Article:

Shibata, S. and Bailey, D.J. (2024) Regional pathologies of late-stage neoliberalization: the case of Japan in East Asia. Economy and Society, 53 (4). pp. 719-744. ISSN: 0308-5147

https://doi.org/10.1080/03085147.2024.2387986

Routledge
Taylor & Francis Group

Economy and Society

ISSN: (Print) (Online) Journal homepage: www.tandfonline.com/journals/reso20

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Economy and Society: 1–26
https://doi.org/10.1080/03085147.2024.2387986

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Regional pathologies of late-stage neoliberalization: The case of Japan in East Asia

Saori Shibata and David J. Bailey

Abstract

The ‘polycrisis’ of global capitalism has regional and national particularities that are worthy of exploration. In the case of East Asia, we see rising military, political and economic tensions which mirror global trends, but take a specific concrete regional form. We offer an explanation for these tensions in East Asia that highlight their roots in developments within the national models of capitalism that make up the region, in this case from the perspective of Japan. Drawing on a regulation theory framework, we show how Japan’s faltering national regime of accumulation has been through a constant process of neoliberalization since the early 1990s. This has prompted a number of institutional shifts, one of which includes increasing integration within the East Asian region. This, however, has produced a number of new problems, which we might consider to be

Saori Shibata, School of East Asian Studies, University of Sheffield, Jessop West, 1 Upper Hanover Street, Sheffield S3 7RA, United Kingdom. E-mail: s.shibata@sheffield.ac.uk
David J. Bailey (corresponding author), Department of Political Science and International Studies, University of Birmingham, Birmingham B15 2TT, United Kingdom. E-mail: d.j.bailey@bham.ac.uk

general pathologies of late-stage neoliberalization and that are typically experienced at the regional level. In particular, we identify four interconnected and mutually reinforcing pathologies: heightened national economic and political rivalries; heightened market competition; increased vulnerability to disruption to region-wide commodity chains; and declining popular support that is being met by political attempts to adopt nationalist legitimation strategies. Such an account allows us to understand the obstacles and tensions preventing moves towards a smoother process of accumulation in the case of Japan in East Asia, and more generally throughout the contemporary global political economy, as well as offering a more complete account of the complexity and contradictions associated with the growing assertiveness of the Japanese state.

Keywords: Japan; neoliberalism; regulation theory; models of capitalism; East Asia; polycrisis.

Global capitalism is now widely held to be in a state of polycrisis (Tooze, 2021). Reference to the term grew rapidly during the COVID pandemic; and now includes the devastating military conflicts in Ukraine, Sudan and Gaza. This polycrisis includes political crises as witnessed through the rise of populist parties with a growing disregard for the norms of democracy; economic crises in the form of a cost-of-living crisis and global economic slump; and an ecological crisis that shows no sign of being adequately addressed (Helleiner, 2024). As part of this configuration of trends in global capitalism, we also see a rise in interest in the degree to which the state plays a role in managing (polycrisis-ridden) global capitalism, with some proclaiming that we are witnessing a rise in new forms of state capitalism (Alami & Dixon, 2023).

These developments raise crucial questions regarding the nature of change in the global political economy, in addition to the rivalries and alliances that constitute the inter-state system, and the role of the nation-state in seeking to mediate and manage these tendencies as they are felt at the national level. Yet, many of the contributions to our current attempts to understand and explain the polycrisis lack a framework through which to understand how these different spheres interrelate. The current paper draws on regulation theory as a mode of analysis that provides some specificity to our understanding of the different aspects of our crisis-prone global political economy, with a particular focus on how and why national institutions mediate global pressures, and in doing so how they have in turn generated a number of pathologies that afflict the international regime of late-stage neoliberalism.

