prestigious university like the undisputed best, Tōdai⁶. This should land him a job early in the mandatory, official, collective, and notoriously stressful junior and senior year job hunting process *Shinsotsu-Ikkatsu-Saiyō*. Preferred positions are with larger corporations, which coincide with more prestige and better salaries. The glorified story of a Japanese salaryman holds, in contrast, darker sides to Japanese business and hiring practices as well. For instance, there is prejudice against certain demographics like women, ethnic Koreans, and the *Burakumin* (descendants of the lowest of the feudal castes). But, as rigid as the schooling of Japanese children may seem, Japanese companies have a great appreciation for education. They trust that the school system, ranked from elementary schools to universities, to provide their recruits with an above-average overall education. This ‘clean slate’ is something upon which a sense of company culture and required, specific skills can be built. The ranking of schools and universities provides the recruiters with a ready palette of categories from which to recruit the bulk of graduating students for career trajectories divided into the clerical, non-

⁶ Tōkyō daigaku – University of Tokyo.

career track *ippanshoku* and the managerial career track *sōgōshoku*. While the terms, themselves, are gender neutral, the *ippanshoku* has been reserved almost exclusively for female graduates. (Debroux 2003, 112; Ogasawara 1998, 28; Thomas 1993, 50–56.)

As is observed, while this system is a highly effective and convenient way for large companies to obtain their key workforce, it cannot survive without the buffer of a less productive, less stationary segment of the labor force. The function of this buffer is carried out by smaller contractor companies within the keiretsu-supply chain, where standard employees are considered part-time workers. Despite often working long hours, these employees do not enjoy the benefits of lifetime employment or the relatively high salaries of salarymen. The losing party in this labor-market dualism is often those aforementioned discriminated segments of the population. In addition to very little protection in the labor market, the part-time and non-regular work is not a means towards permanent employment. The salaryman is a male university graduate, recruited from the institution, and in-house labor unions⁷ have little incentive to fight and cater to the needs of employees who are considered temporary. Women are, by far, the biggest group within this segment. While women are employed full-time after graduation, they are traditionally assigned to menial, clerical jobs on *ippanshoku*, and have no concrete career development trajectories. The historical expectation of female workers is for them to marry and quit their jobs after starting a family, so there are little or no daycare services available to facilitate working mothers. Therefore, women are generally viewed as too risky an investment to train as managers with the required commitment and geographical mobility, or even to be assigned to important projects. In the wake of persistent criticism, Abenomics has brought about strong, new government initiatives to finally reform the dual labor market and dual career trajectory, considered not only discriminatory, but counterproductive because resources are not allocated where prompted by growth and demand. However, the path dependency remains evident as the *kaisha*, or companies, are wired to rely upon the commitment, conformity, and long hours of the male staff. **Section 6.3.3** examines how the government declared lifetime employment a thing of the past, along with other institutions behind the labor market. (Argy & Stein 1997, 127; Debroux 2010, 156; Japan revitalization strategy-Japan is back 2013, 5–6; Ogasawara 1998, 18–19; OECD Economic surveys Japan 2011, 24–25; 2013, 25; Thomas, 1993, 50–56.)

Indeed, the consensus among academics and policymakers appears to be that reforms are needed, and women are, by far, the most underutilized and readily available economic

⁷ Labor and trade unions in Japan are mostly in-house company unions. They identify with companies and seek, primarily, to sustain employment levels rather than wage increases. Despite having militant episodes in the past, the labor movement cooperates with management, rather than confronts it. Only roughly 20% of the labor force is represented, making the labor movement a rather insignificant force in the economy. (Allinson 1999, 173–174; Argy & Stein 1997, 53.)

asset in Japan. Progress has been made on this front, but the underlying culture is difficult to change. Even if policies are introduced, institutionalized gender roles are often unbreakable. Younger generations are always more adaptable to change, but established foreign companies within Japan are also potential as pioneers in this field. There are recorded instances of individual determined women achieving positions of prestige and even power, but the problem of the family or career choice largely remains. The salaryman is expected to fully commit to the company, and does so at the expense of his family life. To succeed, women would have to play by these same rules, and because men are reluctant to commit to homemaking, the situation is near impossible to resolve. The fact that Japan is the world's most rapidly aging society, and its birth-rate is substantially below that of the OECD average, adds to the complexity and urgency of the matter at hand. One possibility, on the individual level, is extended family aid in child care. After the urbanization of Japan, however, the family structure has become strongly nuclear, grandparents often living far away. (Beech et al. 2005, 48–51; Japan revitalization strategy- Japan is back 2013, 5–6.)

According to Debroux (2010, 153–154; 2012), there are changes regarding more family-centric values that are observable in the mindset of some younger Japanese businessmen. One such example of a development in attitudes, rather than in policies, is the more commonplace transition from clerical track to management track. As far as gender equality is concerned, the development is still far from optimal. It could, however, be regarded as a subtle sign that salarymen are gradually becoming prepared and mentally readying themselves to accept the emergence of salarywomen. The shortfall is that women are often put off the management track and, instead, placed on the recently-emerged and unpronounced waiting track, or in-between track, referred to as *chukanshoku* or *junshoku*. This is, in effect, a way to wait until the female worker is beyond the m-curve⁸ slope of expected child-bearing age to move her to the management track. Once she has reached this point, it can be expected that she will be unlikely to leave the market for family reasons. (Debroux 2003, 112.) Though this may suggest that women can often be considered valuable assets to a company, the lack of facilities and institutional discouragement for working mothers are remaining barriers that remain. Recent policy measures announced to tackle this issue are examined in **Section 6.3.3**.

⁸ As women drop out of the labor pool for childbearing and -rearing as housewives, an M-shaped curve is produced for female workforce participation with the slope around age 30.

4.6 Growing importance of women, innovation and entrepreneurship

Since 1980s, Japan successfully crossed over to compete in high-tech industries which before were the domain of US and European major corporations. The growth in innovative capacity was evident in statistics on R&D investment, patents, and productivity. In 1985 National Academy of Engineering proclaimed Japan had overtaken the US in 25 of 34 key technologies. By the 1990s, this situation would change quite dramatically. The increase in R&D output has curbed, also in comparison to the US. This has prompted the Japanese managers, industry observers, and public officials to comment on, and question the effectiveness of the technological innovation system of Japan, calling for a fundamental reform. (Branstetter & Nakamura 2003, 191.)

Innovation, in the western context, often carries the implicit connotation of disruptive innovation in the form of a new product, market discovery, or revolutionary production method or service. In Japan, however, the emphasis appears to have been on incremental and continuous innovation (Futagami & Helms 2009, 72). While private R&D spending has been high, it has been directed toward applied research intending to build on foreign technology. The intention of this has been to seize easier, faster, and therefore more lucrative, returns instead of riskier basic research. After all, large keiretsu manufacturing chains stand to benefit the most from even a small decrease in unit costs (hence the tendency toward production innovation as well). (Karan 2010, 343–344.)

Since the Japanese economy and the mindset of the country's population are dominated by big corporations and the salaryman-culture, the innovative activity has concentrated within these large companies. It is facilitated by vast, in-house training for staff, which is also kept busy by job rotation, that produces well-rounded professionals within the given corporation rather than specialists within particular fields. This being said, entrepreneurial activity has been significantly lower in Japan in comparison to western countries. Therefore, disruptive innovations rarely occur outside (or even inside) the major companies or keiretsu. (Thomas 1993, 24–46.) As has been observed, with these keiretsu structures, the economy was wired for a tight cooperative units of whole supply chains of manufacturers, suppliers, distributors, and banks strengthened by the job rotation and reassignment of employees within the chain. This culture, characterized by lifetime employment, minimizing risks, seeking security and prestige by group association, has made it undesirable to venture into personal business. Even if such desire existed, obtaining capital would pose yet another major obstacle to overcome. Banks were formerly the MITI dictated sole source of capital. They remain the main source thereof to this day, and are as loyal as ever to their affiliated corporations. Thus they remain reluctant to finance, or engage in business with, any outsider to their keiretsu chain. Notwithstanding the difficulties listed above, in comparison with the west, the inherent risks in-

volved with entrepreneurship facing people everywhere, are also found even more difficult to cope with by the Japanese. This is due to the culture-driven intolerance for failure, and the related imperative of saving face. As if entrepreneurship was not unattractive enough to a Japanese mindset, a list of entrepreneurial growth hindrances goes on, including the rigid, formal, and institutionalized conventions of Japanese business culture, the seniority system, enterprise-specific unions, lifetime employment schemes, and restrictive government policies. Furthermore, cultural and individual barriers include the group-orientation. Individual endeavors are seen as not only risky, but socially sketchy and selfish, disrupting the status quo or 'harmony', as it deviates from the norms and expectations imposed on an individual. (Futagami & Helms 2009, 72.) Still, it bears keeping in mind that it is the very culture of salaryman and keiretsu which is the institution most often associated with the post-war success of the Japanese economy. While this may pose challenges to reform, according to Michael Porter et al (2000, 188), it is for these institutions associated with salaryman, that Japan possess an extraordinary ability to work and innovate across disciplines. These include job-rotation, subsidiary appointment and intra-house training, and they could hold the potential to prove a formidable advantage in the information age.

While not to belittle the challenges facing entrepreneurship in Japan, it should be noted, that as economic development progresses, self-employment declines as a natural consequence as well. As incumbent companies grow, they become able to provide more employees with steady, secure salaries and jobs. As markets grow, economies of scales are realized, and technology augments productivity, workers also start to demand the aforementioned benefits. (Blau 1987, 446.) After examining the Global Entrepreneurship Monitor report data on women and entrepreneurship, Allen, Langowitz & Minniti (2007) support this observation. As more and better salaried jobs become available, opportunity costs (especially considering the risk/ pay off ratio) arise and disfavor entrepreneurship. This is not intended to undermine the power or judge the merit of the Japanese institutions but, rather, intended as a general observation and reservation concerning the situation in Japan.

While famous for their reluctance to implement institutional reform and, therefore change, a vast majority of conservative Japanese politicians and bureaucrats, now agree accommodating risk-takers, fostering new types of innovation, along with facilitating a broader role for women within the economy, has become imperative, if Japan hopes to be competitive in the digital age. Some reforms have been implemented to facilitate entrepreneurship, disruptive radical innovation, and new firm creation. However, outside the risk-averse, bread-winning oriented salarymen who are too concerned with entrepreneurial risk-taking, women are seen as a group potentially more likely to engage in business activities. Women are the focus consumer group in Japan directing the expenditure of households, so they get business ideas directly from their daily lives. The digital age has

provided women a means to engage in business activities in addition to maintaining their family lives. Successful female entrepreneurs also provide a further platform for women to excel in the business world as their networks expand. (Futagami & Helms 2009, 72–73; Karan 319.) According to Philippe Debroux (2012; 2010, 81), the author of the book *Female Entrepreneurship in East and South-East Asia: Opportunities and Challenges*, female-ownership in emerging enterprise amounts to 15% of the Japanese total, and have seen a modest but steady growth. (40% in the US). Female entrepreneurs are also moving beyond the normative ‘feminine’ service trades, venturing into more ambitious ones including accounting, financial advisory, tourism, and healthcare. A handful of female-owned businesses have even gone public. Such developments have mainly been concentrated in individual customer service industries, and have not really affected ICT, corporate services, and manufacturing. Women are still generally considered ‘necessity entrepreneurs’, turning towards entrepreneurial opportunities because there was no returning to their prior job, which they left for the aforementioned child bearing reasons. A small portion of these women can be classified as ‘opportunity entrepreneurs’, having, instead, started their businesses in order to achieve individual goals and life objectives without defying the pressures of society to adhere to the *ryōsai kenbo*⁹, or expectations that a typical woman’s role is to be a “good wife, wise mother”. Furthermore, Debroux points out that acceptance of women operating and owning their own businesses is mainly restricted to a small progressive segment in metropolitan demographic while the attitudes in rural Japan remain highly conservative. (Debroux 2010, 52, 81–83; Japan Revitalization Strategy- Japan is back 2013, 5–8.)

This section has mostly examined female entrepreneurship. However, as there is a demand for female ventures in technology, ICT and other innovative high productivity industries, so there is a similar demand for venture activity in general. Especially among the traditional engineers and scientist and the respective companies and research institutions. Japan is in need of an environment and culture that is more encouraging for ventures. Both Innovation and entrepreneurship, along with business application for research, are examined in greater and more prospective detail in latter half of **Section 6** as part of the contemporary structural reforms.

⁹ “Good wife, wise mother” is an idea still influential today, having emerged in the latter part of Meiji period during the late 19th century and prevailed throughout the military era leading to Pacific War and, as argued by some scholars, until the 80s. It is a nationalistic, militaristic, and economic concept wherein women of all social classes are to be well educated and placed in charge of birthing and raising children and citizens in a manner befitting the needs of the economy and military. This can be contrasted with the preceding feudal Tokugawa period and its Confucian emphasis on a more subservient role for women, especially in the Samurai class. (Fujimura-Fanselow 1991, 345.)

5 CULTURAL ATTRIBUTES FOR INSTITUTIONAL ANALYSIS

5.1 Japan through the Hofstede-model

If the relationship between entrepreneurship and culture in general is crucial in terms of the analysis conducted in this study, naturally even more so is the culture of Japan. Hence, having examined the evolution of the economy and, the institutional environment of Japan, the analytical framework is still in demand for an examination of the cultural data of Japan in comparison to that of the west. This need stems from the general discourse concerning Abenomics, observable in most all articles and narratives on the subject. Thus it is also central in the institutional analysis of the primary data in **Section 6**. Japan's score on the Hofstede-model is portrayed in **Figure 4**¹⁰, compared to the US for the aforementioned reference purposes.

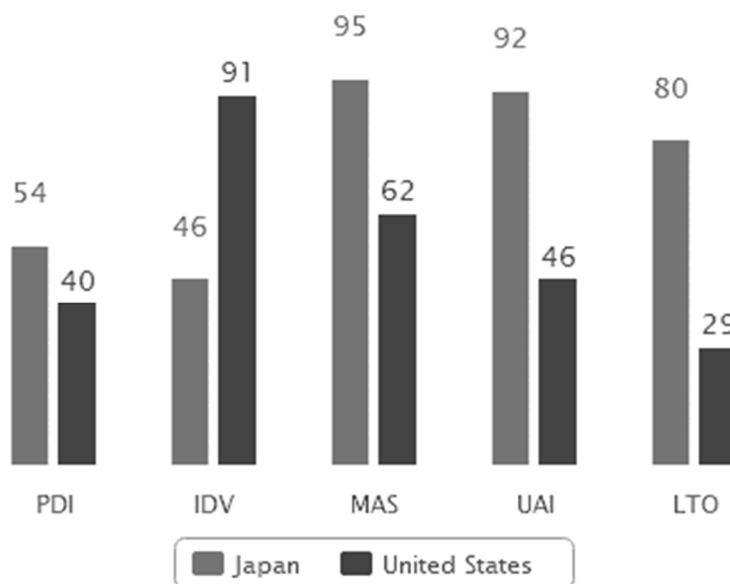


Figure 5 Japan and the US on cultural dimensions according to Hofstede 2001, 500

Japan measures at 54 at PDI, thus making it less hierarchical a society as often presumed, less than its Asian peers at least. However, the Japanese do constantly keep track of their hierarchical positions in any given situation and of the respective conduct it mandates. Decision-making takes time, as all decisions must be approved by subsequent levels and, finally, by upper management. It is this same slow decision making process that

¹⁰ This subsection is constructed on the basis of information provided by 'Cultural Tools Country Comparison' at The Hofstede-Centre (<http://geert-hofstede.com/>).

goes to show how any top executive cannot dictate in absolute terms, as is usually associated with hierarchical societies. (Hofstede 2001, 154, 212, 286.)

Collectivist societies are characterized by the people being loyal to social entities or ‘in-groups’ that in exchange look after them. Japan measures at 46, slightly above medium, in the IDV category. Japan does exhibit many signs of a collectivistic culture. This includes an emphasis upon group harmony rather than individual expression, as well as the dreaded losing of face and shame thereafter. However, again Japan appears less ‘Asian’ than its neighboring, more collectivistic cultural peers. This is commonly attributed to the rapid urbanization of Japan whereby it lost the extended-family system, the basis for collectivism in China and Korea. Japanese are known for the loyalty they have for their companies, whereas the Chinese are more ‘western’ in this regard. In Japan the in-groups are, rather, situational or optional – as would be the case with a company. (Hofstede 2001, 227–228, 234, 237, 255, 293, 345–346.) Even a traincar may represent a group in which harmony must be preserved.

A low MAS score is associated with values such as solidarity and quality of life. Such a ‘feminine’ society also implies social cohesion, whereas a masculine society is competitive. Measuring 95 at the scale, Japan presents a peculiar case. Japan is about as masculine as they come, but the collectivist aspect renders assertive behavior as well as competition rather implicit. The tough competition is more apparent between the in-groups, and personal merits are parallel to that of the group. For instance, academic success is derived from the rank and reputation of the affiliated institution. Similarly, what motivates employees the most is being a member in a prestigious competitive team. Masculinity is also associated with *monodukuri*, the drive for perfection in all professional performance. Furthermore, the Japanese workaholic, as well as distinct gender role divisions are exhibits of this cultural trait. Both of these qualities will be addressed at various points within this study. (Hofstede 2001, 204, 207, 277, 285, 299–304.)

UAI score at 92, Japan may be considered to possess the least tolerance for uncertainty of any other nation. Throughout history, the culture of Japan has evolved while having to cope with typhoons, heavy volcanic- and seismic activity, and the resulting tsunamis among other devastating events. Japan has hence pioneered efforts to prepare for the unpredictable, and as a result learned to dread any conceivable uncertainty. Hence, painstakingly thorough emergency plans and precautions are commonplace. This framing of consciousness is also showcased in ritualized practices and even the expected progress in individual lives where milestones are marked with ceremonies. Uniformity of these aspects is of great importance and for instance, deviation from expected phases in life causes serious discomfort. Decision making in a company requires extensive effort in mapping of all conceivable risk factors. The high UAI score is one of main reasons as to why implementing large scale institutional changes can appear almost inconceivable. (Hofstede 2001, 150, 177–179, 234, 355, 436, 446–447.)

