



Deposited via The University of Sheffield.

White Rose Research Online URL for this paper:

<https://eprints.whiterose.ac.uk/id/eprint/234209/>

Version: Accepted Version

---

**Book review:**

Gotoh, F. (2026) Book review: Building a new economy: Japan's digital and green transformation. by D. Hugh Whittaker. Oxford University Press, 2024. *Journal of Japanese studies*, 52 (1). pp. 284-289. ISSN: 0095-6848

<https://doi.org/10.1525/jjs.2026.52.1.284>

---

© 2026 The Authors. Except as otherwise noted, this author-accepted version of a book review published in *The Journal of Japanese Studies* is made available via the University of Sheffield Research Publications and Copyright Policy under the terms of the Creative Commons Attribution 4.0 International License (CC-BY 4.0), which permits unrestricted use, distribution and reproduction in any medium, provided the original work is properly cited. To view a copy of this licence, visit <http://creativecommons.org/licenses/by/4.0/>

**Reuse**

This article is distributed under the terms of the Creative Commons Attribution (CC BY) licence. This licence allows you to distribute, remix, tweak, and build upon the work, even commercially, as long as you credit the authors for the original work. More information and the full terms of the licence here:

<https://creativecommons.org/licenses/>

**Takedown**

If you consider content in White Rose Research Online to be in breach of UK law, please notify us by emailing [eprints@whiterose.ac.uk](mailto:eprints@whiterose.ac.uk) including the URL of the record and the reason for the withdrawal request.



*Building a New Economy: Japan's Digital and Green Transformation.* By D. Hugh Whittaker. Oxford University Press, 2024. 264 pages. \$120.00, hardcover; E-book.

Reviewed by  
Fumihito Gotoh  
University of Sheffield

Fumihito Gotoh is a lecturer in East Asian Studies at the University of Sheffield. His articles have appeared in *Review of International Political Economy*, *The Pacific Review*, and *Contemporary Politics*. His monograph, *Japanese Resistance to American Financial Hegemony: Global Versus Domestic Social Norms*, and coedited book, *The Future of Multilateralism and Globalization in the Age of the US-China Rivalry*, were published by Routledge.

Many critics have attributed Japan's slow adaptation to international market norms introduced by Anglophone countries as a primary cause of its long-term economic stagnation since the 1990s and its recent struggles with digitalization and the green transition. However, since the 2007–09 Global Financial Crisis, negative aspects of neoliberalism and financial capitalism have increasingly come to the fore, causing serious social divisions in many major economies (including the United States). These problems have been compounded by geopolitical tensions, including the U.S.-China rivalry, the Russia-Ukraine War, and upheavals in the Middle East. In the context of the fragmentation of the global political economy, it is crucial for governments to consider socio-political factors, including social welfare and military security, in their economic policy-making regarding investments in digital innovation, clean technology, and green infrastructure.

Hugh Whittaker's new book makes timely and outstanding contributions to the account of Japan's evolving capitalism from a comparative perspective and analysis of its future. The book investigates the prospect of Japan's attempt to build a new economy through public-private concerted efforts on digital transformation (DX) and green transformation (GX). Whittaker has profound knowledge of not only the Japanese economy and business but also its society and politics. He has published numerous authoritative works on Japanese small firms, innovation, advanced technology, entrepreneurship, and corporate governance from comparative perspectives. He recently coauthored an influential book, *Compressed Development*, focusing on the evolving geopolitical, institutional, technological, and ideological contexts for economic and social development.<sup>1</sup> The new book under review builds on these works, analyzing about sixty interviews he conducted in Japan during 2021–23.

Policymakers have used various concepts to describe Japan's endeavor to transform its economy. In 2015, the Council for Science, Technology, and Innovation (CSTI) within Japan's Cabinet Office introduced "Society 5.0" to describe a human-centered society that achieves a balance between economic development and the resolution of social problems, including depopulation and environmental problems, through the integration of cyberspace and physical space. Keidanren, the largest business lobby, proposed a "sustainable capitalism" that would realize Society 5.0 with a new growth strategy, including DX, business co-creation with various stakeholders, and support for startups, in 2020. The following year, Prime Minister Fumio Kishida rolled out "new capitalism," an idea that breaks away from neoliberalism, focuses on people (foremost), science, technology, and innovation (STI), startups, and DX and GX, and creates a "virtuous cycle of growth and distribution." Whittaker states, "'People' are at the heart of the new economy, and increasingly at the heart of deliberations about how to build it" (p. 172). Furthermore, he

argues, “There is a historical reluctance in Japan to treat the economic and social spheres as separate. . . . Japan has tended to keep technological innovation within the boundaries of existing social relations rather than fundamentally challenging them” (p. 190). This demonstrates his keen insight into Japanese socio-historical norms. Generally, Japanese society prefers continuous innovation over disruptive innovation.