The analysis is pursued through a consideration of the case of Japan, and its promotion of a neoliberal regime of accumulation through regional expansion into East Asia. In doing so, the paper argues that we can grasp a better understanding of the tensions, or 'pathologies', that mark both the East Asian region, and Japan's neoliberal mode of regulation within that region. In referring to 'pathologies', we describe systemically produced problems or social ills, or sources of dysfunctionality, that afflict neoliberalism as a social system. The central insights of regulation theory – that multiple and interconnected institutional efforts are required in any attempt to address the intrinsic crisis tendencies of any particular regime of capital accumulation, but that these institutional forms will in turn generate new crisis tendencies – is presented as a framework through which to produce a more coherent account of the pathologies that are afflicting both Japan and the wider East Asian region. Whilst these pathologies are addressed here through an exploration of the case of Japan in East Asia, nevertheless, this same process of accumulation through expansionary neoliberalization has generated similar problems across the contemporary global political economy, and as such offers insights into the broader problems afflicting late-stage neoliberalism.

Regulation theory: The shifting role of national institutions in crisis-prone capitalism

Regulation theory, as initially popularized by Aglietta (1979), and then subsequently developed by Boyer (1990), Jessop (2001), Neilson and Stubbs (2016), and others, considers the way that capitalism depends upon institutional efforts to secure the conditions of capital accumulation. Configurations of institutions that govern capitalist processes together form a mode of regulation, or what we might consider to be a specific model of capitalism, consisting of institutional attempts to regulate the different tensions and crisis tendencies that arise from the reproduction of capitalism. In Boyer's (1990), commonly used summary, he focus is on five key institutions, which relate to the key contradictory challenges that capital accumulation needs to overcome through institutional interventions or responses. Three core aspects of capitalism are crucial. First, all capitalist societies depend upon the exploitation of waged labour, requiring a wage regime that sets the terms of the process of production, the role and remuneration of the workers within that process of production, and the way in which surplus is extracted and therefore profit is produced. Second, the process of production and realization of surplus value is conducted through exchange relations that are mediated by money, thereby necessitating the institutional governance of this monetary regime. Third, capitalism operates under conditions of competition between different capitals, with varying degrees of concentration and centralization, and lesser and greater degrees of competition, all of which imply different institutionalized forms of competition. Each of these three core features of capitalism are typically governed by institutional forms that exist within a national space, governed by the nation-state (the fourth institutional form), creating the situation whereby the concrete form of any particular capitalist state can be considered an '(often contradictory) totality of a set of *institutionalized compromises*' (Boyer, 1990, p. 41). Finally, each national capitalist society exists within the wider network of states that make up the global inter-state system and global economy. This wider international regime therefore represents an institutional form that national capitalist socio-economies exist within, and which each state needs to manage their relationship with (the integration within the international regime therefore being the fifth institutional form).

These five institutions – wage regime, monetary regime, form of competition, form of state, and integration within the international regime – are each interrelated and together comprise a mode of regulation that, under certain conditions, serves to (partially, temporarily) stabilize and regularize the process of capital accumulation, serving in part to ensure that the crisis tendencies that systemically afflict capitalism can be (partially, temporarily) counteracted. Nevertheless, each institutional form is subject to pressures for change, both in order to adjust to the development of capital accumulation and its crises, and in response to social and political pressures, including instances of dissent, which the state must also seek to manage, typically through a combination of mechanisms of incorporation, repression and legitimation (Bailey *et al.*, 2022). Change in one institutional form has the potential to have a knock-on effect on other institutions, thereby creating a degree of inter-incompatibility, and in turn creating the potential for the configuration of institutions to be rendered unable to manage the crisis tendencies which they earlier served to (partially, temporarily) counteract, itself with the potential to prompt a once functional mode of regulation to transform into a dysfunctional one (Vidal, 2013). In this sense, regulation theory acknowledges that institutional responses, whilst seeking to stabilize capitalist processes, also prompt new forms of instability, as new sources of strain and contradictions are displaced or created.

This series of observations creates a frame of analysis through which we can understand the development, tensions, crises and trajectories of change, for particular national models of capitalism. In seeking to understand crisis tendencies and sources of social strain in the present (the 'polycrisis'), we can therefore consider how different national models of capitalism have developed over time, and the sources of strain that they have generated.