With a rather Confucian LTO score of 80, Japan can safely be considered as a long-term oriented culture. Life is guided by virtue, practicality, and tradition rather than religious authority. Long term orientation can be observed in companies investing heavily on R&D, even in times of poor economy. In a similar vein, a higher asset-to-liability ratio, and the value placed on acquiring market share and growth in company size rather than short term profit gains, as is also observed in **Section 6.3.2**. The aim is always to preserve the company. The underlying notion is that the sole purpose of companies is not increasing shareholder value on a quarterly basis, as is codified in western corporate governance; but rather, serving the welfare of multiple generations of stakeholders. (Hofstede 2001, 150, 168, 355–356, 362, 436, 447.)

5.2 Western individualism and the social context of entrepreneurship

As was observed in various instances in this study (particularly in **Section 4.6**), one of the most often addressed theme pronounced in the context of stagnation and deagglomeration of Japanese economy is entrepreneurship, or lack thereof. This aspect is one of the most explicit differences between the deagglomeration of production economy of Japan and the similar development observed in most all developed nations like the US and also Asian counterparts such as Singapore. Practically without fail, upon this issue is culture offered as the main source for discrepancy. Hence the literature is examined here, as the recurrence of this theme is frequent throughout the analysis.

The US has been prevalent in entrepreneurship, by both men and women. This may be attributed to the individualistic culture and the ethical presupposition of self-responsibility. The case of the latter is increasingly concerning women as well, even equally so, and is becoming more institutionalized by the day. Individual competitiveness is central to American society. It can also be seen resulting from society wherein diversity in lifestyle, views and opinions is given for both sexes, especially on an aggregate, institutional level. Similar arguments can be made for other western cultures as well. Therefore, it is argued that efforts in replicating this entrepreneurial development to the same extent, on same individualistic grounds, may be fundamentally misguided in the foreseeable future of Japan, or other East-Asian societies for that matter. Cultural path-dependence is strongly embedded in the socio-economic and cultural environment of Japan, and its culture does not encourage individualistic behavior or place a high value upon it within its social hierarchy. (Debroux, 2010, 75.) This is cited as a limitation to not only entrepreneurial equity, but also to overall gender equality development in Japan.

Despite Confucian principles, the idea of individualism as a virtue is not completely unknown in Japan. As mentioned in **Section 4.3**, at the turn of the millennium, a team of advisors to Prime Minister Keizo Obuchi presented its report on 'Japan's Goals in the 21st

Century' entitled, 'The Frontier Within: Individual Empowerment and Better Governance in the New Millennium.' The report was intended to address the issues of globalization that Japan faced. The authors seemed convinced that, at the dawn of the new century, the economic environment would see a drastic change. The new challenges imposed by globalization would best be tackled by agile intelligence, uniqueness, and the entrepreneurial spirit with a basis in individual interests. In other words, the report prescribed a major leap towards more western values. Therefore, the report was, one could argue, surprisingly strong on individualism and individual responsibility, with educational and labor market reforms to promote individual progress, heterogeneity, meritocracy over seniority, and an overall dismantling of elitism and bureaucratism within the society. From a conservative Japanese perspective, the report was practically blasphemous at worst, or odd at best. It is noteworthy to point out that 2000 was the time of the IT boom and the global bubble had yet to burst. Be that as it may, the report was quite progressive for its time, and can still be considered so in 2014. In addition to drastic immigration and defense policy reforms, it even proposed the equipping of all Japanese adolescents with practical English skills¹¹ by requiring that English be recognized as the country's second official language. (Japan's goals in the 21st century 2000, 2, 4, 9–18; Opas 2008, 231–240.)

The potential for emergent entrepreneurship and venture activity can be examined considering an individual's embeddedness within his or her various social contexts (Kibler, 2012, 42). This premise appears justifiable, as it is explicitly contrasted within Japanese society where support and encouragement from parents and peers remains low. Furthermore, social support regarding prestige is almost exclusively found in a career within a major corporation. According to Kibler (2012), this is reflected by the important role played by social capital in accessing tangible and intangible resources necessary for a successful starting of a company. The social environment provides an important support network for potential entrepreneurs, which initiates the drive to collaborate and encourages them throughout their endeavor. Potential entrepreneurs often have limited resources, especially in the initial launching phase. Thus, close social networks like family and friends are the key in facilitating motivation toward entrepreneurship. Potential entrepreneurs often need prerequisite social approval from their resource gatekeepers in order to translate the idea into an operational business. (Kibler, 2012, 42.)

Regarding entrepreneurship and family businesses, literature often portrays someone founding a company and subsequently managing it, that someone being most often a man. The wives, partners, daughters, and sisters of the entrepreneur are rarely discussed. Thus a term 'invisible' or 'hidden' was coined to mark the absence of the role of women in this

¹¹ Japan ranked 26th (a barely-moderate score) in EF English proficiency index - Third Edition (2013) among adults.

context. The lack of women in these narratives works to reinforce an individualistic, gender-biased and discriminatory discourse regarding entrepreneurship. (Hamilton, 2006, 253–254.) The narrative of the heroic male has characterized the entrepreneurial discourse reflecting a world traditionally run by men but also holds broader implications to it. According to John O. Ogbor (2000, 617) the common narratives in entrepreneurship acts to preserve prevalence of ‘monolithic’ knowledge. This is to prevent assessment of diversity in entrepreneurship by dismissing the contemporary institutional and the socio-cultural context.

As with any other social construct, the entrepreneurial identity is shaped via multiple discourses, despite the patriarchal tendencies found in literature. It emerges from participation, and is shaped culturally and through a relation to others. Hence, the discourse is reinforced when the business is deliberately presented in a conformist manner to the outside world for practical, cultural reasons. This is an institution on its own within certain male-dominated fields of industry. Still, women do create conditions where they are challenging the patriarchal power structure. (Hamilton, 2006, 254.) Take, for instance, the unorthodox Japanese case of Peach John and its founder, Mika Noguchi. In 1987, after getting fed up with the sexist underwear by predominantly male designers, Noguchi began designing, herself, and founded a company with her husband as an investor. In 2005, her highly successful, \$145 million worth of sales were generated by a staff of forty-two¹², of which only one person was male and, thus, providing Japan with a long-standing anecdote of an exception to the rule. The market for women was served inefficiently by men, and Noguchi’s legitimacy came from market demand in a strictly male-dominated business environment with reluctantly cooperative networks. (Beech, Yuki, Toko & Michiko 2005.)

If kick starting the agglomeration is sought by entrepreneurship and female participation, the constructed reality in these narratives may bear significant consequences to this end. Meaning, that this premise where discourse for entrepreneurship can present an institutional facade that does not reflect reality, could have wider implications. The construct reality for both domestic and immigrant entrepreneurship, along with female participation in the Japanese labor force, is characterized by narratives of institutional difficulty and hardship as explored throughout this study. This could suggest the possibility for the construct reality to render the actual situation in Japan seem significantly more unattractive than it is actually perceived by the active agents themselves.

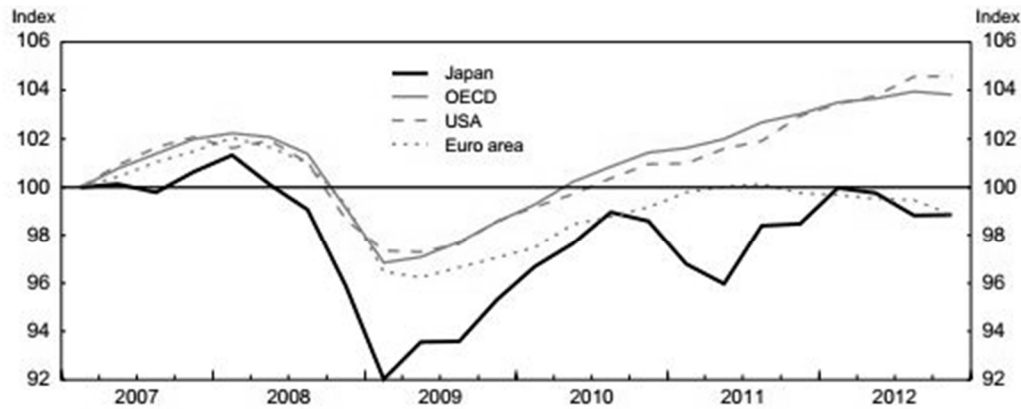
¹² By 2013, the number had reached around 140. The husband’s share and 51% of the company was sold to Wacoal Holdings in 2008. Mika Noguchi was demoted from the executive position in 2011 and she retired shortly after, leaving the whole company to Wacoal. (Company profile 2013.)

6 THE GREAT RECESSION AND ABENOMICS

6.1 Second consecutive lost decade

Section 4 studied how the economy of Japan has faced challenges since the sterling growth and bubble economy burst in the early 1990s. The dawning of its recovery, however, was again abruptly hampered by the global financial crisis of 2008. With this short interlude one must now progress from the safety of literature and onwards into less thoroughly researched frontiers as the Cabinet publication is fresh out of the oven at the time of this study. Throughout **Section 6**, this thesis lies on analytical grounds, albeit with the softened landing provided by the recent OECD (2013) survey on Japan, as well as with the support by some recent publications.

As reported in the OECD (2013) survey; the Heisei-crisis of 1990s and corresponding economic fallout is also referred to as the Great Recession, as related to the Great Depression of 1929 leading up to the Second World War. Adding to the injury of 2008, the Great East Japan Earthquake occurred in 2011 and proved to be the worst disaster in Japan's post-war history. Nearly 20,000 people perished, incredible damage was done to infrastructure, and there was a nuclear-reactor meltdown in northeast Japan that resulted in an environmental and humanitarian catastrophe the literal and economic fallout of which Japan deals with to this day. The containment, clean-up, and the public communication problems still feed international controversy regarding Japan's government, in addition to the challenge of rebuilding efforts. All things considered, it would be safe to argue that public optimism is fairly uncommon. This will be the most recurrent theme throughout the non-governmental side of the narrative, especially within non-Japanese commentary. The first primary source-grounded theme is therefore dubbed *Media Pessimism*. This, in turn, is complemented by the opposite as expressed by the government counterpart. Nevertheless, Japan appeared to be making a strong initial recovery from the earthquake and tsunami, but stalled in mid-2012. This has left output at 2.5% below its peak in 2008 prior to the global economic and financial crisis. This development in economic output is depicted in **Figure 6**. Japan has, therefore, experienced no fewer than three recessions in only five years. (OECD Economic surveys Japan 2013, 5.)



Source: OECD Economic Outlook Database.

Figure 6 Two major shocks faced by Japan since 2008 (OECD Economic surveys Japan 2013, 5)

The 2008 Great Recession debt crisis resulted when large quantities of subprime loans were discovered to be toxic, along with their market-derivatives, owned by major financial institutions in the United States. The ensuing panic in the market and the fall in global demand due to uncertainty sent the export-dependent Japanese economy back into a dire recession, as was the case with all other major industrialized countries. **Figure 7** depicts the rate of change in Japan during 2006-2010 for real GDP growth in comparison to the same quarter a year before. The nominal GDP growth was negative from the second quarter 2008 to the last quarter 2009, hence shrinking for seven quarters in total. **Figure 8** illustrates the Japanese real net exports for 2005–2010. There is a tremendous decrease in the autumn of 2008. Subsequently the first quarter of 2009 saw a fall to one-fifth of previous levels. Figures 7 and 8, considered together, indicate the well-known fact that the Japanese economy is heavily dependent on foreign demand for their manufactures. (Ogawa & Takanori 2012, 401–402.)

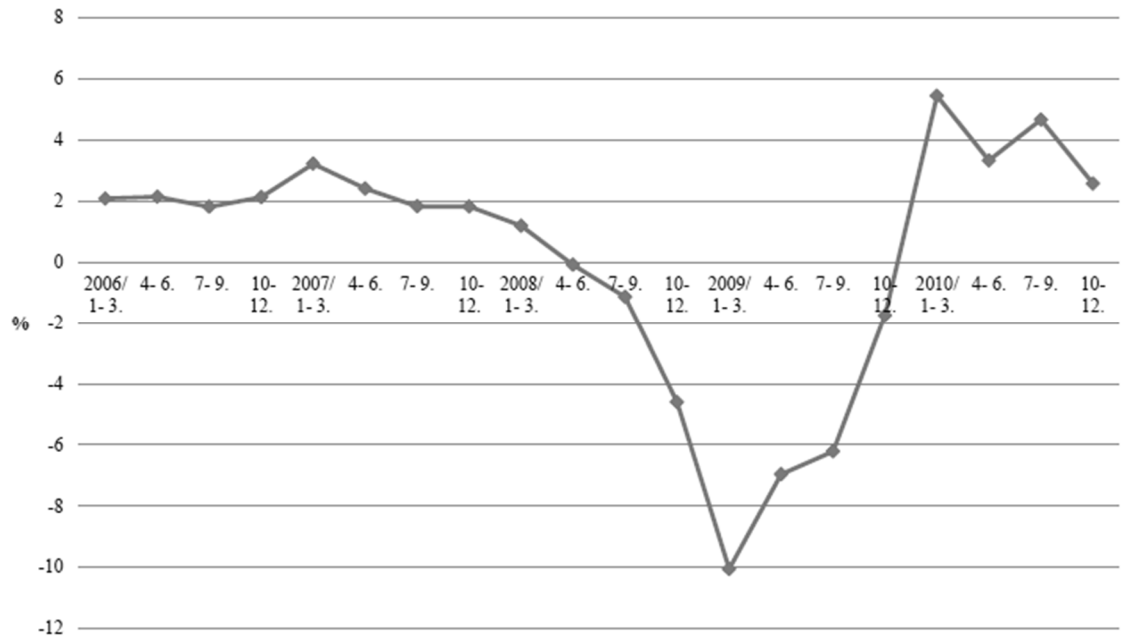


Figure 7 GDP real growth rate (Ogawa & Takanori 2012, 402)¹³

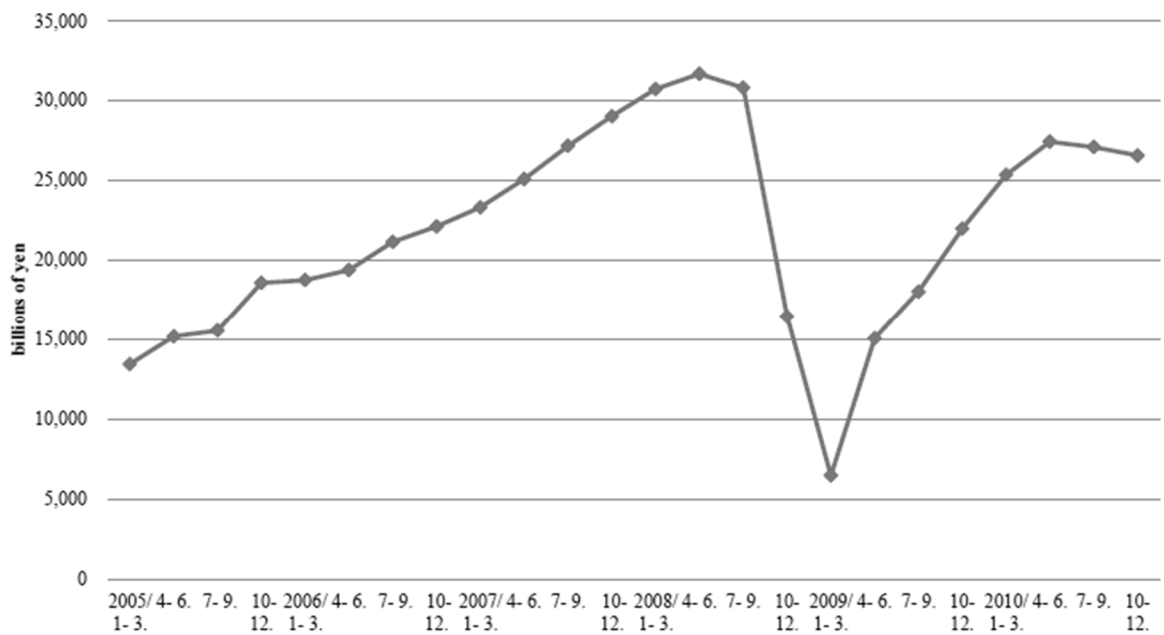


Figure 8 Real net export (Ogawa & Takanori 2012, 402)¹⁴

After a good two decades since the burst of the 80s bubble-economy, Japan remains caught up in a cycle of deflation. The prices of assets and consumer products are still

¹³ GDP real growth rate compared to the same quarter the previous year. *Data source:* Annual Report on National Accounts, Economic and Social Research Institute, Cabinet Office, Government of Japan.

¹⁴ *Data source:* Annual Report on National Accounts, Economic and Social Research Institute, Cabinet Office, Government of Japan.

sloping down, even if the central bank's quantitative easing measures and monetary policy keeps interest rates effectively at zero. Furthermore, according to *The Economist* (2012), the value of yen against won has favored South Korean exports in a spectacular fashion since the global financial crisis hit. The piece analyzes the schism between the two supplementary exporters' currency feud, but arguably from a Japanese perspective when taking into account the "first blood drawn" by the feud. This is a metaphor for largest bankruptcy claim since the Pacific War, that of Elpida, a Japanese producer of DRAM memory chips. During this period after the crisis, the South Korean won has lost roughly 50% of its value against the yen, along with the US dollar and the Euro as depicted in **Figure 9**. This has helped neighboring South Korea undercut the Japanese on price, especially in key industries including electronics, crucial to Japan for steering the country back towards economic growth. "From a Japanese standpoint, the South Koreans are far more cut-throat global competitors than American firms." The yen has behaved like a curse in terms of growth and recovery; the worse the economy gets, the more yen has gained in value. The article concludes with a pessimistic outlook for Japan (Wonupmanship— 2012, 84): "Korean exporters have been more aggressive than Japanese ones in tapping new markets such as those in emerging Asia; it would take a super-cheap yen for the Japanese to catch up in these markets". (OECD Economic surveys Japan 2013, 5; Wonupmanship— 2012, 84.) Sluggish growth in output and rising public spending, inflated by the world's largest growth in aging population, have pushed gross public debt above 200% of the GDP as visualized in **Figure 10**. This invokes concern regarding fiscal sustainability. The primary general government budget deficit, estimated at 9% of GDP in 2012, is to be eliminated through large-scale fiscal consolidation. This bears the backlash of holding back nominal GDP growth and should make appeasing of the public debt ratio difficult. Simultaneously, structural problems, as the skewing demographics and economic protectionism weakening global integration, stands in the way for growth. (OECD Economic surveys Japan 2013, 5.)