Whittaker identifies “three spirits (institutional logics)” of Japanese capitalism, namely, financialized capitalism, the new developmental state, and “communitarian capitalism,” which broadly correspond to market, state, and civil society, respectively, and argues that these logics are contradictory, but the tensions in their interactions generate change (pp. 209–10). This framework greatly contributes to analyzing Japan’s previous change and resistance to change and its prospects. Marxism-inspired theories, such as the Regulation school and Gramscianism, consider that contradictions within a capitalist system lead to change. Marie Anghodoguy, who described Japan’s economic system as communitarian capitalism, emphasized nationwide community.<sup>2</sup> However, the Japanese traditionally have stronger attachments to smaller groups, including local communities and companies, than to the state. Between the 1950s and 1980s, the Japanese developmental state coordinated numerous interest groups through various measures, including industrial policy.

This book rightly pays attention not only to the Japanese political economy but also to its external dependencies and shifting global and regional contexts, including military and economic security. Japan’s DX and GX are influenced by its wide-ranging security issues, such as the intensified frictions with China and energy security. For instance, Japan is committed to the significant upscaling of cybersecurity, expanding the cyber personnel of the Japan Self-Defense Forces, and integrating artificial intelligence (AI) into intelligence and weapons platforms.<sup>3</sup> DX and GX are the Ministry of Economy, Trade and Industry’s (METI) industrial policies, which are coordinated with security policies by the Cabinet Office. From

the 1990s until the mid-2010s, the Japanese bureaucratic and banking sector's capacity to coordinate multiple stakeholders within its capitalism was eroded due to the banking crisis and the influence of market-oriented ideology.<sup>4</sup> Although Japanese industrial policies were muted during this period, the second Abe administration (2012–20) reactivated industrial policy because of the growing perceived threat from China's state-led capitalism and military rise and the integration of economic and military security.<sup>5</sup>

Whittaker describes DX and GX as “two wheels of Japan's economic transformation cart, headed for Society 5.0” (p. 59). Among the four possible scenarios of the future Japanese economy, “renewal” (with a balance between market-based and state-led transformations), “maturity” (elusive institutional coherence in DX and GX), “conversion and imitation” (dismantling developmentalism and shifting to neoliberalism and financialization), and “decline” (vested interests blocking change), he examines the plausibility of the renewal scenario, counterbalanced by the more pessimistic scenarios. He also points out that human resources were a strength of Japan's postwar productionist capitalism, while institutional rigidities stemming from the combination of interlocking institutions, persistent social norms, and the productionist system made change difficult. I agree with him that the renewal scenario is the right pathway for Japan but striking a balance between market and state excesses toward a “social investment state,” which invests in human capital to enhance individuals' capabilities and opportunities, is a narrow path.

Although human resources and organizational solidarity were traditional strengths of Japanese companies, the Japanese government and companies have underinvested in human resources in recent decades. With the increased proportion of non-regular workers, many of whom are treated as non-members in companies, the communitarian aspects of Japanese capitalism have been eroded. Moreover, Japanese big businesses have accumulated enormous retained earnings and cash on hand since the banking crisis, while the average labor wage has

been stagnant. Ryūtarō Kōno, a market economist, contends that the collapse of the main bank system and the reforms toward shareholder-based corporate governance have caused these problems and warns that Japan is shifting from an “inclusive” to an “extractive” system, citing Daron Acemoglu and James A. Robinson.<sup>6</sup> However, although Japanese big businesses have sharply increased shareholder returns, many of them have demonstrated mock and cosmetic convergences to Anglo-American corporate governance, maintaining in-group favoritism as the core of corporate governance. Most of their chairmen, CEOs, and executive officers are internally promoted, and employment sovereignty for existing regular workers is usually preserved at the expense of cheap and easily dischargeable non-regular workers. Shareholder-based corporate governance normally does not tolerate excessive retained earnings and cash on hand. In addition to the extinction of the three long-term credit banks and the risk aversion of commercial banks, the underdevelopment of shareholder-based corporate governance and private-sector risk capital, the low flexibility of the labor market, and the weakened government initiatives (signaling effect for risk-taking) have contributed to the corporate sector’s risk aversion and prolonged wage stagnation. Japan has many hurdles to becoming a social investment state.

There are various threats to the renewal scenario, and I will highlight three risks: ballooning “digital trade deficit,” the underdevelopment of market-based risk capital, and vested interests. Recently, many government officials and financial market participants have been concerned about Japan’s rapidly growing digital trade deficit, reflecting its increasing dependence on foreign digital services, including cloud computing, digital marketing and advertising, and licensing fees, particularly from dominant U.S. technology companies. According to the report published by METI, Japan’s digital trade deficit is expected to skyrocket from 6.85 trillion yen in 2024 to 18 trillion yen in the base case scenario and 28 trillion yen in the pessimistic scenario, in 2035, due to the AI revolution.<sup>7</sup> If hidden foreign

digital services embedded in hardware devices are included, the digital trade deficit could reach 45 trillion yen in the worst-case scenario. The expanding digital trade deficit may suggest some progress in Japan's DX, but would lead to the yen's depreciation and erode economic security. Given Japan's dependence on fossil fuel electricity generation, its DX would further increase its overall trade deficit (5.2 trillion yen in 2024).