Conceptualized in this way, Japan's integration within the broader East Asia region forms one element of a wider configuration of (five) institutions that constitute Japan's national model of capitalism. Rather than conceptualizing East Asian regional tensions as external events that Japan must respond to, instead, Japan's relations with (or integration within) East Asia can be more helpfully understood as one institutional feature that is internally connected to the broader institutional configuration that constitutes Japan's (changing) model of capitalism. As the paper seeks to show, this alternative conceptualization enables a more coherent account of the pressures, or 'pathologies' that Japan faces in its more integrated relationship with the East Asian region.

The use of the term 'pathologies' is not typically part of the conceptual apparatus of regulation theory. Since the COVID pandemic, however, there has been a growing focus on the way in which capitalism generates physical illness through the (literal) spread of pathogens (Saad-Filho, 2020). Whyte (2022) presents perhaps the most pertinent account along these lines, highlighting the way in which COVID can be understood as a 'pathology of accumulation'. In the present paper, however, we instead consider pathologies in a more metaphorical sense, *akin to* social illness, or as symptoms of systemic dysfunctionality. We are therefore closer to the use of the term as seen in social theory, and as recently discussed by Neuhouser (2023), for whom pathologies are social ills that are 'grounded in the structure and logic of existing institutions rather than being sporadic or contingent' (p. 13) and have a 'self-perpetuating dynamic that makes a bad situation worse and, once initiated, is extremely difficult to break' (p. 23). Whereas Marxist approaches (which regulation theory can be considered a meso-level version of) more commonly refer to 'contradictions', the reference here instead to 'pathologies' distinguishes between the (more fundamental) underlying contradictions of capitalism, and pathologies which we might consider to be the particular forms of dysfunctionality associated with a particular configuration of (neoliberal) capitalist relations (Neuhouser, 2023, p. 14).

Japan's changing model of capitalism

Japan's model of capitalism has been undergoing substantial and ongoing transformation over the past 35 years. Following the bursting of the Japanese bubble economy in the early 1990s, a significant restructuring of Japan's model of capitalism occurred, witnessing changes to each of the core five institutions conceptualized by regulation theory. This includes an attempt to introduce greater flexibilization into the labour market (wage regime), a partial dismantling of the cross-shareholding and bank-based finance system (monetary regime), and a corresponding move towards Anglo-Saxon, or shareholder-oriented, corporate structures (form of competition). Each of these moves were interrelated with an expansion of regional economic integration, including through the offshoring of investment and production to China and Southeast Asia, and an expansion of regional trade (integration within the international regime). They were also typically orchestrated and overseen by an approach to public policy that saw a shift in the role of the Japanese state, actively implementing policies that ensured this process of neoliberalization (form of state) (for an extended discussion of these developments, see Shibata, 2020, pp. 21–39).

From the early 1990s onwards, each of the institutional forms that comprised Japan's model of capitalism, including the mode of integration within the broader regional and global economy, were therefore moving (in tandem, and in a mutually reinforcing way) towards a neoliberal model. Once set in motion in the early 1990s, these developments created an ongoing tendency towards further neoliberalization. This saw efforts to shift investment and exports to East and Southeast Asia throughout the 1990s, with a growing focus on China throughout the decade (Calder, 2003, p. 609; Yamada & Hirano, 2012, p. 15). This expansion by Japanese firms into China both contributed to the latter's growth and placed further competitive pressure on Japanese firms (Mouer & Kawanishi, 2005, p. 105). As Obe (2021) describes firms such as Panasonic sought to expand into China in order to gain access to the Chinese market, but while this 'championing of China created what is today one of Panasonic's biggest markets, it also created its most powerful competitor'.