Though Japan is not alone in having this list of problems, the tone in which these problems are portrayed within the media is, again, extremely pessimistic. This is also true, to some extent, within the OECD report as well. While it naturally aspires for a neutral tone, negative content renders the narrative nonetheless negative. The reason for pessimism in Japan's case, however, can again easily be attributed to history and its unique institutional setting. Yet, as the structural reforms are analyzed in later sections, I would assert the possibility that there is a sheer lack of profound understanding or approval of the very institutional setting by the media. Just as the post war economic 'miracle' was studied in awe by the west, it is now attractive to take the western or neo-liberal "told you so" position, especially when considering the effect ratings play for the media.

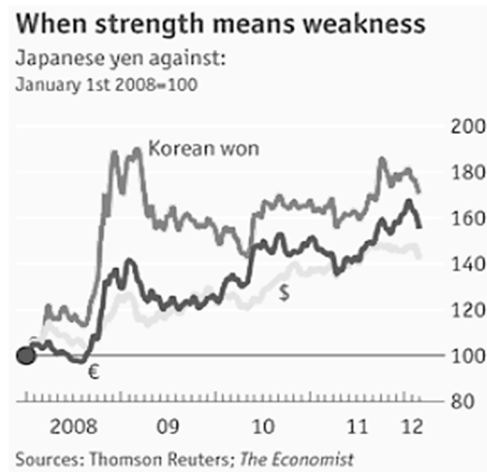


Figure 9 Japanese yen against won, dollar and euro (Wonupmanship— 2012, 84)

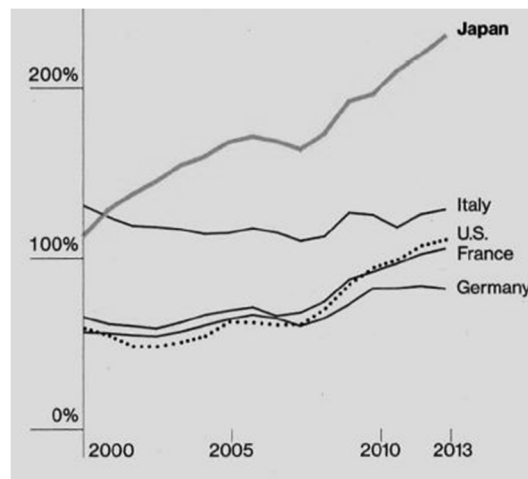


Figure 10 Debt as a percentage of GDP (Bremner 2013, 12)

When considering the prolonged stagnation and pessimism, one may ask what makes recent events and the current situation unique? The economic woes have been amplified by political instability manifested in the windy office of the prime minister, which has seen six premiers since 2008. This naturally hinders economic policy-making. This was, at least, the case until December 26th 2012 with the re-election of Shinzō Abe as Prime Minister. According to Brian Bremner (2013, 12) in his rather extensive, but somewhat condescending, piece for *Bloomberg Businessweek*, five recessions since 1990 and a two-decade run of subpar growth, means that Japan cannot exactly be regarded as a model of economic dynamism. Nor can Shinzō Abe, the scion of one of Japan's most prominent political families, be regarded as an economic revolutionary. Nevertheless, Abe has unleashed a barrage of deregulation initiatives and economic stimulus measures dubbed *Abenomics* (a portmanteau of Abe and economics), notwithstanding the originality of the measures, or even the lack thereof. They have without a doubt, however, resulted in a nascent, cautious optimism in both political and academic spheres alike, and even more

importantly, within the market. (Bremner 2013, 12; OECD Economic surveys Japan 2013, 5; Wonupmanship— 2012, 84.)

6.2 Prime Minister Shinzō Abe and Abenomics

Shinzō Abe, president of the Liberal Democratic Party (LDP) and a chairman of the Oyakaku parliamentary group, is the current premier and Prime Minister of Japan. After less than a year in office, Abe resigned the post of Prime Minister in 2007 due to controversies within his cabinet and reported health issues. However, in December of 2012, Abe was again elected into office. This marked a political mandate and green light for his economic and, especially, monetary policy. In accordance with a frequent media talking point, in his piece for *Global Post* concerning the very subject matter, Justin McCurry (2012) literally warns that Abe is viewed as a right-wing nationalist and holds views that often causes concern in neighboring South Korea and China. Contentious examples include his approach to the issue of the dispute with China over Senkaku islands and his denial of the official Allied perspective of the history of the Pacific War. This, combined with the ways that Abe has been espousing the remilitarization of Japan to its ally and protector, the USA, has raised some red flags in the region, as well as within the USA. (McCurry 2012; Nakata 2007; Profile of the Prime Minister 2013.) Similarities can easily be drawn between the prewar militaristic expansion of the economy and contemporary reforms. In fact, the two previous reforms were tightly coupled with the military. In contrast to Germany, for instance, the discourse heats up easily considering western discomfort toward the Japanese cultural tendency to sweep unpleasant topics, both current and historical, under the rug even within school curricula. Therefore, Abe has kept the international media on its toes, especially concerning politics outside the economic sphere.

Dr. Bon-Kwan Koo (2013), a fellow at SERI¹⁵, recently studied Abenomics and, in particular, its monetary components. When Abe won the upper house elections on 21 July 2013, his monetary policy, strongly appealing to the Keynesian, western crowd, was virtually set in stone. On this account, Jonathan Yarker put together a slightly optimistic piece for *Money Marketing* that included several comments by experts. The Abe cabinet initiated one of the most aggressive quantitative easing programs ever attempted by any

¹⁵ Samsung Economic Research Institute is Korea's largest private think tank. Its more than one hundred researchers provide timely analysis on macroeconomic development, global issues, technology and industry trends, public policy, human resources, and management issues. SERI also acts as an expert consultant on issues affecting organization in government and industry, and conducts conferences and presentations for leaders in the public and private sectors. -<http://www.seriworld.org/>

administration anywhere and, along with it, several structural reforms. Unlike his predecessors with similar plans, Abe may rest easily knowing that he has until 2016 to enact his policies due to his having recently become the first Prime Minister to have control over both Japanese houses of parliament for six consecutive years. Furthermore, the premier appointed Haruhiko Kuroda, a supporter of monetary easing, to the Bank of Japan (BOJ) governorship after securing parliamentary support for this nomination. (Koo 2013, 31; OECD Economic surveys Japan 2013, 11–17; Yarker 2013.) Herein arguably lies one of the main reasons for optimism at this time. Taking into account the aforementioned facts, the historical development, the pressure of overseas market forces, and the later examined acute success of his policies Abe wields an unprecedented amount of political capital which, when utilized during this time frame, could be enough to make all the difference. The real challenges, however, lie ahead in structural reform, in implementing of which successful monetary policy is a mere initial enabler (see Yarker 2013; Koo 2013).

The set of policy measures meant to fix the macro economy of Japan, or the Abenomics is visualized in **Figure 11**. The key aspects are monetary policy, fiscal policy, and more specific economic growth strategies and structural reforms to encourage private investment and innovation as studied further in detail within **Section 6.3**. Key policies include a rise in inflation via monetary expansion targeting at a 2% annual rate. One desired outcome, especially considering the status of exports, is the much needed depreciation of the yen. Policies also include turning interest rates negative, radical quantitative easing, hiking public investment, pressuring BOJ to buy operations of construction bonds, and revision of the Bank of Japan Act. (Koo 2013, 31.) Fiscal spending is hiked up to 2.2% of the GDP, foreseeably bringing the deficit up to around 11.5% of the GDP in 2013 (OECD Economic surveys Japan 2013, 8; Wolf 2013). As a countermeasure to tackle debt, in 2012 the National Diet put through a bill setting the consumption tax-rate up to 8% in 2014 and further to 10% in 2015. This in intent to balance the national budget and maintain market confidence in its public finances. It is expected and feared, however, that the tax hike will, in turn, discourage consumption after the initial anticipatory hike. (OECD Economic surveys Japan 2013, 30–31.)

agendas. Paraphrasing the BOJ report (Monthly report of recent economic and financial developments 2013):

- From a Japanese perspective, in October 2013 the key overseas economies are gradually increasing pace and demand. Yet a lackluster performance is partly seen, especially within European markets still plagued by a Euro-crisis with no quick fix in sight. Nevertheless, exports have generally been increasing, with the value of the yen contributing to this development.
- Business-fixed investment has also increased as corporate profits have improved. Public investment has continued to increase alongside, as has housing investment. However, private consumption has remained resilient, with some improvement observed in the employment and household income. Reflecting these developments in both domestic and foreign demand, industrial production is increasing in moderate terms. Business sentiment, in general, has continued to improve.
- Regarding outlook, Japan's economy is now expected to continue a moderate recovery.¹⁷ Hence, for the foreseeable future, exports are expected to increase moderately. This being the case mainly against the background of the increase in overseas economies. As for the upward trend in domestic demand, both public and housing investments are expected to continue. Business-fixed investment is projected to follow a moderate growth trend as corporate profits continue to improve with the economy, given that yen does not default into appreciation in the deflation prone economy of Japan. Private consumption should remain resilient, supported by improvement in the employment and income situation.
- Under these circumstances, industrial production is expected to continue to moderately increase as well. Meanwhile, a high degree of uncertainty about the global economy remains, both internal and external to the economy of Japan.

While the language resembles that used in cabinet communication, it lacks the superlative expressions of determination and optimism, as will be observed further in this study. It is a report, after all, rather than an expression of will. Be that as it may, there appears to be a case for optimism.

Abenomics, especially its monetary component, has received plaudits from foreign experts including Paul Krugman, the predominant scholar behind NEG as observed in **Section 2.2**. Daniel Ben-Ami (2013) for *Fundweb*, on the other hand, does not find this encouragement convincing, as evident in his commentary. The monetary expansion and fiscal stimulus to increase the aggregate demand and, thus, create a multiplicative effect on output and economy, is in line with the Keynesian principles upheld by the aforementioned two economists. Not so common for someone in the Liberal Democratic Party, Shinzō Abe stands in the ranks of Keynesians as well. (Blinder 2013.)

¹⁷ Notwithstanding the longer-term, structural issues further examined in **Section 6.3**.

By the end of the first lost decade, Krugman (1999, 75–78) had pioneered the idea that Japan was suffering from a liquidity trap as in postponed private investment due to deflation and its adverse time value for cash, as is evident in the first edition of his book *The Return of Depression Economics*. In a sense, Abenomics and, in particular, its monetary and fiscal components are built upon this assumption. Arguably, however, Krugman's circular reasoning may well lead to a logical fallacy of *circulus in probando* or proving in circles, in which one confuses a symptom of Japan's economic atrophy, falling prices and its cause, with the premise and conclusion both being the falling of prices. If the conclusion is doubted, this circular logic dictates that the premise which leads to it will also be doubted (cf. Nolt, Rohatyn & Varzi 1998, 205).

Alleged by Ben Ami (2013); Bremner (2013, 12) and *The Economist* (Win some, lose some— 2013, 64), among others, Krugman (2013) and the likes of such Keynesians ushered Japan into similar expansive policy measures as practiced by the Federal Reserve, only BOJ did so in world record volumes. In the case of Japan, merely shoring up the prices of assets, does not suffice in turning the economic tide towards sustainable growth. Neither does fiscal stimuli, since such government spending programs on infrastructure have been implemented since the 1990s. Instead, this prolonged situation demands the consideration of structural problems behind the country's economic malaise, especially because issues like an aging population are about to culminate. Japan's pitfall has been, in particular, this failure to promote economic restructuring since the bubble economy burst, as can be observed in **Section 4**. Politically, the measures undertaken by the BOJ and the fiscal stimulus are unproblematic even if, according to *The Economist* in the above article, the central bank put up a fight. Uncredited with an intended neutrality, analytical yet skeptical, the January 2013 article was spot on in pointing out that what the bank demanded, Abenomics addressed next. The third 'arrow' of Abenomics is intended to tackle just this pressing issue of structural dysfunction and is bound to spur formidable political opposition in comparison, as large interest groups are affected. This is elaborated on in the consecutive **Section 6.3**. (Ben-Ami 2013; Bremner 2013, 14; Krugman 2013; Win some, lose some: Monetary policy in Japan 2013, 64.)

6.3 Structural hindrance and reforms

6.3.1 Government publication on Abenomics policies

In June 2013, the Abe cabinet published an extensive plan with specific policies and target outcomes they dubbed the "Industry Revitalization Plan" as part of 'Japan Revitalization Strategy – Japan is Back', henceforth referred to as the "communication". In its meta-text

the communication speaks of itself as “a plan to be implemented immediately in order to remove stagnation of human talents, goods, and funds, developed during the lost two decades.” In essence, this represents the long anticipated third arrow of Abenomics: structural reform. The government plans to encourage and facilitate change in the private sector, energize industry, and foster human resources to provide for a global competitive advantage. Expressed in an ambitious statement considering the context of Japanese institutional history and society, the government claims it “will actively strive for being a country with minimum regulation to relieve the people and companies from the burden of rules and regulations.” In an effort to practice what it preaches, the government claims to eliminate the inefficiency stemming from vertically stacked government departments. This should help Japan fully realize its potential. According to government communication, these goals serve as to enable implementation proactive economic policies through cooperation between the government and the private sector. (Japan revitalization strategy – Japan is back 2013, 32.) This should serve as the determined prelude to diving into the different policies, as well as a point of reference when evaluating single policies.

Government action on restructuring the major policies of *Accelerating structural reform program* are pinpointed in **Table 3**. This constitutes the first set of major policies in the Industry Revitalization Plan. The target is set at a 10% increase in capital investment over the ensuing three years, and a return of private investment to pre-Global Financial Crisis levels. In more specific terms, the goal would be approximately 70 trillion yen annually, while the fiscal year 2012 figures lie at approximately 63 trillion yen. Furthermore, another goal is to raise the current 5% business startup and closure ratio to the 10% range so as to be on par with the US and UK in venture business activity. (Japan revitalization strategy: examples of major policies 2013.)

Table 3 Restructuring of industries (Japan revitalization strategy: examples of major policies 2013)

■ Stimulate business investment

- Develop support measures, such as bold tax breaks and measures to speed up the replacement of old equipment/facilities, and new systems that utilize lease arrangements in order to stimulate investment in leading-edge facilities.

■ Accelerate business restructuring and reorganization

- Strengthen corporate governance. (e.g. amendment of Companies Act [promoting the installation of external directors])
- Develop support measures, such as tax breaks and financial support, for companies that restructure their business.
- Formulate guidelines and encourage restructuring in fields with excessive supply.

■ Promote investment in business ventures

- Measures to promote investment in business ventures.
- Consider fund raising framework such as crowd funding.
- Improve the personal guarantee institution, which currently inhibits business startups.

■ Build an environment that encourages entrepreneurialism

- Create a system that assures legality of businesses in "gray zones".
- Create a special arrangement measure for Corporate Field Tests to allow testing of new products and technology.

■ Enact the Industry Competitiveness Enhancement Bill (provisional name)

The first two of the points are examined in the ensuing section while the latter points are analyzed further in detail in **Section 6.4.1** and the designated **Section 6.5**. The analysis conducted on ‘Japan revitalization strategy – Japan is back 2013’ – Cabinet communication, revealed three major themes to consider and to be elaborated on in the throughout this section:

1. Expert/media pessimism vs. government optimism
2. Regression into preserving (a regional) production economy
3. Regression into regulation while claiming the importance regulation dismantle
4. Government confidence in the ability to create clusters vs. expert/media disapproval

These are broken down in their relevant contexts along the **Section 6.3**, but as they are rather self-explanatory it is useful to present them before further delving into the analysis.

6.3.2 *Excess private savings and sluggish demand*

If deflation is a symptom, rather than the cause of Japan’s prolonged stagnation, excess private savings is often assumed to be the underlying source of the ailment. In reference to the spatial impossibility theorem, the non-convexities associated with the different market failures in Japan have been numerous, as studied in **Section 4.3**. This includes the

asset price appreciation/depreciation and general capital flight. In terms of capital allocation space is partially close to being featureless, yet arguably the capital flight has not completely balanced the factor prizes. There is a considerable structural excess of corporate gross retained earnings on top of investment, as observed next in the uncredited *Euromoney* article (Japan: The ifs and butts of Abenomics 2013) and the slightly optimistic *Financial Times* analysis by Martin Wolf (2013). This is possibly the strongest manifestation of the lack of convexity in this context.

The saving ratio of Japan has traditionally been at the top of the world, as surveyed by the OECD, and is still far ahead of that of the United States as observed in **Figure 12**. According to Wolf (2013), the corporate sector structured for the rapidly growing “catch-up” economy became a black hole in terms of demand after drivers for investment were gone with the bubble. As *Euromoney* put it in relative- and positive terms, Japanese companies have been hoarding money. To this day, the oligopoly of keiretsu sits on a mountain of cash roughly the size of entire GDP of Italy. This vast surplus has accumulated while corporations have been driven to restrain capital investments and wages, and even to restrain R&D expenditure amidst the current situation. However, the investment rate has remained amongst the highest in the world, even during the lost decades. This appears paradoxical through the agglomeration framework of this study. As depicted in **Figure 13**, the rate is currently around 30% higher than that of the US. The situation is also peculiar when one considers demographics. The Japanese population is the fastest shrinking in the world, whereas the American population is growing. According to Wolf, this has prompted the argument that the Japanese already invest too much and, thus, would render fiscal stimulus for private investment ineffective. As per observations made in **Sections 6.2** and **4**, policymakers have, in fact, responded with a bubble-induced boom in investment and fiscal deficits that led to world-record debt ratios. One must bear in mind that, in both periods, the capital outflows also contributed to balancing demand and supply, thus making Japan the largest creditor of the world. In this complex context, the Growth Strategy’s role as the third ‘arrow’ is to restore the confidence of company managers and of all people, as well as to change expectations into actions and, thus, cut the vicious cycle for good. (Japan revitalization strategy – Japan is back 2013, 1, 3; Japan: The ifs and — 2013; Wolf 2013; OECD Economic surveys Japan 2013, 5.)