As Whittaker suggests, Japan will not have to be a front-runner of disruptive digital innovation and can apply its strength of continuous innovation to digital technology at more mature phases. Nevertheless, given the risk of its expanding digital trade deficit, Japan will have to accelerate DX, which requires large investments in intangible assets, including software, databases, and R&D expenses. Intangible assets need to be funded by equity and other risk capital because of their high-risk, high-return nature. Japan's venture capital and private equity markets are growing but still underdeveloped. Even in the U.S., known for a market-based economy, its public defense-related research spending by the Defense Advanced Research Projects Agency (DARPA) has played a critical role in disruptive innovation. Japan's state-backed institutions have increased risk capital provision, and the government is considering a Japanese version of DARPA. However, Japan should be mindful that abundant market-based risk capital has also been vital to U.S. innovation. Disruptive innovation needs the mobility of capital and labor,<sup>8</sup> which has the risk of leading to financialized capitalism. Japan will need moderate capital and labor mobility (avoiding fully-fledged financialization) to drive DX and enhance labor wages. The renewal scenario is seeking a delicate balance between market efficiency and social stability.

For GX, Japan's climate finance focuses on "transition finance" (helping carbon-intensive industries implement long-term decarbonization). In contrast to the E.U., whose climate finance has been heavily influenced by the financial sector and regulatory authorities, the industrial and financial sectors and authorities have collaborated in Japanese climate

finance. Transition finance is crucial for Japan's decarbonization and energy and economic security, including international competitiveness and employment stability. However, the Japanese government must check and curb the vested interests of carbon-intensive industries to avoid the decline scenario.

Despite these risk factors for the renewal scenario, this book provides remarkable theoretical and empirical contributions not only to Japanese studies but also to broader comparative political economy. It is a must-read for academics and students of Japanese political economy, as well as Japanese economic bureaucrats and corporate executives. This book is also useful for academics researching other countries and policymakers, business leaders, and investors from these countries. This is because Japan is a “harbinger state” that experiences challenges in various areas, including the environment, demography, and economic and societal transformation, before others,<sup>9</sup> and many countries promote DX and GX, like Japan. I highly recommend this book.

1. D. Hugh Whittaker, Timothy J. Sturgeon, Toshie Okita, and Tianbiao Zhu, *Compressed Development: Time and Timing in Economic and Social Development* (Oxford University Press, 2020).
2. Marie Anchooguy, *Reprogramming Japan: The High Tech Crisis under Communitarian Capitalism* (Cornell University Press, 2005).
3. Christopher W. Hughes, “Japan’s ‘Three National Security Documents’ and Defense Capabilities: Reinforcing a Radical Military Trajectory,” *Journal of Japanese Studies*, Vol. 50, No. 1 (2024), pp. 155–83.
4. Fumihito Gotoh, “Patient Capital, Corporate Governance and Investment in Digital Innovation: What Can Japan Learn from South Korea’s Experience?” *The Pacific Review*, (2025), published online first,

<https://www.tandfonline.com/doi/full/10.1080/09512748.2025.2483521> (accessed June 25, 2025).

5. Aurelio Insisa and Giulio Pugliese, “The Free and Open Indo-Pacific Versus the Belt and Road: Spheres of Influence and Sino-Japanese Relations,” *The Pacific Review*, Vol. 35, No. 3 (2022), pp. 557–85.
6. Kōno Ryūtarō, *Nippon keizai no shikaku: Shudatsuteki shisutemu wo tokiakasu (The Blind Spot of the Japanese Economy: Illuminating Its Extractive System)* (Chikuma Shinsho, 2025). Daron Acemoglu and James A. Robinson, *The Narrow Corridor: States, Societies, and the Fate of Liberty: Winners of the 2024 Nobel Prize in Economics* (Penguin UK, 2019).
7. METI, *Dejitaru keizai repōto: Dēta ni nomikomareru sekai, seiiki-naki dejitaru shijo no seizon senryaku*, April 30, 2025, [https://www.meti.go.jp/policy/it\\_policy/statistics/digital\\_economy\\_report/digital\\_economy\\_report.pdf](https://www.meti.go.jp/policy/it_policy/statistics/digital_economy_report/digital_economy_report.pdf) (accessed June 25, 2025).
8. Hiroshi Shimizu, *General Purpose Technology, Spin-out, and Innovation: Technological Development of Laser Diodes in the United States and Japan* (Springer, 2019).
9. Phillip Y. Lipsky, “Japan: The Harbinger State,” *Japanese Journal of Political Science*, Vol. 24, No. 1 (2023), pp. 80–97.