This increase in competitive pressure in the region, as Japanese firms sought to take advantage of the opportunities for investment in lower wage locations and the benefits of an expanded export market, meant that those same firms also became exposed to increased competition. One of the key responses to this increased competition was a move to expand further still into the region, with Japanese firms establishing lower cost satellite operations across East and Southeast Asia. This saw a further shift in production from Japan to Southeast Asia, in an attempt to take advantage of less organized labour and lower wages (Jäger & Schmidt, 2020, p. 40). This formed part of a wider attempt to cut labour costs, with Japanese firms seeking to restructure global value chains, and witnessing production moving first to China and subsequently to Southeast Asia. In doing so, China has become a base for sales as well as a factory in which to produce necessary intermediate goods to be exported to Southeast Asia where Japanese firms assemble the final products (Obe, 2021; Seguchi, 2022; interview with Japanese business association officials, 29 June 2022). Through this ongoing process, Japan has become more tightly integrated within the East Asia region.

This process of closer regional economic integration has continued in more recent years. Japanese firms remain keen to locate in China and seek further market integration in the region, often supported by the government (Seguchi, 2022; interview with Japanese business association officials, 29 June 2022). Business associations and their member companies regularly meet their counterparts, as well as state officials, in China, as part of their efforts to promote regional economic integration (interview with Japanese business association officials, 29 June 2022; METI 2022c). In particular, Keidanren, Japan's main business federation, has sought to facilitate high-level economic agreements securing trade and supply chains across Asian nations (Keidanren, 2023). This also informs the pursuit of the Free Trade Area of the Asia-Pacific (FTAAP), which is a proposal for a mega-FTA agreement of APEC 21 economies, and which has the support of much of Japanese business (Pacific Economic Cooperation Council (PECC), 2022, p. 6).

These efforts to promote greater regional integration also explain, in part, the creation of the Regional Comprehensive Economic Partnership (RCEP) in 2020, which the Japanese government viewed as an important opportunity to improve the efficiency of regional supply chains, increase market access in the region and establish rules over transactions of intellectual property and e-commerce (interview with METI officials, 14 June 2022). Further, interconnectedness in the region increasingly goes in both directions, witnessing the growth of Chinese FDI into Japan, a trend that became most visible in the move by Tencent, China's internet service giant, to invest in the Japanese mobile firm, Rakuten, itself prompting security concerns from both the Japanese and US governments (Shirakabe, 2021). This forms part of a broader contemporary trend, whereby Chinese companies seek to invest in Japan in order to set up operations in the country, as seen most recently in the cases of auto parts manufacturer KEBODA Technology and biotechnology company Shanghai Taning Biological Technology (Tsuchii, 2024).

In sum, as part of a long-term response to stagnation which struck the Japanese economy in the 1980s, we have seen both Japanese firms and the Japanese state seek to restructure capitalist relations through the promotion of greater economic integration into East Asia and Southeast Asia. As a result, Japanese firms and the economy have become increasingly intertwined with the East Asia region, and at the same time further increased competition in the region. China has been a key site of expansion, with little likelihood of this reversing, and with a growing focus on capital-intensive production, such as car manufacturing, communications and computer software. In addition, Southeast Asia is more commonly viewed as a site for labour-intensive manufacturing in order to reduce labour costs, with some Japanese companies moving their bases to Thailand and other Southeast Asian countries (itself part of a more recent diversification strategy prompted in part by the US–China trade war, which we will discuss further below) (Iijima, 2020; Li & Zhang, 2019, pp. 292–297). Through the lens of regulation theory, we see an interconnected transformation in the integration of Japan within the East Asia region, the changing forms of competition associated with this, and (as we shall discuss below) changes to the labour market conditions (or wage regime) within Japan, each of which are reinforcing each other, as part of an overall neoliberalization of Japanese capitalism.

Pathologies of Japan's neoliberal mode of regional integration

In seeking to address the problems of Japan's declining model of capitalism in the early 1990s and setting on a course towards a neoliberal model of capitalism, a number of institutional tensions or strains have been created which have affected Japan's particular mode of integration into the East Asian regional economy. In line with the expectations of regulation theory, this has produced a number of new problems, that we might consider to be general pathologies of late-stage neoliberalization, typically experienced at the level of the international regime, and which we might (for this discussion of East Asia, and from the perspective of Japan) therefore understand to arise from the neoliberalization of Japan's model of capitalism. In particular, we identify four interconnected problems, or 'pathologies', which are each interconnected and mutually reinforcing and have their origin in the tensions that arise from the increasingly de-aligned institutional forms that have been generated through the process of Japan's neoliberalization.