Figure 12 Gross national saving as a percentage of GDP (International Monetary Fund 2013)

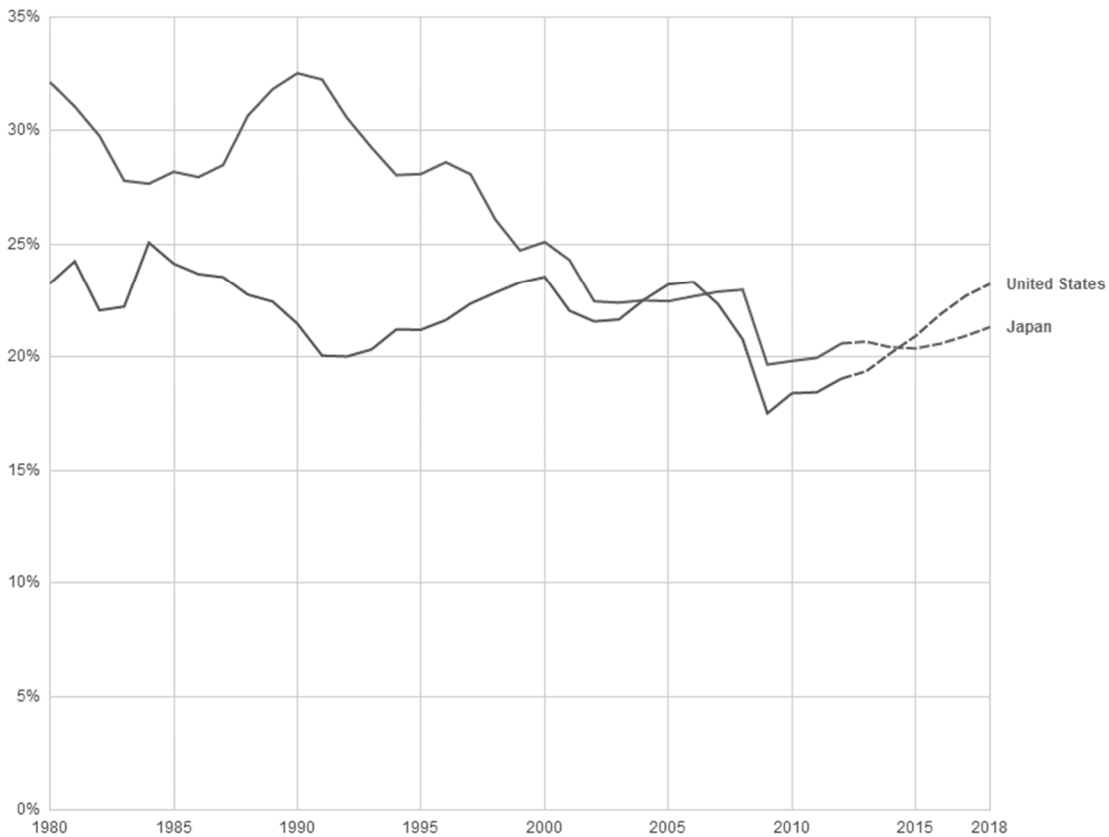


Figure 13 Investment in Japan and United States as a percentage of GDP (International Monetary Fund 2013)

Consider the dual role of people as both labor force and consumers examined within NEG in **Section 2.2**. At this point is the second recurring theme within this narrative on Japanese economy introduced: *Labor-/ wage mobility- flexibility and pooling*, thus being the first directly linked with NEG. While the theory speaks of flexibility and mobility, in case of Japanese economic hardship the opposite is addressed. Rather naturally I might add, given that the subject matter is obstructions to development. Furthermore, in reference to the institutional setting, the word rigid and synonyms thereupon are common occurrence in describing it. Despite the negative connotation the government communication is quick to use them as well, possibly as a part of the strong language used in effort to relay a sense of urgency and determination.

The structural reform of the third arrow is has its general focus on the weakness in private demand – restoring confidence in growth (Japan revitalization strategy – Japan is back 2013, 1). Wolf (2013) argues for lowering the retained earnings, but without any reduction on investment. Correspondingly the communication states: “The high levels of investment also need to be better employed. To ensure that the expectations for the exit from deflation created by the “first arrow” monetary expansion and “second arrow” fiscal stimulus do not end up being temporary, the excess corporate funds must be invested in future growth and value.” (Japan revitalization strategy – Japan is back 2013, 3; Wolf 2013.) Coincidentally, the government communicates, it “strongly” supports any restructuring efforts in companies for competitiveness, explicating “bold” tax incentives to “enhance” capital investment.¹⁸ The communication continues by throwing the ball to managers: If managers act on the incentives, companies should be able to get back on the competitive track, invest more, gain in productivity, come up with attractive new products and services, and successfully, tap into new markets around the globe. With aims “to unleash the vitality of the private sector to the fullest”, the government plans to revive the manufacturing industry that has continuously been globally successful, but also to “create a high value-added service industry” which Japan has lacked (**Section 4.4**). The former is to be done by renewing capital goods and facilities and the latter by facilitating venture activity entailing a full regulatory and institutional reform. The government will even directly open its own affiliated enterprises to accelerate the inception of this industry. (Japan revitalization strategy – Japan is back 2013, 3–4.)

If it was not all along, it is becoming evident that the Japanese market for facilities is saturated in terms of the old economic structure, hence the failure of past monetary and fiscal stimuli. Much in accordance to the bell-shaped curve of spatial development exam-

¹⁸ In this manner, most of the sentences in government rhetoric when considering the actions to be taken are ridden with expressions of quality such as ‘bold’. In order to maintain a coherent, respectable narrative this had to be dialed down considerably while paraphrasing the government.

ined within NEG where ‘peripheral’ new regions become attractive, the Japanese conglomerates have long directed their investments overseas. After all, in a situation where there is little promise for growth attached to domestic increase in capacity, forces like the home market effect work in favor of regions like China, especially within industries like manufacturing. As if prompting the preconceived – but while studying Japan an easily forgotten – notion of Japan being hardly unique considering a bulk of its economic woes. For mature economies to grow the conceived way is to partake aggressively in the global new economy.

Wolf (2013) proceeds with his analysis by pointing out there are only so many possibilities for reallocating the surplus: salary raises, forcing higher returns for shareholders through means of corporate governance; or, through a corporate tax reform to prompt paying out dividends, which would also work to raise tax revenues. Experts have underlined the importance of lowering the excessively high provisions for depreciation, which encompasses most of the gross corporate savings. (Wolf 2013.) On one hand, in case of macroeconomics of Japan, would not the corporate cross-shareholding ridden ownership structure render dividend paying largely handicapped as an enterprise to allocate the surplus? On the other hand, in terms of microeconomic rationale, the raising of wages seems implausible as there is no conventional incentive for an individual corporation to do so. However, considering the historical reference, cultural attributes such as long term orientation and collectivism, the institution of revolving door between the management of keiretsu and the top government officials examined in **Section 4.2**, in Japan if anywhere this should be possible. In fact, Toyota Motor Corp. President Akio Toyoda said on October 17th 2013 that “Toyota workers need better benefits and wages, while Hiromasa Yonekura, head of the Keidanren business lobby group, said the same day that an improvement in corporate earnings will lead to an increase in capital spending and wages” (Ujikane and Sharp 2013). Albeit anecdotal, this supports the possibility of institutional interplay posing challenges for western understanding of the potential of Japan’s adaptability. Here one comes across the second theme that rose up purely from the primary source material: the *regression into preserving (a regional) production economy*. This also has a contrasted component to be introduced in **Section 6.3.5** among the grounds behind it, as well as the institutional implications tracing back to systems of innovation and employment. On a related note, at this point it is worth mentioning that there seems to be some apparent contradiction between parts of the communication and even between some of the intended policies and their desired outcomes.

As mentioned before, overseas markets such as China have been attracting the Japanese manufacturing investments. Considering the home market effect, it was established in **Section 2.2**, how the size of the market itself works as an agglomeration force and competition conversely is a force pushing dispersion, and how competition is alleviated by differentiation allowing enterprises to locate where the market is the largest and

transport costs are low. As observed, for instance, by Nathaniel Ahrens (2013, 16), in case of China and certain strategic industries, the individual companies' desire for market access has been also amplified by China's restrictive policies only to favor those which make direct investments to China. Now consider that China is also the largest trading partner to Japan, and as observed within the Home Market Effect, the fact remains that not all investment is directed to China, even if seemingly the effect currently works in China's favor, especially in terms of manufacturing. However, in this relationship the NEG model seems to hold substance. China, especially in not too distant past, could also be seen as the labor intensive periphery in this regard, only, in this case labor appears rather immobile. This immobility is examined next, along with the rigid labor market of Japan in general.

6.3.3 Inflexible labor market

As observed in the meta-text of Growth Strategy in **Section 6.3.1**; the dilemma of corporate surplus and inadequate demand is by no means the only structural issue Japan is facing, although, it may be the most acute and occupy the majority of coverage in economic media and business literature. There is a range of other structural problems and corresponding policies as is also listed in the OECD survey. Most notable ones include boosting of labor force participation; and improving education in the face of rapidly aging population. In addition, the policy makers are prompted to account the effect of fiscal consolidation on social cohesion, as in the widening income gap and relative poverty. According to Keiko Ujikane (2013) for *Bloomberg Businessweek*, the initial stages of Abenomics have rewarded those who have assets. Consumption tax hikes and depreciation of yen hits the poor harder as well. Major policy reforms are targeted particularly to break down labor market dualism examined in **Section 4.5**. In broad terms, Japan is faced with two labor related impediments identified in academic literature: The restricted allocation of labor between companies (external labor market), and the factors discouraging women from participating in workforce with full time jobs (the m-shaped curve). There has been a symmetric lack of information between employers and job seekers as the external labor market is virtually non-existent for workers over 30, which affects women after child bearing and -raising substantially. Excluding, however, the poorly compensated and -protected part-time jobs of low productivity, which actually despite being part-time take 7-10 hours a day. (Branstetter & Namamura 2003, 252; Futagami & Helms 2009, 82; Japan revitalization strategy: examples of major policies 2013, 1; OECD Economic surveys Japan 2013, 6; Ujikane 2013.)

In specific response to the issues of the m-shaped curve, female participation in workforce and the overall functionality of external- and labor market in general, in June 2013

the government outlined as listed in **Table 4 and 5**. Concerning the institutional environment necessary for the reform in female labor force participation, the boost in child care facilities available for working mothers is considered of utmost importance. While Abe has specifically addressed the issue and its importance, it is not an easy task and given the circumstances, confidence in him on the issue is less than promising in current discourse as observed in piece by Hiroko Tabuchi (2013) for *The New York Times* and in a commentary by Ida Torres (2013) for *Japan Daily Press*. Bear in mind that simultaneously the care for the elderly faces similar problems which even outweigh this due to the declining birthrate and the political power held by the world's largest portion of population of over sixty years of age.¹⁹ Japan has traditionally lacked in these facilities which has favored the culture of homemaker moms and menial office lady jobs for female graduates until the bubble burst as observed in **Section 4.5**. Since men are increasingly more often unable to be the sole providers for families and women aspire for careers of substance, there are 25 000 children on waiting lists for day care, and could be some 10 000 more, if parents had not simply given up after receiving low priority in a point based scoring scheme for eligibility. According to Tabuchi, among others, in addition to traditional gender roles, another major underlying cultural factor here is the concern for who is allowed to teach a child. This once again reflects the fundamental desire for homogeneity within culture and race, family prowess and peer expectations or pressure in Confucian Japan. The qualifications for caregivers are considered tough with rigorous exams over a two year special program while the salaries do not reflect this. According to *Japan Today*, even in prefectures like Yokohama, which has managed to cut their waiting lists, there still is a dire shortage for employees in the facilities. Yokohama achieved this for instance by busing children to suburban day care centers and resorting to unsanctioned and unsubsidized – therefore extremely pricy – private sector which often yet offers sub-par quality. (Tabuchi 2013; Torres 2013; Yokohama says it — 2013.) Many of the problems regarding employment can be seen embodied and intertwined in the issue of day care. Especially when considering that most often the people employed in such facilities are in fact women themselves. The current situation is also driving couples to opt from having only one child to no children at all, which is poison for the attempts to curb the decline of already one of the lowest birthrates in the world. Furthermore, as noted by Tabuchi and *Japan today* for instance, while there is also a cultural reluctance to invite strangers in one's home, the American style nannies are not available for private companies either due to issues in immigration which are examined in **Section 6.3.4**.

¹⁹ At a recent City Council meeting in Tokyo's Setagaya ward, which has one of the country's longest child care waiting lists: after a drawn-out discussion on the distribution of adult diapers the talk turned to day care. No action was taken, disappointing mothers in the audience. (Tabuchi 2013.)

To paraphrase the communication, this second set of policies could be titled in short as ‘Reinforcement of human resource capabilities’ or simply ‘Reform of the employment system’; as dubbed in **Tables 4** and **5** for the sake of simplicity²⁰. Target of these bullet points is to decrease long-term unemployment (unemployed for more than 6 months) by 20% over the next five years and raise employment turnover to 9% (2011: 7.4%). Furthermore, the cabinet is determined to follow the western world in forging the m-curve toward an upward quadratic curve, as in push the current employment rate of 68% for 25-44 year old women up to 73% before year 2020. On account of this particular policy and the long standing institutionalized cultural values of Japan, the fact that Abe is the president of a conservative, even right wing party, might suggest something about the gravity of the situation. The cabinet also hopes to get at least 10 universities to rank in the world's top 100 within the next five years. Highly ambitious goal, since the number is currently two, and the rankings of academic institutions have been known to be dominated by top universities in the Anglo-sphere, which on a side note, has also raised questions and critique towards the ranking itself. (Japan revitalization strategy: examples of major policies 2013.)

Table 4 Reform of the employment system (Japan revitalization strategy: examples of major policies 2013)

- Shift from a policy of employment stability to labor fluidity
 - Boldly shift budgetary resources from Employment Adjustment Fund, which are designed to sustain employment, to labor movement facilitation fund to support the job transfer and are designed for skill development.
- University reforms (the next three years are designated as period for accelerated reform)
 - Human resource and payment reform including the introduction of annual salaries and combined earnings with external revenue. University governance reform.
 - Expand the strategic and priority allocation of “operating support funds.”
- Strengthen development of human resource cultivating capabilities for global operation activities
 - Provide English education at an earlier stage of elementary school.
 - Create a Super Global High School (provisional name)
 - Provide opportunities to study abroad for all students who have the desire and talent.
 - Utilize TOEFL or other relevant tests in the National Public Service exam and university entrance exams.
- Utilize highly skilled overseas personnel
 - Revise the current accreditation criteria and preference of the points-based preferential immigration treatment for highly skilled foreign professionals in order to provide permission for stay to the professionals.

²⁰ Original header: “Reinforce human resource capabilities and reform the employment system” (Japan revitalization strategy: examples of major policies 2013).

Table 5 Reform of the employment system continued (Japan revitalization strategy: examples of major policies 2013)

- **Strengthen the social function of private employment and recruitment agencies**
 - Provide private employment and recruitment agencies with employment offers information from the Public Employment Security Office "Hello Work" and status to handle job creation grant.

- **Support the success of women in the workplace**
 - Support companies that provide opportunities to improve the skills of staff on maternity leave and employees who have recently returned to work.
 - Support re-employment, i.e. re-education programs and internships for homemakers.

- **Accelerate the zero childcare waiting list project**
 - Arrange childcare for additional about 200,000 children in over the next two years and aim for the elimination of "childcare waiting lists" by securing childcare arrangements for another about 400,000 children by 2017.
 - Provide funding to small-scale childcare services, non-registered childcare facilities and employer-provided childcare services.

- **Support the success of youth in the workplace**
 - Support voluntary efforts to undertake education and training program that will lead to the acquisition of qualifications or licences and encourages re-training and re-education after graduation.

On paper the goals are much aligned with the general criticism the Japanese employment system has faced since the 90s, however, the fact remains that there is a tremendous reluctance to change. The unemployment rate has been traditionally low in Japan even during the recession. In the west where the external market is prevalent, there is consistently a larger so called buffer labor force. Therefore, Japan should adapt to at least occasionally higher unemployment rates which in the case of salaried men seems virtually unheard of. To iterate back to demographics, there seems a lot to be lost and even more to be feared among the secured and pampered senior salaried men population. If there suddenly were to be western style market for labor without the Japanese conventions, for one, the productivity would have to sky rocket for many in the senior segment. The stories of secure, but redundant salaried men set aside in a subsidiary just reading newspapers, waiting for retirement are plenty in Japan and this is just the tip of the iceberg. The productivity figures examined in **Section 4.4** tell the same tale. The seniority based system has for decades provided the incentive for young employees to slave away undercompensated with the promise of easier, better paid years further down the career in the same company. Whether this restructuring is going to be aggressive or gradual and relatively smooth, it is safe to say there will be a formidable opposition to change and some parties will lose attained benefits in the process. Most conceivably the ones who have invested according to the system, them being the senior salaried men who also wield the most political power and have the closest ties with political and corporate power.

6.3.4 Immigration

The last point in **Table 4** is of particular interest for internationals residing in Japan, or planning to do so. Japan has been historically reluctant in welcoming immigrants in comparison to western countries and is considered ethnically and culturally very homogenous. Tomohiro Osaki (2013), in his *Japan Times* article and interview on immigration policy expert Phil Wood, calls for a shift in attitudes toward accepting ethnic diversity. According to the article, in a country where one third of the population is predicted to disappear by 2050, there is a seemingly strong case for attracting workers in all walks of life which should supersede the migrant averse institutions and attitudes opposing heterogeneity. Correspondingly, the communication addresses the issue with a shift in policy. Thus the government states it is going to review the points-based preferential immigration treatment for highly skilled foreign professionals; “as a series of facilitation of comprehensive environmental improvement, in order to promote active participation by overseas human resources with advanced skill and management know-how.” (Japan revitalization strategy— 2013, 54; Osaki 2013.) Presumably, this is jargon for an institutional reform to better accommodate valuable immigrants. Similar points-based systems have also been in use in other welcoming and desired emigration destinations such as Australia, as is noted for instance in the research on the matter by Nana Oishi (2013, 233).

The communication claims the revision is made in order get more of the highly skilled foreign nationals accepted, the ones with advanced abilities, since they are expected to facilitate economic growth with their contributions. One must score north of 70 points to qualify as a “highly skilled foreign professional” and get treated preferentially. The applicants themselves were consulted and as requested, the activities of the highly skilled foreign nationals are categorized into 3 brackets: “academic research activities, advanced specialized/technical activities and business management activities.” Accordingly, grades are given to such variables as “educational attainment, period of professional experience, promised annual salary and research performance”. The official internet portal for immigration also notes that the system still operates within the current scope of acceptance, which means the applicants still need to meet requirements for working status of residence, before they may be scored on this system. . (Japan revitalization strategy – Japan is back 2013, 54; Points-based preferential immigration — 2013)

The point based system was initially implemented in 2012. According to *Japan Today* (No. of highly — 2013), after a year in practice the results were discouraging. The goal was set to have 2000 foreign professionals to immigrate via the system, but less than a quarter of the goal was achieved. The reasons are plenty and subject to debate and study. For instance; Oishi reports that on the demand side, it appears a limited number of corporations in Japan are willing to employ foreigners. According to a survey by Ministry of

Health, Labor and Welfare published in 2008²¹, 40% of major Japanese corporations were yet to actually hire a highly skilled immigrant. Furthermore, according to a study by Japan Institute for Labor Policy and Training in 2009²² only 10% of those corporations had hired international graduates from Japanese universities. Among others, the language barrier (or prejudice thereof) and high turnover rate among foreigners in contrast to life-time employment still widely in practice have been listed as reasons. Nevertheless, the year 2010 was dubbed as *gurobaru saiyo gannen* “the starting year for global recruitment era”, reflecting the sudden increase in corporations which hired foreigners in Japan, as they did also in their overseas subsidiaries. However, the progress has been limited to large multinationals only. **Table 6** lists major institutional reasons according to research by Oishi as to why Japan has been losing its attractiveness for the global workforce. Out of 59 countries, Japan was ranked 48th on attractiveness to foreign high-skilled people, and 25th to researchers and scientists, which is below many Asian countries such as China, Korea, and Singapore. (Japan revitalization strategy – Japan is back 2013, 54; No. of highly — 2013; Points-based preferential immigration — 2013; Osaki 2013; Oishi 2013, 233–234.)

²¹ Ichibujojokigyō honshaniokeru gaikokujinshainno katsuyojittaini kansuru anketchosa “Survey on human resource management on foreign employees in large public companies” (2008) MHLW. Tokyo, Japan.

²² Nihonkigyoniokeru ryugakuseino shuroni kansuru chousa “Survey on the employment of former international students in Japanese corporations” (2009) JILPT. Tokyo, Japan.

Table 6 Challenges to immigration according to Oishi (2013, 234–236)

- | | |
|---|--|
| <input type="checkbox"/> Demand of native proficiency in Japanese (even among graduates from Japanese universities) | <input type="checkbox"/> Institutional barriers – e.g. social security contributions are mandatory and automatically deducted from pay-check, migrants will not be able to benefit from the system unless they contributed to the system for 25 years. |
| <input type="checkbox"/> The starting salary (e.g. over twice the amount in the US for engineers) | <input type="checkbox"/> Social integration of family members and lack of multi-cultural awareness and English education in public schooling |
| <input type="checkbox"/> The promotion system carries the legacy of seniority-based lifetime-employment rather than meritocracy | <input type="checkbox"/> Inflexibility of Japanese labor market |
| <input type="checkbox"/> Work-life balance (ranked the third worst country in OECD, 2012) | <input type="checkbox"/> Lack of foreigners in management |
| <input type="checkbox"/> Service overtime – (unpaid overtime) | <input type="checkbox"/> Low status of women at working place, perceived limits in women's career opportunities |

First observation to be made from the above table is the obvious resemblance with the issues regarding labor market in general. The table is easily tied back to the restraints on family planning and work life balance examined in the previous section the defining term being inflexibility. Now consider the core-periphery model with labor mobility. Deflation plagued Japan has been desperate to strengthen the domestic market and to release the savings of private sector in investment to create growth in both demand and supply, but it seems evident that the days of organic growth are long gone. The inflexibility combined with stationary workforce and declining, greying population, is one of the most prevalent talking points for immigration. It is generally justified to stay skeptic amongst the advocates of simple solutions to complex issues. However, the impact of issues in immigration along with female participation could be amplified considering the dual role of workforce in labor mobility by Krugman. Therefore, or thereafter – at least hypothetically – the impact could be observed in various parts of the theory, for instance, a surge in output-linkages and demand and supply side market expansion, or even in a form of internal inflation to boost exports should the wages be pressured down. All in suggestion that many issues could solve themselves if the two held the key to restart the Myrdalian cycle

for agglomeration and henceforth sustainable growth. The institutional question is however, when is the political will present to make considerable effort? In other words, how bad does the situation have to get? This is to be further elaborated on in the conclusions **Section 7.2**.

6.3.5 Innovation and global competitiveness

Section 4, 4.4 and 4.6 in particular shed some light on innovation activity and environment in Japan. Henceforth until the conclusion of **Section 6**, this study examines how Japan is to stimulate the micro-foundations for the virtuous cycle. (cf. Scale economies of agglomeration **Table 1**). In other words, the analysis observes an attempt to shift the spatial inequality in the favor of Japan and to fend off the lure of the ‘periphery’ that is emerging markets, thus beating the bell shaped curve. All this is to be done while simultaneously reform Japan to integrate into, and successfully compete in, global- information era economy. The premise is indeed a loaded one, but also dictated by politics. It would still be inane to examine this contradictory desire only as an attribute of Japan. Fleeing production is a politically concerning issue throughout the post-industrial world, while most everyone would also have a more than proportionate piece of the new economy as well.

According the cabinet of Minister Abe, the outcomes of innovative R&D Support program in Science, Technology and Innovation (STI) -policy are not adequately turned into actual utilization. The continuously well performing and competitive industry of manufacturing electronics, is faced with a tough challenge from emerging countries. Japan used to win in technology but lose in business, but more recently, at times, Japan loses in both. The government announced the revival efforts for its innovation system: Promoting innovative R&D support programs emphasizing strategically selected fields, conversion of outcomes into tangible applications, and promotion of IP-strategies and standardization schemes for market share acquisition. Provisional goal is to become the most innovative in the world within five years from 2013. Japan presently ranks fifth in innovation in the competitiveness ranking of the World Economic Forum (The global competitiveness report 2012-2013 2012, 22), while tenth in overall competitiveness.

As is announced in the communication, Abenomics is to draw from and build on the existing framework of ‘4th science and technology basic plan of Japan 2011-2015’. The communication is once again determined, but seems to be somewhat comfortable in staying within the innovative frame of applicable sciences with quick and straightforward returns. Considering the long term orientation of Japan, this may indicate the gravity of the present situation as a whole, or perhaps be explained away with political pressure.

Nonetheless, according to the communication, the government is to create an environment suited for science, technology and innovation at universities and research institutes, strongly linked with complementary industries. Government is to drastically promote exit-oriented innovation and respective R&D support programs together with an institutional reform. Finally, the communication underlines the creation of a system through which the tertiary sector turns innovations into practical, commercial applications. The communication goes forward to vision private sector actively investing in innovative R&D support programs, and making a turn from closed innovation into open innovation. The government is naturally willing to support these private efforts in hopes of creating a virtuous cycle of science, technology and innovation with practical and commercial applications. Related to IT induced boosting of private innovation, in order to achieve top of the world business environment, on June 14th 2013 the Cabinet approved a new IT strategy. This entails (once again) a drastic review on regulations and systems, which is intended to be carried out concurrently with investing in the fundamentals of telecommunications, cyber security and related human resources. (Japan revitalization strategy – Japan is back 2013, 54–62; OECD Economic surveys Japan 2013, 28.) The government measures regarding IT are broadly outlined in **Table 7**.

Table 7 Innovation policy and IT Society (Japan revitalization strategy: examples of major policies 2013)

Scientific and Technological Innovation

■ Strengthen the Council for Science and Technology Policy's functions as headquarter

- Complete legal reform, and strengthen the Council for Science and Technology Policy's functions as **headquarter** in order to eliminate **silos** within the Government and deploy policy resources with priority into strategic fields.

■ Launch a new innovative R&D Program

- Create a program that boldly drives research projects that will reform the economy, society and industry.

■ Establish the Strategic Innovation Program (provisional name)

- Establish the Strategic Innovation Program, under which resources are provided for a number of years with priority to cross-ministry R&D projects, based on the Strategic Market Creation Plan roadmap.

IT Society

■ Regulatory and institutional reform to expand utilization of IT

- For promoting the utilization of big-data and open-data, establish the rules for utilizing big-data which include personal information, while taking into consideration the balance between data usage and privacy protection, and formulate the institutional reform policy, which will outlook new legal measures.
- Formulate the "Intensive Action Plan for Regulatory and Institutional Reform to Expand Utilization of IT" (provisional name)"

■ Promote private sector access to public data and develop innovative electronic administrative services

- Actively and promptly disclose public data in a machine-readable way- which include geospatial information and statistics in spurring the creation of new businesses. Develop "My Portal (provisional name)" which is to be introduced following the introduction of an identification numbering system and commence the provision of services.

The foremost take away seems to be the strategic embrace of open innovation. The paradigm of open innovation by Henry Chesbrough suggests that in a world where information is distributed at large, conducting of research completely in-house has become obsolete for companies. Instead, they should complement their research by purchasing or licensing innovations (i.e. patents) from outside. Correspondingly, the in-house innovations that lay idle should be licensed or sold to third parties, or used as foundation for joint ventures or spin-offs. (Chesbrough 2003, 35–41.) Arguably, in this case open innovation could be seen as the apex of both new economy input sharing and -linkages, and external agglomeration of scale economies observed in **Table 1, Section 2.2**. As the major institutional caveat remains the tendency for secrecy within keiretsu to compensate for inadequate IP-rights as observed in Section 4.4. But could the universities provide for the lack of basic research in largely privately funded Japanese R&D by major keiretsu corporations? It seems a fair hypothesis to make; only questions do remain, such as how to motivate and facilitate the progress. In 2013 we are already four years into the current five year plan, which Abenomics was not supposed to drastically alter. Still, Abenomics

could well be on to something with this approach, if the practical measures were to be sorted with a fit to the institutional setting of Japan.

The policy measures examined here are part of the Science and Technology Basic Plan of Japan, fourth of its kind and five years in duration. The measurable goals of this plan state the R&D investment by both the public and private sectors will be at 4% of GDP or higher, the government will push its public R&D investment up to 1% of GDP. The total amount of the government R&D investment should then amount to 25 trillion yen on an estimated 2.8% average nominal growth rate of GDP during this period as decided by the Cabinet on August 19th 2011. The communication on innovation by Cabinet Secretariat is lengthy, but in order to briefly elaborate on some of the points aimed to make Japan the biggest private spender on R&D relative to GDP; substantial resources will be allocated into innovation policy, especially in handpicked key industries (Biotechnology, energy, environment, health, other: Basic Research.) and the process will integrate universities and research facilities, business and relevant government institutions. A Strategic Innovation Creation Program will be introduced together with a R&D Support Program by which the government expects to change the nature of the economy. Themes to be addressed include; technology transfer, open innovation and venture enterprise and -spin-offs with practical implications, and incentivizing thereof in order to push private investment with intellectual property law reforms, taxation and direct subsidies. If it seems as though the communication repeats itself, it is because it often does. Possibly due to its provisional nature. However, pinpointed explicit measures to help technology transfer and business conversion include (Japan revitalization strategy – Japan is back 2013, 54–62; The 4th science and technology basic plan of Japan 2011-2015 2011, 1, 3):

- Integrated and sped up technology screening agency and process on par with the most efficient in the world
- Support for global protection of rights (emerging countries explicated)
- Managerial risk in employee inventions onto completely contractual basis
- Strategic promotion of international standardization – increasing Japanese hold of chairs and secretariats in standard organizations from 78 to 95.

Regarding the IT and data induced innovation “becoming the world’s leading IT society”, the government announces the necessity of radical reform in regulations and systems to help Japanese companies keep up with competition. The needs for further legislative measures in promoting utilization of IT will duly be assessed (i.e. the “basic law” to promote utilization of IT). (Japan revitalization strategy – Japan is back 2013, 60–65):

- Reforming regulations/systems suitable for the ‘born in IT’ –generations
- “Promoting private sector access to public data and developing innovative

electronic administrative services”²³

- “Realizing safe/convenient life environment through IT utilization”
- “Developing the world’s top-level telecommunication infrastructure”
- “Promoting cyber security measures”
- “Cultivating/securing highly-skilled IT human resources that will be the source of industrial competitiveness”
- “Further strengthening Japan’s international competitiveness as a business hub”

At this point while innovation is examined I would address the next bipolarized theme identified in the primary source material. To trace back a step, while the second theme introduced in **Section 6.3.1** was dubbed *Regression into preserving (a regional) production economy*, however, on a rhetorical level the government seems to heed the pressure to deregulate and create more of an open environment to foster venture activity. Having said this, while the rhetoric is often decisive on the matter, the actual solutions offered seem often more in line with the postwar economic strategy of bureaucratic allocation of resources, designated industries and meddling in spatial development and competition. This duality and gap between actions and intent is a recurring theme among the themes, one which works as an umbrella theme to which these two themes pay homage the other one and 3rd in order being *Regression into more regulation while claiming the importance regulation dismantle*. The institutional implications here seem strong and evident. In reference to NEG, the Abe Cabinet seems often oblivious to the borderless reality around multinational corporations and new economy startups; born-globals, which bear importance in creating dynamic growth. Evidently, Japan has sought and continues to raise borders within itself as examined in the ensuing section. As it appears, Japan’s intent seems to be divided between regression into preserving the (regional) production economy and progression into a (regional) knowledge based venture economy. The word regional is added in parentheses because the policies of today seem to be tailor made for different locations much like was observed in the history of Japan. Japan’s ultimate goal is to kick start the economic agglomeration a new, but the policies reflect more the NEG modeled production economy and its agglomerations externalities while the externalities of new economy are addressed in ceremonial speeches. Perhaps here lies some of the reason for the media skepticism toward the prospects of Japan being able to turn its institutions around via executive order by Abe and his Praetorian guard of bureaucrats. Again, the Japanese strive for security stands as the fundamental obstacle to be overcome. After all, the new economy can be unpredictable and volatile.

²³ “The government will achieve world’s highest level of public data disclosure in a machine-readable way by the end of 2015, decrease the number of systems by half from the current 1,500 information systems in the next five years by encouraging use of cloud system and reduce operational cost by 30% during the next eight years.” (Japan revitalization strategy – Japan is back 2013, 61.)

In order for Japan to become more a business friendly nation, the communication states it is imperative to improve industrial infrastructure. Measures include easing of constraints in energy efficiency and protection of the environment to strengthen competitiveness. The aim is to be in the top three in the Ease of Doing Business ranking of the World Bank by 2020, while the current rank is 15th. Furthermore, Japan aims to get Tokyo in the top three from the current fourth place in the Global Power City Index—the first holistic overall power ranking of world’s metropolises, conducted by Japan on its own initiative. It is further to be examined in **Section 6.4.3** along with Tokyo. (Japan revitalization strategy – Japan is back 2013, 65–66.) On a related anecdote, the government will also enact an amendment bill of the controversial Antimonopoly Act – examined in **Section 4.1** – to abolish the infamously closed-door hearing procedure for administrative appeals conducted by the Japan Fair Trade Commission. According to an interview of Daiske Yoshida²⁴ for *American Chamber of Commerce in Japan* journal, Japan is in danger to be left behind in international harmonization and globalization with this institution that is internationally considered an unjust, administrative ivory tower, while elsewhere due process with actual lawyer-client privilege is the norm. (Tsurumi 2012, 36.) Outline of these measures in strengthening Japan's international competitiveness as a business hub are listed in **Table 8** and further examined in consecutive **Section 6.4**. In this table, PPP stands for the policy initiative of Public Private Partnership, which here is coupled with Private Finance Initiative. LNG on the other hand is the general acronym for Liquefied Natural Gas.

²⁴ Daiske Yoshida is a partner in the Tokyo office of Latham & Watkins, and is qualified to practice before the New York bar and in Japan as Gaikokuho-Jimu-Bengoshi (registered foreign lawyer, New York law).

Table 8 Strengthening Japan's competitiveness as a business hub (Japan revitalization strategy: examples of major policies 2013)

■ Expanded utilization of PPP and PFI

- Swiftly expand concession agreements with private sector to public facilities managed by the national Government such as airports.
- Make the most of the Agency for the Promotion of the Private Finance Initiative and encourage the infusion of private investment with the national fund.
- Promote methods that allow investment in maintaining infrastructure by utilizing private funds through the utilization of profitable facilities and updating together with private urban development.

■ Develop National Strategic Special Zones

- Develop, from a national strategy perspective, National Strategic Special Zones under the leadership of the Prime Minister in order to implement bold regulatory reforms. Establish a Special Zone Advisory Council led by the Prime Minister and a Special Zone Promotion Headquarters led by the Minister responsible for special zones, with governors or mayors and private business operators in order to advance the project from the top down.

■ Overcome environmental and energy restrictions

- Introduce low cost and highly efficient thermal power (coal and LNG) while taking into account environmental considerations, based on the specification of criteria and acceleration of environmental assessments.
- Carry out the Electricity System Reform.
- When nuclear power plants meet the new requirements formulated by Nuclear Regulation Authority, respect the assessment and proceed with their restart.
- Reduce procurement costs for LNG, e.g., through importing lower priced LNG from shale gas.

6.4 Government regulated special economic zones

6.4.1 Regional policy within the Growth Strategy

Already in the 80s when competitiveness showed signs of decline, the government of Japan took top-down initiative to boost innovation. Billions of dollars of public funds were invested in creation of industrial clusters – meaning large technology parks with subsidies for companies which locate in them. In his piece for *Bloomberg Businessweek*, following his representation in an OIST- conference²⁵, Vivek Wadhwa²⁶ (2010), states all these efforts are considered to have failed in achieving their objectives. This brings about the third theme which is in straight lineage to two previous themes, but presents the same polarized response in media much in the fashion of theme number one. This theme is

²⁵ The Okinawa Institute of Science Technology.

²⁶ Wadhwa is Vice President of Research and Innovation of Singularity University at NASA Research Park in Silicon Valley. He is also a fellow at Stanford Law School and Director of Research at Pratt School of Engineering at Duke University.

named *Government confidence in the ability to create clusters vs. expert/media disapproval*. Referring back to the literature examined in **Section 1.4**; it should be noted that this theme also seems to reflect the prominence of Porter school of thought the most.

Indeed, as reported by Takashi Mochizuki (2013) in his collage of criticism for Abe-nomics tax reforms for the *Wall Street Journal*: despite the failed efforts in the past, presently the flagship project of the Abe cabinet's growth strategy is the designated Special Economic Zones, by which Japan hopes to attract people and investment from both at home and abroad through deregulation and tax incentives in response to intensifying competition by the emerging markets in East- and South-East Asia. This is the second major item on the measures for Japan's competitiveness boost as a business hub listed in **Table 8**. The cabinet approved the bill on October 31st and try to get it through the diet before December 6th and the Abe administration is expected to designate three to five special zones early 2014. According to Cabinet reasoning, amending or creating legislation could take considerable time. This way the government seeks to provide businesses with special benefits via extralegal measures. (Creating national strategic special zones 2013; Mochizuki 2013; 'Strategic special zone' bill advances 2013.)

The administration is considering initiatives in regional communities from the viewpoint of national strategies, and – as specifically stated in the communication – under the leadership of the Prime Minister himself the government will proceed with further regulatory reforms. According to the communication, the special zone policy aims breakthrough as an experimental site for further, or more universal regulatory reform. The projects of choice should have a powerful impact on national economic growth. National and local governments, along with the private sector are to cooperate on these projects without conflicting with one another. The number of the special zones is to be limited as seen necessary. Once again reform in the regulatory-system is underscored. Re-evaluating tax incentives will be done corresponding to the scope and design of each particular zone. The government will build on the foundation of current special zone system and such measures including "Future City" -initiatives in order to interlock with the special zones. As *Japan Times* reports, for the previous economic zones, municipalities and other areas applied for a special zone status at their own initiative and design, leaving them also with the responsibility. This time around, in the National Strategic Special Zones, the national government takes charge. An assigned team consults a wide range of economists, professors and businesspeople. (Creating national strategic special zones 2013; Japan revitalization strategy – Japan is back 2013, 66.)

National strategic special zones are further examined in following two sections where the special zones of Okinawa and Tokyo are singled out. Before diving in, however, I would argue that this is where it seems Japan is reverting into raising barriers, creating borders and contradicting its deregulation pledge the most. Even if the Porter school calls for local–regional policy, the difference here is top down national designation, which

sounds more in line with the likes of China's planned economy. Consider the case made for extralegal measures here, and the bureaucratic administrative guidance prevalent in MITI steered economy. Factor in the fact established in **Section 6.2** which pronounced the time for legislative reform the most ripe and potent given the Prime Minister's rare luxury of controlling the both of Japanese houses of parliament for six consecutive years and an unprecedented amount of political capital. Over the years of booming miracle, Japan took great pride in its "superior capitalism" of limited competition, steered by bureaucracy. The thought I am trying to provoke can be arranged as an inquiry: While now the rhetoric leans increasingly toward western principles of capitalism, freedom, competition and individual initiative; would the conservative Abe cabinet still quote these values if the now implemented policies proved to be a global success?

6.4.2 *Free Trade Zone of Okinawa*

The Cabinet in its communication explicates the importance of the island and Prefecture of Okinawa, southwest from Kyushu and the main island Honshu. With its distinct and often discriminated against culture and ethnicity, troubled historical economy and a major American military base and research center, Okinawa is the nearest zone to the rapidly growing Asian market. On a related note, I would make a general observation regarding proximity, competition, home market effect and the comparative advantage before delving into Okinawa. Two of the former served as dispersion forces in NEG theory and the latter two as agglomeration forces. Japan seems to direct its competitive efforts against China and Korea while the two look increasingly outside the region. China is in still in the rapid growth stage and holds much of the comparative advantage in the region at the moment. Only China invests heavily and proactively in Africa among other emerging markets. (cf. Ahrens 2013.) Arguably this is done for many reasons, such as the massive currency reserves, and naturally Japan engages in this activity as well. But the point is, while the two agglomeration forces still work in favor of China for the foreseeable future, the pressure for competitive dispersion already seems to supersede Japan to the region as a whole. This would seem to render the conventional efforts to compete with China futile, even if discrediting the fact that China is the number one trading partner of Japan. Once again the question comes down to the concept of 'kill your darlings', meaning the counterintuitive efforts in preserving or recapturing the bygone production edge vs. the actual reform into new.

The Cabinet communication states: to zone in and back on some more specific issues, as an element of the national strategy by utilizing the current special zone system (Special Free Trade Zone), the government will actively proceed with further promotion measures.

(Japan revitalization strategy – Japan is back 2013, 66). Subsidies and tax breaks in the Free Trade Zone include (Investing in Japan: Okinawa 2013):

- “Companies that locate in the zone receive a number of tax advantages, such as a 35% deduction in taxable income for corporation tax purposes, and partial exemptions from local government taxes such as real estate acquisition tax and fixed asset tax.”
- “Companies are able to choose between alternative systems for the application of tariffs.”
- “Companies hiring employees under 35 years of age receive subsidies equal to one third of the employees' wages. (Other conditions also apply)”

According to Vivek Wadhwa (2010), the order from above building of clusters in Okinawa failed the way most all cluster development projects do around the world. He claims governments have the fundamental premise all wrong: “Governments can’t mandate or manufacture innovation, no matter the amount they invest. Clusters happen where like-minded entrepreneurs congregate, start risky ventures, and learn from one another other [sic] by networking. Innovation is a by-product of this synergy and experimentation. What is needed is less government control, not more.”

In addition to arguing against government made-to-order cluster building, this description of innovation as a sum of immeasurable social agglomeration externalities, displays the dilemma of NEG style equilibrium model building for the new economy, which Krugman himself among others recognized. Yet, as Storper was paraphrased in **Section 1.4**, once in motion the Myrdalian cycle of agglomeration works according to a similar pattern of similar forces and their self-reinforcement. Consider the translation of the home market effect into network effect in the same section, and the amount of venture projects plus their respective supportive industries which would logically create a virtuous cycle of agglomeration. In this light, NEG might well be outdated in the face of the new economy but it still can be used to grasp the powers at play. Arguably, in the case of NEG production economy initial targeted investment intervention to trigger agglomeration stands to reason. After all, so goes the origin story of many industrialized nations in addition to Japan. Then in this case, the initiatives of Japanese government should be justified. Only, the failing component is the lack of institutions which would allow for the externalities to occur and agglomerate. This also reflects back to the theoretical motivation of this study at this point; if there is a social aspect to a phenomenon, the incorporation of institutional perspective should be justified. It is hard to imagine a social phenomenon in an institutional vacuum.

The Okinawa Institute of Science Technology (OIST) gathered experts from the U.S., Europe, Malaysia, Singapore, and Russia in a convention to review the innovation strategy for Okinawa. Wadhwa partook in event along with the American delegation. As reported by Wadhwa (2010), the Okinawa government presented the road map strategy for transformation of the economic landscape, currently suffering from the highest unemployment rates and lowest per-capita income in the country. Plan comprised of creation of infotech, biotech, and environmental science clusters under government oversight. An impressive venture capital fund was created and the government pointed its own specialists to mediate the dialogue for development between OIST and local industry. These specialists also decided the R&D projects to receive funding and provided consultation for SMEs in issues regarding market-entry, financing negotiation, inter-firm partnerships, business development, and modernization of their facilities.

Wadhwa points out that the real missing link in the Okinawa strategy – reflecting Japan in general – is entrepreneurs. Even prospects thereof are hard to come by, and furthermore, so are engineers and scientists, adding to human capital shortage. The eight Okinawan universities release about 20,000 graduates a year, of which engineers or scientists amount to less than 2000. Wadhwa argued that the solution to Okinawa's problems is a Free Trade Zone to boost venture activity, much like the successful trials in China and Korea. The Free Trade Zone in the present plan seems to do just this. However, the stigma in failure and cultural risk awareness remains an obstacle to Okinawa's development, implying in iteration the importance of immigration in order to speed up the institutional change, as well as education which has lagged behind the rest of Japan considerably. Wadhwa argues that Okinawans, as all Japanese, need assess the nature of high-tech world and its fail-culture, where risky experiments and trials are prerequisite for success, most often preceded by multiple failures. This fail-culture should be promoted frequently by politicians and included in school curricula. Wadhwa gives an example; for the government to take leadership and initiative to this direction, it should form a venture fund for previously failed entrepreneurs starting over again. Arguably this would send a clear message. Wadhwa continues on the theme established in **Section 4.6**; a major institutional obstacle causing the already risk averse workers to rarely leave their jobs to create startups is the severe stigma carried by failure in Japanese society. But in concrete, financiers also demand personal guarantees, making the founder liable for all losses with their personal property. This situation, however, is intended to be "improved" according to the communication (**Table 3** in **Section 6.3.1**). It is a common notion that in the case of failure, Japanese are culturally predisposed to resorting in these dire acts (Futagami & Helms 2009, 83); according to Wadhwa, many do commit suicide when their business fails in order to save face, or to cover the losses and provide for their family with their life insurance policy. I would consider tackling this of utmost priority if I was to boost entrepreneurship.

To this day, on top of the stigma attached to failure keeping the risk averse Japanese from venturing into business, entrepreneurs are also personally liable for all the losses in case of bankruptcy. It is seemingly a fair argument to make, that the combination of these two institutional barriers is the single most effective deterrent for the potential Japanese startup entrepreneurs. Accordingly, the government states in the communication it will address the issue by revising the manager's personal guarantee system in financing. A new guideline about the personal guarantee is to be announced as soon as possible. The guideline will recommend alleviating or lifting the personal guarantee requirements in certain cases i.e. if corporate assets are clearly separated from personal property. The guideline should also incentivize managers to restructure business loans early on if outlook turns dire. Mainly by assuring a certain amount of personal property is left outside the restructuring and thus remains as property of the entrepreneur. Alternative loaning practices are promoted as well, such as ABL (Asset Based Lending) and loans with a guarantee contract or a condition precedent. Financial institutions of the public-sector will step up in the expansion of lending schemes exempting or alleviating personal guarantee clauses. However, the communication calls upon cooperation with private financial institutions in order to achieve the desired outcomes. (Japan revitalization strategy – Japan is back 2013, 34–36.) Note that there is no mention of legal measures, only guidelines. Whether this is seen as something that can be dealt with administrative guidance, or there is something – institutional perhaps – blocking any legal measures. Therefore, even if alternative financing is sought, somehow one has to get the keiretsu centered- and oriented banks on board which implies the larger scale institutional redesign this study keeps relapsing toward.²⁷ Perhaps this is intended with the promotion of competition from other instances? This, especially in the contrast of past protection of Japanese financial markets. While the protected finance of Japan has been studied extensively, the institutional environment of this single point in reform would alone warrant a mission for further study. As far as this study is concerned, however, startup entrepreneurship is further examined in **Section 6.5**.

6.4.3 Tokyo Special Economic Zone

As introduced by Masaaki Kameda (2013) in a piece for *The Japan Times*, the spearhead of Abe's flagship economic zone project, and in hopes of restoring the profile of Japan's

²⁷ For institutional and structural change going on in Japan concerning environment for entrepreneurship, among their other respective research see for instance: Lynskey, M. J. (2004). Knowledge, finance and human capital: The role of social institutional variables on entrepreneurship in Japan. *Industry and Innovation*, Vol. 11 (1), 373–405.

capital to its former glory as the international business hub in Asia, the Tokyo metropolitan government started a project by the name of Special Zone for Asian Headquarters, aiming convince a good 500 foreign companies to settle by 2016. Much in the vein of Japan being concerned with competition within the region as was observed in the beginning of previous section, albeit understandable. As implied in the title, in addition to subsidiaries and other shops, the metro government is especially after foreign internationals' Asian headquarters – challenging the booming cities of Hong Kong and Singapore in this regard. Tokyo plans to attract HQs by rather conventional methods of preferential tax treatment and financial aid. The special zone is split in five areas: the northern part of Tokyo Bay's main commercial districts from Roppongi to Odaiba-island, Shinjuku, Shibuya, the district between Shinagawa and Tamachi stations, and a now idle site used by Haneda airport. (Kameda 2013.) **Figure 14** maps out the zones in the hearth of Tokyo, complemented with Tenkubashi area which is to the northeast, approximately a 15 minute monorail trip away from Hamamatsucho station connected to the Yamanote-line ring circling the downtown districts making a full round trip in approximately 60 minutes.

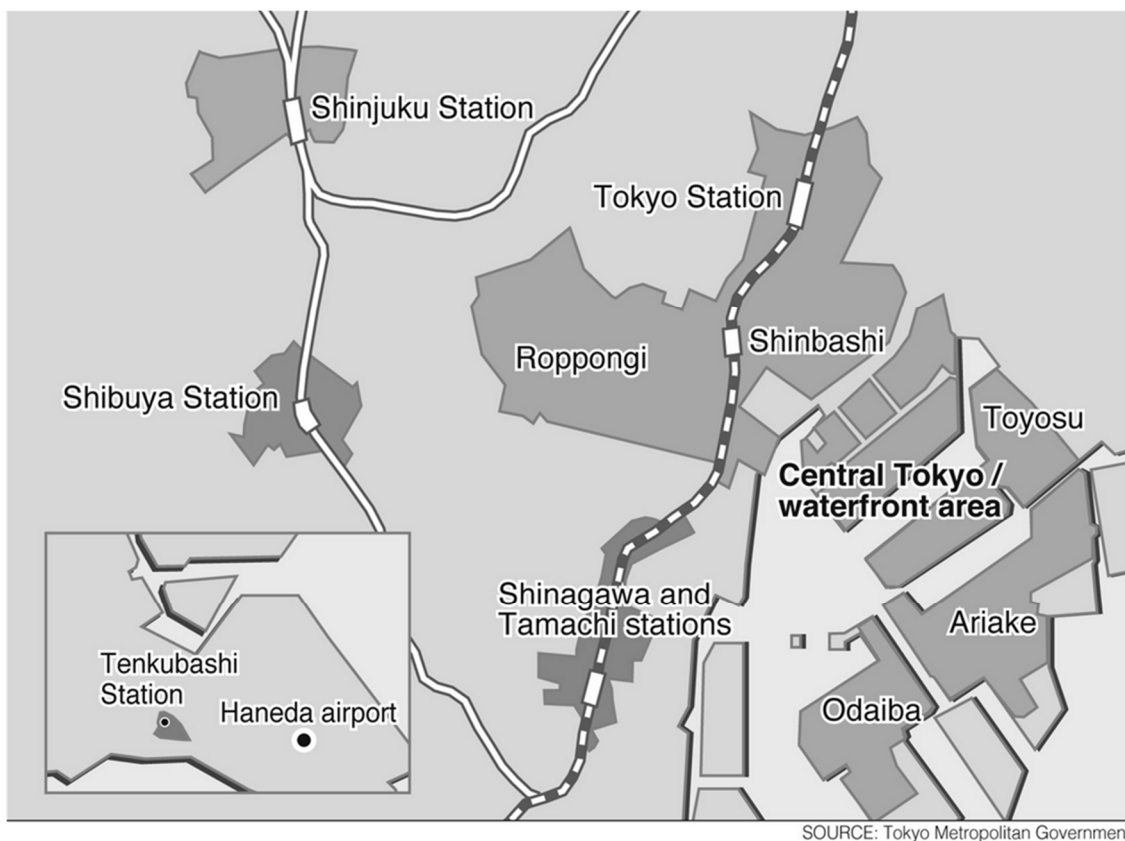


Figure 14 Tokyo designated special areas (Kameda 2013)

As Toyo Keizai Inc. statistics reveal, between 2005 and 2010, Tokyo saw a decline in foreign businesses from 2,645 to 2,330. Noriko Adachi, the metro government's director for the project, explains the trend with the intensifying competition from booming Asian

business centers, such as the aforementioned Singapore and Seoul. These cities also bait foreign companies by subsidies and other incentives. The project was launched within the central government's Comprehensive Special Zones for International Competitiveness system examined in **Section 6.4.1**. (Kameda 2013.)

By the fiscal year 2016, Kameda reports, Tokyo aims to have brought in over 500 foreign companies, 50 of them Asian headquarters or R&D centers set up within the designated areas. According to Adachi, the target is derived from the peak year of 2005 during which around 100 foreign companies set up in the capital. In terms of quantitative goals, Tokyo expects 14.6 trillion yen in economic effects and some 930,000 jobs, granted the companies come. She admits it will not be easy and the target is extremely ambitious. A consulting company was also hired to market the project. "We have to talk to thousands of companies if we wish to bring in 50 firms. We asked the consulting firm to reach out to thousands of companies' top managements": Adachi stated in the interview for *The Japan Times* on 23.9.2013. (Kameda 2013.) Takaumi Tamura, senior manager of the real estate and transportation group at Deloitte Tohmatsu Consulting Co., emphasized again the competition from e.g. Singapore and Hong as an explanation for the high set bar. He points out how Tokyo lags behind in terms of taxes, financial aid and amenities. The corporate tax rates of the two powerhouses are only 16.5% and 17%. Thus Tamura calls for tax breaks and incentives in Tokyo. His view on 2020 Tokyo Olympics is optimistic though: "I think various kinds of demand will be generated from the Olympics, so I assume the number of foreign firms coming to Tokyo will rise to take advantage of the opportunities". (Kameda 2013.)

The above measures are in straight lineage with the findings in Global Power City Index (2008) introduced in **Section 6.3.4**. The survey found Tokyo lagging drastically behind New York, London and Paris in the "Culture and Interaction" and "Space and Accessibility" functions. Residents regard Tokyo on a par with these cities, however, other "actors" do not, especially managers and visitors. In fact, Tokyo scores toward the bottom in the eyes of managers and visitors in comparison to other major economic cities in Asia. However, it is extremely dominant in the "Research & Development" function, while largely tied with Asian cities in the "Living and Environment" and "Space and Accessibility" functions. Tokyo is highly ranked in actor-specific evaluation by "Researchers". The research project concluded that if Tokyo seeks to raise its attractiveness amongst managers, it needs to ease the conducting of business, again by e.g. relaxing regulations and taxes, but also reducing the danger posed by natural disasters. (Global Power City Index 2008, 2–3.)

Corresponding to the issues Tokyo is facing, the communication outlines the National Strategic Special Zone project holds initiatives for instance, to "form international cities whose environment such as residential space, etc. is one of the most attractive in the world," "to establish an international base for medical services and for innovations." The

government pledges to “strive to create the best environment for business activities that will trigger growth by taking special measures in the special zones, actively utilizing regulatory/system reform items applicable nationwide and improving important infrastructure.” (Japan revitalization strategy – Japan is back 2013, 67):

- Reviewing regulations on land use such as floor-area ratio/use to accelerate residential environmental improvement. Taking strategic government leadership in city planning – i.e. shift in office/condo building construction.
- “Improving medical service for foreign people given by foreign doctors. As for the “clinical training system” that allows only training as medical practice of foreign doctors, the government will submit a bill to review the system nationwide to add instruction/clinical study and to extend the period as a part of an amendment bill of the Medical Service Act by the end of this year. In addition, while ensuring the quality, the government will strive to improve medical services for foreign people living in the special zones.”
- “Reviewing requirements to establish international schools In order to improve educational environment for children of so-called international schools on which the government places importance regarding work of foreign people, the government will strive to ease requirements for school sites/building and strongly promote review of rules that make it difficult to set up an international school in Japan.”
- “Reviewing issues concerning the Labor Contract Act for researchers.” (career path, personnel and labor management)
- “Enhancing function of airports in the Tokyo Metropolitan area and improving access with the center of Tokyo.” (direct rail)
- “Opening up public school operation to the private sector in order to provide diversified education at public schools.” (public-built but privately operated schools at least in the special zones)

In addition to the flashbacks of MITI planned economy, the third arrow and this zone project is where the media pessimism seems most evident, especially as we approach the end of the year 2013. In December the *Wall Street Journal* quotes Kyohei Morita, chief economist at Barclays in Tokyo, this flagship project doesn’t qualify as flagship no longer, since the reforms most anticipated and crucial, seem have been watered down due to inner politics of Abe’s own party. While the watering down applies to key reforms such as the crippled labor reform, the main attraction of the plan according to *WSJ*, the tax cuts, have been put off until further notice. Reportedly, the LDP tax panels dread to take the drastic measures anticipated before the design of the zones is complete. Kyohei Morita struggles to find optimism: "The high hopes for the special economic zones, and Mr. Abe's commitment to deregulation, are fading." Incidentally, the tax panel stated the national corporate tax breaks are off the table until 2015 due to opening a window for discussion. (Mochizuki 2013.) For a sense of tone reflecting much of the major western media articles; this excerpt is the closing paragraphs of Mochizuki’s (2013) *Wall Street Journal* piece:

The tax panel has already decided to postpone addressing the wider issue of major cuts to Japan's nationwide corporate tax rate from April 2015, citing the time needed for discussion. The tax breaks for the special zones now seem set to meet the same fate.

It's not the first setback to the government's economic zones policy. Initial proposals calling for labor and agricultural deregulation in the zones ended up getting watered down as bureaucrats at related ministries pushed back.

At a news conference on Monday, Mr. Abe reiterated his commitment to carrying out changes. "There will be no end for my reform efforts," he said.

In addition to adumbration of Mr. Abe, the above quote should demonstrate how making the distinction between pessimism, agendas or prejudice and plain negative subject matter proved a challenging task. Content wise the quote is perhaps the most informative one to reflect the media as a whole and even this entire study, which is why this is addressed here. While this thesis lacks the means of a proper linguistic study to really assess proper meanings behind the texts, regarding economic media, it appears, when applicable, that it asserts power mostly through data and appeals to authority with formal credentials. This reinforces the utility of factual basis viewpoint applied in this analysis.

Referring back to **Section 2** one can observe the similarities between intended policy effects and the theory. Even if dismissing the issue of domestic demand, positive externalities seem to be given detailed thought. Technology spillovers, shared inputs, accumulative knowledge etc. The dual role of labor force seems to be in part addressed in a mirror image of mobility. Concerning the regional welfare it seems the Cabinet would rather see old structures in place; meaning, companies and jobs in the peripheries, rather than further urban agglomeration. Yet, simultaneously new innovative urban venture activity is sought after.

To avoid a complete paradox, the importance of catering and facilitating international talent in research and industry, as well as fostering their congregation to create synergies is recognized. It also appears evident Japan has been for some time aware of Tokyo's decline in Asian hierarchy of metropolises. Hence, Japan's initiative in monitoring this development by conducting of the power city index survey. In addition to China and Singapore, the rise of Seoul in the 1990s is one possible and likely final signal to face the reality due to its physical- and institutional proximity. During the 1980s the general home market effect still worked in Japan's advantage as well, much in the fashion of contemporary China. In fact, while Japan still possessed the desired market Seoul had emerged in the post bubble global economy from a position of low bargaining power to rival Japan, while effectively solving many of the structural impediments still plaguing Japan to this

day. (see e.g. Graham 2003; Haggard, Lim & Kim 2003). However, this is not a comparative case study. Therefore, in order to digress no further from the scope of this study, and to close on the zone policies; it indeed seems peculiar to Japan how the creation of loose and enabling conditions appears painstakingly alien. Any reform seems to be faced with apparent reluctance, even if the importance of said measures is acknowledged and vocally addressed both in public and political spheres. In contrast, historical Japan proved one of the most – if not the most – adaptive country and economy in the world, twice. However, with the risk of sounding harsh, while simultaneously speaking of Japan's past adaptability and the today's rigid institutions lacking the necessary motivation for change, it is a seemingly logical reservation to make: this time around Americans have not bombed Japan.

6.5 Small and medium-sized enterprises and startups

In regard to SMEs which utilize the bulk of low productivity part time workers introduced in **Section 4.5**, the communication outlines the government plans to explicitly boost innovation in this part of the value chain. It claims the “management resources such as 4.2 million SMEs across the nation and human talents, goods, and communities across the region, are the world-class industrial infrastructure that supports the regeneration of Japan's manufacturing industry, and serves as the origin of high-value added industries.” The SME infrastructure is seen as the ripe ground for innovation that would benefit regional economies the most, but also boost global competitiveness levels in general. This is much in line with Porter's observations on innovation in **Section 1.4**, mainly how it is concentrated in large corporations. The government plans to ‘make sure’, that business startup rate rises above the rate of closure, in addition to the aforementioned goal of startup-closure rate of 10%, the level of the US and UK. Currently companies are both started and scrapped at a 4.5% annual average rate from 2004 to 2009. SME expansion into growth sectors is within government's vision. It seeks to push the number of profitable SMEs from the current 0.7 million to 1.4 million by 2020. This is in combined effort to realize internationalization of 10 000 currently domestic companies over the next five years. To achieve these ambitions, certified experts are to be employed. Government will “support SMEs in their daily operations, their concerned companies, support organizations such as professionals, SME-related organizations and regional financial institutions in addition to the government and local governments work together to use, mobilize, and commercialize regional resources as brands, accelerate the restructuring of SMEs, and promote initiatives in frontier areas in Japan and overseas. Along with that, the government will aim for “the most comprehensible” policies” for SMEs...” In light of this in-

comprehensible quote the “most comprehensible” policies are certainly anticipated in intrigue. But in other words, the government aspires to combine and network the aforementioned components organically to produce internationally marketable, regional commercial brands. (Japan revitalization strategy – Japan is back 2013, 34–36, 74–75.)

The regional resources named in previous paragraph shall also be harnessed to promote business startups as if as to respond to the concerns expressed by Wadhwa in **Section 6.4.2**. Yet this entails once again more government intervention instead of less. It also seems a bit as though a mercantilist subsidy, and counterintuitive, in case of globally sourcing robust new economy digital enterprises. According to the communication, in this effort the government plans to support startups and provide management know-how with a single national source. Right in the next sentence, however, the communication says “[the government] will increase responsible entities for business startups that use regional resources”, and goes on in a difficult to follow manner; “such as enhancing a network of entrepreneurs through support portal websites, conducting business competition, and improving functions of shopping streets and central urban districts.” At this point it is debatable whether the government has an actual plan, or just experiences difficulties in expressing itself in English. Whichever the case, the government states, comprehensive support is realized “by deploying all the political resources, including the review of *Act on Promotion of Business Activities by Small and Medium Sized Enterprises Utilizing Resources Derived from Local Industries*, with respect to business startups which use regional resources, or mobilize (combine and merge) them. In order to build world's pre-eminent industries, the government will create new clusters centered on regional core firms and activate regional companies after redefining promising candidate sites for industrial clusters.” (Japan revitalization strategy – Japan is back 2013, 74–75.)

In essence, the government expresses its sustaining confidence in being able to create clusters, contrary to the critical views of scholars and experts. In theoretical- or academic discourse the notion of government targeting strategic industries, however, is somewhat of a divisive dilemma. For instance, Porter (1996, 88) argues against Markusen's (1996) acceptance of this practice calling it out as a fallacy. Incidentally, Porter bases this on his evidence from the uncompetitive and competitive Japan, where targeting was more prevalent in the latter. Having said this, creation of clusters is widely deemed as an inconceivable enterprise in the west, as they are considered an outcome of a variety of aggregate economic- and institutional development and congregation, however, fostering and facilitating them is encouraged (Porter 2007, 5). The detailed regional targeting and promotion also seems counterproductive a subsidy if bureaucracy is intended to be dismantled. Even more so in terms of labor force mobility and its place in the agglomeration cycle, especially with the combination of the demand-factor, which is another specifically addressed point in Abenomics. Mercantilism, as dropped in the preceding paragraph, seems an ap-

appropriate reference, since the Abenomics-communication presents the economy increasingly as a zero-sum game, which is manifested in the theme of not letting go of the old regional production economy, or old anything for that matter. It seems unlikely agglomeration would take off a new anywhere in Japan, if none of the existing structures may change ranging from where people live and work to the ethnic cohesion of Japan. This in the situation where the population is declining at an alarming rate and the country is facing a sovereign debt crisis.

Continuing on the creationist dogma, the communication on growth strategy proceeds by stating its intention in creating a thorough framework for venture creation. In order to promote investment in business ventures the government shall “develop a system that creates venture businesses and new businesses by fully utilizing latent technology, ideas, funds, human resources in large corporations and research institutions, undiscovered local businesses and resources. The government will implement comprehensive measures that secure human resources who bear responsibility for venture businesses and new businesses (including specialists who will strategically negotiate intellectual rights, etc.), improve judgment and ability of coordinating possessed by persons who act as an intermediary between entrepreneurs and investors, private companies etc. and expand supply of risk money utilizing resources in and outside Japan.” This section of the communication does ring with the article of Wadhwa, and not in a positive way. However, the government expresses its will to strive for easier venture capital activity with additional incentives like improving the tax system for the angel-investors. Furthermore, the “government will consider fund raising framework such as crowdfunding²⁸ with the aim to increase supply of risk money in commercializing technologies and ideas and to utilize local resources.” The supply of risk money from households to startups is also facilitated by promoting NISA (tax exemption small amount investment system). At the Financial System Council, the government will further consider matters to reform. The communication expresses the intent of the council to consider investor protection issues, and expects the council to adjourn by the end of 2013. Albeit vaguely framed at this point, by and through these initiatives the Cabinet is determined accelerate the restructuring of old industries and replacing them altogether. Japan seeks a position where more ventures are started than closed at the said 10% -rate. Legislative measures are to be announced based on conclusions following these initiatives. (Japan revitalization strategy – Japan is back 2013, 34–36, 74–75.) As is observable, the plans are rather ‘all over the place’ as they are extensive and detailed, only the actual deregulation remains yet absent. Hence there is not much leeway left for the invisible hand of market forces. Porter school and the western bias

²⁸ A system to raise funds via Internet sites by linking new/growing companies with numerous individual investors who may also invest only a minor amount of money.

aside; does Japan believe market initiative would work on its own? In case of Japan; should it?

7 SUMMARY AND CONCLUSIONS

7.1 Multifaceted status quo bias

Through institutions and the economic agglomeration models of New Economic Geography, this study has examined a variety of sources from academic literature to inter-governmental publications; and from cabinet publications to corresponding media pieces, in order to build a comprehensive and cohesive narrative depicting the different standpoints to the phenomenon that is economic transformation of Japan and the Abenomics. While institutional analysis/analysis in terms of institutions help to understand as to why something is, utilizing the frame derived from NEG (**Figure 3** in **Section 2.4**) where applicable it is convenient to assess the forces at play and as a theoretical reference to the desired policy effect in the economy depicted as ripple effects of Abenomics in **Figure 11** in **Section 6.2**. To complement the picture with construct reality, the study made use of public commentary, and relevant research in the analysis.

Rather uniquely, this major transformation is the third of its kind in a relatively short window of time of little over a century. Japan was never the trailblazer per se, instead, when found lagging behind swiftly reformed and caught up. The world should thus hold a historical expectation for something revolutionary regarding reforms in Japan. Only this time, it seems as though the fast paced, disruptive, innovation driven, knowledge-economy favors not the institutional tradition of Japan, thus after two decades the economic slump still has no quick fix in sight.

After the Pacific War Japan experienced a sterling and unprecedented economic growth which left the world in awe much to the credit of strict bureaucratic guidance peculiar to Japan. During the 80s, however, the economy was severely overheated and hence the 90s saw the bubble burst after which Japan has been stuck in a vicious cycle of stagnation and deflation. This was accompanied by the gradual and ongoing deagglomeration of the world renowned production economy of Japan. The phenomenon is familiar to the whole of the industrialized world due to the rise of emerging economies, but in comparison, Japan has shown persistent signs of more severe structural discrepancies in the face of transition to the new economy.

Shinzō Abe was inaugurated the second time as Prime Minister of Japan in December 2012. While every Premier before him has had a growth strategy, Abe is the first to have his name put on the economic policy which entails the gravity and the expectations loaded on the reforms. “Abenomics”, an ambitious reform for knocking Japan’s economy back on growth track, comprise “three arrows”: Tremendous scale monetary expansion, fiscal stimulus, and last, and the most interesting in terms of this thesis, the structural reform (Industry Revitalization Plan). Flooding the market with money, thus also weakening the

yen to boost exports, is to serve as the catalyst upon which the more critical and challenging long term structural reform is to be implemented. At the time of this study the first arrow has been remarkably successful in ending the 15 years of deflation. At least in short term, this has effectively ushered the desired depreciation of the yen. Abe now possesses the political means beyond any of his predecessors to implement the dire reforms much needed to steer Japan towards sustainable growth in the new information age economy. Nevertheless, considering the institutional environment of Japan, the skepticism towards Abe's chances for success remains significant.

I am an optimist. It does not seem too much use being anything else.
(Winston Churchill)

Much like Sir Churchill in the above quote, as a politician in charge Abe is naturally optimistic and determined in his rhetoric, which is also reflected in the communications by Abe Cabinet. The frequent and even redundant usage of adjectives such as 'bold' may seem contrived to a western audience as far as official government policy publications go. It should suffice, however, to regard this as an issue of translation and communication culture. Japanese communication especially in marketing is ridden with such extreme expressions of quality as 'super' and 'mega,' along with exaggerated reactions and context clues. Be that as it may, for Abe the confidence of the market is of the essence as success of the third arrow is highly dependent on the monetary policy ability to provide leverage via short term results.

The prolonged recession and the fact that the structural problems have been addressed for such a long time invites inevitable pessimism. Especially in the grand scheme, human nature has a preference toward regarding the current state of affairs as default – widely cited as *status quo bias* (cf. Wittman 2007). The preference was as evident in the overheating of the economy in the late 80s as it is now in the state of prolonged stagnation. People may not be willing to jump on- or off board the investment train right away even if the short term indicators signal favorably. However, since the information is incomplete; what appears to be status quo bias may simply be cautionary behavior, which definitely is a factor emphasized in the case of Japan almost without fail (cf. Mandler 2004). Furthermore, in case of the US in particular, one can observe a certain flavor of "I told you so" -attitude. For decades, Japanese 'superior' capitalism was studied in awe in the west, accompanied by disputes over protectionism and restraints on competition, mainly with the US. Furthermore, a bulk of the economist correspondents in the west are more or less indoctrinated in the prevailing idea of market liberalism. Therefore, anything that falls short of what has been done in the US is faced with largely predictable criticism in the west; withstanding of course the role of media being the voice of criticism, or 'the fourth estate'. However, seeing as it is fundamentally a business, in the vein of "told you

so” the media may present a tendency to cater to the audience’s confirmation bias as well; inadvertently or deliberately.

The most imminent source for pessimism identified in this study is status quo bias. It would be insufficient, however, to merely argue the behaviorist standpoint of market preferences and bounded rationality. The Japanese dread for uncertainty is a major institution which demands addressing. This is already embodied in various expert interviews in which a typical response incorporates the premise “knowing Japan”, as if pleading for legitimization for the insight from a community familiar with Japanese institutions. The status quo is not isolated to involve the current state of the economy, but every aspect of the lives of every economic agent in the nation, thus making reforms challenging to say the least. It is the salaryman seeking for a lifetime employment, MITI mitigating competition, the keiretsu banks not financing anyone outside the chain of kaisha down to the college senior who wears exactly the same suit as each and everyone else to a job hunting seminar, where in the western sense one would want to stand out from the crowd. But ultimately what this all comes down to, is the ability to plan one’s own life. In Japan, the failure of these plans have dire social and economic consequences, as is observed in various parts of this study. The status quo bias may be found in every culture, but addressing it does not automatically prompt the presupposition of “knowing Germany”. Hence, there seems to be a strong built-in expectation of rigidity to Japan, which surpasses, for instance, the deflation expectations; but which is perhaps even better understood within Japan itself.

It took the world 5-10 years before it felt safe to argue there was something fundamentally unsound with the economy of Japan. The narrative built in this study begs the question of whether Japan and its political elite in particular, is really convinced of this fact today. Japan has been bombarded with similar international criticism since the 90s, and government research along with domestic academia has contributed to this choir. However, the pattern in the policy publications seems as though every policy directly addresses a point of criticism i.e. in the OECD survey, but proceeds to list measures contrary to the deregulation agenda demanded and announced. The most plausible explanation for this is once again the uncertainty avoidance as in political fear of adverse consequences. Another possible reason is the not at all unfounded lack of faith in Japanese individual agency and initiative. The historical expectation has after all been for the business to wait for the administrative guidance and so to speak, not going rogue. Basically, instead of initiating the regulation dismantle and legal reform, Japan rather opts to regulate the deregulation. Time for policy making is supposed to be ripe right now due to the prolonged control of both houses of parliament and the political capital amassed but the cabinet still hesitates. In fact, it is very tempting to draw two conclusions from this considering the conservative nature of Abe’s party and the political controversies Abe is prone to outside economics. Among other nationalist and populist undertakings these include the intent of

remilitarization of Japan. One controversial manifestation of this is Abe visiting the Yasukuni-shrine for the soldiers who have given their lives for the emperor which includes war criminals, thus infuriating especially China and Korea. Adding the high context communication culture of Japan, and particularly its concept of *honne* and *tatemae*²⁹, there is a case for probable cause against Abe actually embracing the values imposed on Japan by market forces, let alone if imposed by foreign powers such as the US. Similar concerns regarding the re-interpretations of the peace constitution have been voiced in the development since the turn of the millennium by which Japan is convincing its ally, the US, how Japan should be able to project military force outside its borders in order to carry its weight in the alliance. (cf. Hagström & Turesson 2009 and Arudou 2013.) Furthermore, as observed in the occupation and postwar history of Japan, there was a tendency to accommodate outside pressures with legislation which was virtually left unenforced, and in fact, countered with administrative guidance i.e. the Anti-monopoly law.

7.2 Bottleneck of labor market and immigration

Exploring the narratives on structural problems and the rigid institutions in the way of reform in Japan, the most recurring and underlying issues can be traced back to the labor market and immigration. Examining the phenomenon through the NEG derived frame it is tempting to consider emerging markets (mainly China) as the periphery in this particular case. Some of the comparisons reveal the unique characteristics of Japan as an institutional hive mind which is more or less alien to western economies.

During Japan's great recession the case seems to be inelastic labor mobility combined with inelastic prices and wages. Also, the application of the Kuznet's cycle model suggests that Japan is in the very downturn of saturated demand and curbing technology. The cited power of the bell-shaped curve lies in the fact that it holds under a variety of different scenarios, but also under different assumptions: workers' spatial mobility, whether the mobility is perfect, imperfect or non-existent. Moreover, it acts along the same lines as the forces that underpin factor price equalization on which NEG builds. As the interregional utility differentials associated with scale economies decrease once economic integration has reached a sufficiently high level, it is a fairly credible consequence that, above a certain threshold, these forces become predominant and eventually begin acting in favor

²⁹ The two "faces": Real intent – *honne* vs. the facade – *tatemae*. For instance, confer to the widely used example situation of a Japanese manufacturer-supplier which knows for a fact the shipment will be 2 weeks late, but assures the client everything is in order. In the unofficial *honne*- face – familiar after work drinks at the izakaya – the supplier may apologize for the delay. All this in order to save everyone's face and retain harmony in the professional setting – *tatemae* face.

of a redeployment of activities in turn to the benefit of the periphery, say China. (Combes, Mayer & Thisse, 2008, 207–223; Syrguin 2005, 3–4.) This is all observable in Japan, only the aggregate wages have remained relatively high even during the downturn and relatively few layoffs of larger scale have occurred. While the duality of the labor market has been widely criticized along with the welfare of the part-time buffer segment, it seems as the model has fulfilled its function in keeping the economy predictable in the long turn. Furthermore, while the domestic demand is addressed as in a need of boost, that too has been strong in comparison to western economies. This is especially true in the high-end segment of the consumer market which in Japan is considered considerably larger, even commonplace. Due to the reported discrepancies in productivity, if the dual labor market was to be disassembled, there is a good chance the vast higher segment of the workforce would suffer a loss in disposable income. Also, the seniority based remuneration would become obsolete for the most part and the demographics are extremely skewed towards seniors. This would have a grave impact on the market, and in fact accelerate the bottled up deagglomeration causing an all-out panic in a worst case scenario. Against this backdrop it may well be that the political capital of Abe is somewhat exaggerated. While the economic woes are well known, few Japanese still feel the impact as strong enough to take an initiative in radical measures. Both the necessity- and opportunity types of entrepreneurship remain low, but what is happening, however, is the perceived necessity and willingness of women to partake in the economy through proper career employment. Therefore, as the most important step forward both in economic sense and in keeping an eye for future institutional development; I would argue in favor of the facilitation of working moms and tackling the m-curve. Going against traditional values and practices in this manner, is most likely to become, and stay predominant in large urban centers for a relatively long period of time prior to becoming a national institution.

While the new economy seems lucrative in terms of productivity, it seems yet unlikely that the Japanese themselves would be ready to take individual initiative and mainly, the risk. Therefore, I remain highly skeptical towards the economic zones and the growth strategy. Especially toward the goal of attracting multinational Asian headquarters, at least in short term and *laissez-faire*. It seems in this regard the power balance has shifted out of the reach of Japanese measures in favor of emerging markets, mainly China, in accordance to the bell-shaped curve. Taking into account the home-market advantage, labor supply, cost-structure, the network effect and therefore the whole rapid agglomeration in motion in China and the bargaining power that comes as a byproduct, Japan is not in a position to challenge its biggest trading partner. Instead further cooperation is warranted which, however, ultimately demands further transition into the new economy. The nationalistic tendencies of Abe and his party are not helping to this end. Nor does it help the domestic need for immigrants, especially the much desired immigrants of special talent and competence stemming from the need for new models of innovation. Having this

on the record, Japan should foster the culture and regulation more immigrant friendly and encourage immigrant entrepreneurship and innovative agency significantly. As long as the domestic demand stays viable, there is an incentive for foreign nationals to set up shop in Japan. If this was to become more commonplace, it is possible with educational effort the institutional setting could gradually turn in favor of entrepreneurship in general, perhaps thus making the undesired disruptive restructuring redundant. The first order of business should be encouraging and enabling the foreign graduates to stay in Japan. If individuals with comprehensive language and culture -skills and established networks will not stay in Japan, it is highly unlikely that foreign talent would suddenly opt to relocate in Japan in a grander scale.

7.3 Cluster creation and tradeoff reluctance

When an aspiring new start up entrepreneur pitches their concept to potential investors the pitfall for said entrepreneur is often resorting to buzzwords. Much in a similar fashion does the Abe Cabinet communications embrace the word 'cluster' with its regional synonyms; and particularly building thereof. This can be viewed as a token of much of the criticism and pessimism the growth strategy has faced. The first rule of thumb: there is no building of clusters. At least according to the common consensus or the Porter school of regional agglomeration. Clusters occur where a set of interlinked industries have converged due to favorable historical and institutional settings and relevant success stories to kick start the agglomeration. Albeit difficult, clusters may however be fostered, which supposedly is in the intent of the reform, at least on a rhetorical level. (cf. Porter 1998.)

Significant similarities which may be accredited to institutions can be observed in the current reform and the success stories of postwar miracle. The postwar government hid its true intentions of limited competition from the occupant. Much like it seems to embrace deregulation today, but in effect goes forward to create a jungle of 'regulation' and as far as designating locations for different industries on a level of city districts. Say, if I was a prospective startup entrepreneur looking to invest in Japan, it occurred to me that in terms of regulation only, I would have to do a considerable amount of research before I even know which island I should be located in, not to mention which prefecture. In addition, unlike the production economy, the new economy is more dependent on the natural synergies of knowledge workers, agglomeration of intangible externalities of their interactive participation and risk taking, all of which I naturally would have to factor in. While this latter point seems to be acknowledged by the Abe Cabinet, I cannot shake the feeling Japan is still seeking for a bureaucratic solution for the reasons of aforementioned risks involving disrupting the status quo and the reluctance or incapability to undermine institutions shaped along the centuries.

If one takes into account of the Japanese awareness on their institutional challenges, there might be a genuine lack of confidence in these desired synergies taking place; or in them materializing into catalyst-ventures on their own, no matter how favorable the regulative environment. At any rate, what it all boils down to is how it is hard to imagine a major change in the innovation and startup scene without a more hospitable environment for immigrants who could take the initiative and set the cultural evolution in motion. Just as pointed out by Storper in **Section 1.4**, once in motion, the NEG agglomeration economies reinforcing cycle play by similar rules both in production economy and in new economy. This time around instead of having the government to play the role of a catalyst as was the case in postwar economy, immigrant initiative could prove the case in contemporary transition to new economy. There is still a certain allure to Japan, which attracts foreigners even above its emerging neighbors, and enough to overcome the hardships in immigration. Abenomics has addressed this specifically with its cultural export component “Cool Japan”. To effectively realize the potential of cool, Japan has to face its reluctance toward cultural diversity and speed up the integration of foreigners; their children, and cater to the needs of working parents, just as is in the case of working women. Foremost, Japan cannot pick and choose its immigrants the way it has now attempted. Compared to for instance, Australia; in present state of affairs it simply lacks the bargaining power to do so. However, just like in the case of preserving the production economy and upgrading to new economy, creating a secondary labor market without layoffs or integrating to the world economy while protecting and subsidizing its own industries; figuratively speaking, Japan often wants to have its cake and eat it too. In order to be truly attractive in the eyes of immigrants, in addition to favorable regulation, a nation must have a welcoming culture and environment. This should also be associated in the conceptions of prospective immigrants and building such reputation can take a considerable amount of time.

7.4 Institutions wired for intrapreneurship

In regard to the status quo bias identified as the source for much of the pessimism, it should also be acknowledged, that this affects gravely both the researcher and the vast majority of the examined material in English in terms of what is deemed desirable. There are benchmark knowledge-based economies and one tends to regard their attributes as the only viable source for competitiveness in today’s global economy. While this study namely avoids the caveat of this bias as it is specifically set out to explore the correspondence around the issue from an “international” or largely western point of view, it is good to consider the possibility of Japan managing to think its way outside the box. The historical implications are there since the west has a history of disagreeing with Japanese

measures in economic growth even when they were tremendously successful. Furthermore, considering the contradictory nature of policies vs. communication, and the Japanese institutional graving for paternalistic guidance, group mentality; and mainly, predictability, it is not impossible to imagine Japan being able to once again change the rules of the game in its favor.

Thinking outside the box appears to be challenging for a western researcher, at least in this case, and so it seems for the media as well. However, I identified a few major fundamentals in Japanese economy and society that could imply an alternative- and possibly a successful solution for Japan to stay competitive in the new-, fast paced innovation and entrepreneurial knowledge economy. First, Japanese ability and tendency to put the welfare of the salaryman and the size of the company before profits, and hence, relatively patriotic capital compared to west. Second, the well educated workforce and the tradition of in house training combined with job rotation and a huge, largely untapped reserve in well educated women. Third, though the labor mobility is low, loyal Japanese workers will almost without a fail relocate even overseas if requested by the company. And finally the mountain of cash the major keiretsu sit on allowing for the undertaking of experimental projects.

What does this all add up to? The way I see it, perhaps the west is too quick to condemn the Japanese institutions as barriers to growth. If approached from a different angle, Japan's very institutions could provide an advantage in comparison to west, where entrepreneurship – while with potential high rewards and a more fostering environment – is still often deemed too risky on an individual level. Or, individuals simply lack the know-how, the networks or the strive to go about it no matter the personal potential. Hence, my suggestion as the possible alternative model for Japan, is to go about this transition as a matter of intrapreneurship rather than that of entrepreneurship. After all, the Japanese already win or lose as a group or a team, also within companies. This way the talented entrepreneurial graduates could still opt for the peer pressured career in a major corporation, and have the freedom and resources to build their own winning team that motivates individuals toward innovation and discovery. In essence, the corporation would compensate for the lack of social capital afflicting the potential entrepreneurs, while addressing its internal productivity-, innovation and capital allocation issues.

The idea of intrapreneurship is by no means new, but coined in the 70s and was popularized in the 1980s by major periodical media and finally academically researched by Howard Edward Haller. He has studied this phenomenon meticulously and found it successful in a range of major companies, Sony and Toyota of them Japanese. (Haller 2009.) In the western world the most cited of instances include; Macintosh and its 'back to the garage' mentality; and Google with its world renowned support and encouragement for individual project initiatives of different varieties. As to why this model could provide Japan with an extra leverage in competition; basically, by embracing intrapreneurship,

Japan could hypothetically cash in on the potential referred to by Michael Porter et al. (2000) in Japan's extraordinary ability to innovate across disciplines. Imagine if this ability, now found in large keiretsu in form of its incremental counterpart, was translated into disruptive innovation and creation of ventures as well.

My basic argument goes as follows: in short term, it is much more conceivable to change the conduct of individual corporations, than that of an entire nation with its traits that have held through centuries, such as the uncertainty avoidance. In addition, Japan should hold the optimal conditions for this approach in the institutionalized practice of administrative guidance. For instance, with proper management and incentives individual companies could invoke a proper micro-scale 'fail-culture', much in demand by the new economy startup scene. Furthermore, the corporate chain of keiretsu already fosters convergence and synergy of interdivisional and up and down stream agglomeration of externalities better than western companies in general. Furthermore, the corporation has the means to provide the intrapreneurs with the desired security. Inside a corporation the cultural tendencies could be more easily accommodated, and no such risky and individualistic leap as entrepreneurship would be necessary. In order to better cultivate knowledge spillovers with institutions of higher learning, corporations could boost the rate of internships in different projects for which students received credit. This could also prove a potential viable path to recruitment in addition to the stressful job hunting. Basically, instead of Stanford style venture garages along universities, which too often fade from existence in Japan shortly after conclusion of a course or a project module, corporations could establish these internally. This could provide an opportunity to adjusting the remuneration of the business-minded individuals outside the seniority wages within these intrapreneur projects would boost incentive, and could provide a less painful transition to a more merit based system overall, eventually leading up to healthier productivity levels.

The file-cabinets of large companies are filled with literally tens of thousands of unutilized patents, concepts and technologies. Many an aspiring business-minded student and researcher would surely be interested in browsing through them and perhaps picking up something to improve and perhaps build a business upon. Activity of this sort has been somewhat of a recent trend in the developed world as well. Open innovation, even sharing with established competitors is encouraged in order to seize benefits of aggregate market growth along with licensing revenue (cf. Sorek 2012). The Japanese companies have started to recognize the need for specialists, and intrapreneurs out of college could prove to fill the gap, especially if international talent were to be effectively utilized as well. If Japanese corporations were to build their reputation as intrapreneur pampering, successful companies with strong ties to institutes of higher learning and research, there would be no problem in attracting foreign talent. If this could be realized, in a right regulative environment the profile of Japan as a business hub would rise and the foreign companies would follow suit. This could render the arbitrary zones redundant and a mere facilitation

would suffice as the agglomeration would take place in the natural hubs and proximities of respective fields of research and industry. The development could be significantly boosted if English was to be implemented as working language, at least in a proportion of the projects. Recognizing the lack in linguistic abilities, for instance, the projects with such initiative by the project masterminds could opt to do so much as if they were a genuine startup. The resulting spinoffs, sister companies, divisions, or units, along with their servicing industries and even competitors agglomerating in spatial proximity of a certain keiretsu and certain industry, with the proximity of certain research institutions and universities, would result in new, vibrant clusters that would attract companies and startups (domestic and international) to fully kickstart this cluster agglomeration, and respectively, eventually spread such recipe nationwide, and induce an endogenous development of an entrepreneur culture of a grander scale.

Undeniably this is all hypothetical- and overly optimistic best case scenario thinking. For instance, keeping in mind the Japanese tendency for excessive bureaucracy, as the major caveat of this approach would remain the issue of how to prevent the corporations from becoming micro-Japans – which they arguably already are – where every transaction must be pre-approved and stamped thrice. In order for this approach to work, the projects would require a considerable amount of real autonomy and without the agency of different stakeholder parties, little can be achieved. Nevertheless, based on the narrative built in this thesis, this is the direction I would direct my further curiosity and research. Rather than considering Japanese institutions as something to be overcome in order to reassess growth, I would study the potential within the institutions in order to find an advantage upon which to build. Hence, my implications for further research is that further study on the successfully intrapreneurial- and innovative companies and industries like the gaming industry in Japan through the lens of institutions could provide a benchmark and a more suitable regulative direction for the Japanese environment. Big trading companies such as Sumitomo or Itochu, which use on-staff “intrapreneurs” for new units reportedly attract recruits with entrepreneurial itch, but who long for the perceived stability of a large company, or do not want to challenge the social norms (Schoenberger, 2009).

Surely none of this excludes the potential and importance of facilitating new venture activity, in which effort Japan is seeing slight or modest progress at best. Rather, this is more of a matter of research intuition, priority and foreseeable attainability of positive results via government intervention, not to mention sheer academic curiosity from my part. However, the point is, the Abe growth strategy itself is multilayered and it addresses most all interrelations within the economy. This is much in line with the aspirations of this thesis, which should serve its purpose as a narrative on the dialogue over Japan in economic transformation, mapping the institutional implications crucial to the prospects of this reform in guiding Japan back towards economic growth. Now that the area of

interest is adequately mapped within the frame of this thesis, the scope should be turned into the most lucrative direction perceived.

Also serving to recap the structural impediments in short, it is worth explicating in broader terms, and the whole study concerned, as to why intrapreneurship emerged as the predominant idea. After considering the intertextual implications and emphasis placed on different phenomena by different parties, there appears to be a status quo bias affecting all the stakeholders but in various forms. For instance, the status quo bias of an investor who tends to regard trends still ongoing in the near future, or the bias of a salaryman reluctant toward reform due to the vested interests in the current state of affairs. Same status quo bias, along with rigid bureaucracy and the institutional need to control all variables and minimizing risks, is suggested most everywhere. In regard to obstacles in the way of reform observed in this study; they are best represented in the less than optimal-if not dysfunctional dual labor market with its lack of external component; and in the related issues regarding immigration. The two constitute as the foremost institutionally loaded issues most all structural problems and policy measures ultimately intertwine with. Intrapreneurship incorporated in the core of multiple measures, would appear to hold a potential remedy to most of these ailments. Especially when evaluating different approaches in their ability to get individual agents – companies and people – on board the implemented change.

Finally, The growth strategy as it is at this time presented by the Cabinet, does not quite convince in its ability to change the underlying institutional environment to induce an information age cluster agglomeration. On a rhetorical level, Japan does seem to heed the western criticism, and thus, appears to be embracing the liberal individual values of market agency, only the policy measures presented seem to indicate otherwise. To put within terms of Japanese institutions: the bureaucratic oversight and administrative guidance do not appear to be a mere thing of the past. On the contrary. Therefore, as to whether Japan is taking the right direction, is impossible to know for sure. This is the premise for all forecasting, but it is impossible also because the policies seem to take a shotgun approach to the problems, hoping some of measures eventually do hit. Furthermore, the communications are often very vague and internally contradictory. However, while this question is deemed impossible to answer in definite terms, it is still a relevant question to state. The question has the power to direct the attention towards relevant, possible scenarios. So in order to conclude this point; I would personally argue against the western media bandwagon of implementing the Silicon Valley template on Japan. In a short term, it appears an inconceivable enterprise given the institutional environment of Japan. Instead, I see no reason as to why Japan could not once again ‘develop its own capitalism’ to suit its own institutional characteristic. After all, this is a field which Japan has a rather impressive track record on with the radical past restructurings of the whole society. This ability to adapt made Japan the first non-western nation to rival the west first time around,

and the second largest economy and a technological authority the second. Hence, the implications for future research in i.e. intrapreneurship. After all, this time there is no motivational bombings by the Americans in sight, to facilitate any forms of the more radical institutional change as those in the past.

While intrapreneurship is not nominally addressed in the communication, there is a multitude of paragraphs and bullet points dedicated to relevant matters of joint ventures, knowledge spillovers, expert exchange and spin-offs; along with patent registration, licensing of patents and public data access. Knowing Japan, however, it is hardly surprising it also plans to micromanage this whole innovation pipeline. “Administrative guidance” comprises everything from STEM-research to creation of markets down to the hand-picked technologies, exit-oriented research and development in private companies leading up to commercialization and worldwide distribution. Incidentally, the growth strategy was named “Japan is back”.

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