These are (with the key institutional implications in italics): heightened national economic and political rivalries that have arisen from the *changing form of the Japanese state* as it seeks to manage and legitimate *Japan's integration within this changed East Asian regional economy*; *heightened market competition* that has resulted from *increased regional integration*, producing changes to the *form of competition* that marks Japan's model of capitalism; which has in turn prompted a restructuring of production processes and a corresponding change to the *structure of firms*, with increasingly integrated region-wide commodity chains being formed that are increasingly vulnerable to disruption; and finally these developments have prompted changes to the *domestic wage regime* of Japan, with a sharp rise in labour market insecurity and an erosion of the wage share, producing rising popular discontent and associated political efforts to adopt stronger nationalist legitimation strategies and thereby further impacting upon the *nature of the Japanese state*. Each of these pathologies arise from the neoliberalization of Japan's model of capitalism, and each are mutually reinforcing, as depicted in Figure 1, and as we discuss in more detail below. They are pathologies, moreover, in the sense that they arise from systemically driven efforts to stabilize Japan's neoliberal model of capitalism, but in doing so have created additional (or further reinforced existing) *obstacles to* stabilization, thereby operating as self-perpetuating dysfunctionalities that are making a bad situation worse.

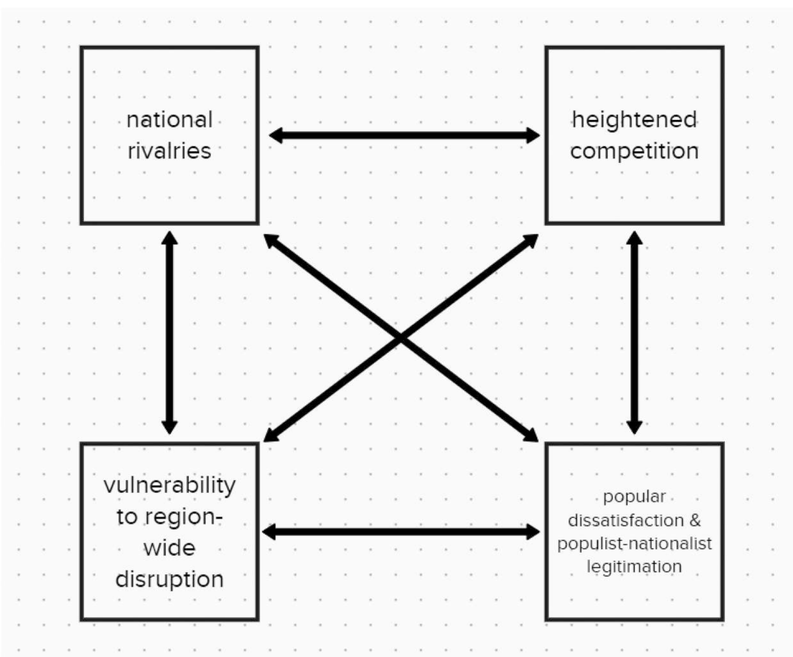

Figure 1 Mutually reinforcing pathologies arising from Japan's neoliberal integration within East Asia

Heightened national economic and political rivalries

As the countries of East Asia become increasingly interdependent and interconnected, in part as a result of the expansion of Japanese firms into the region, the scope for geo-economic and geo-political rivalries has increased. In many instances, this is a direct result of the heightened competition over resources and markets that this heightened interconnection has created, as well as reflecting the shifting power balance arising from both China and South Korea being increasingly able to challenge Japan's role as the lead economy in the region.

These tensions sometimes take a more directly geo-political and territorial form, with growing concerns regarding expanding Chinese military activity near Taiwan in the South China Sea, and around the Senkaku/Diaoyu Islands in the East China Sea, which are administered by Japan but claimed by China (Sevastopulo, 2021). Territorial disputes in the East China Sea are also closely related to the geo-economic issue of resource exploration for Japan and China, including hydrocarbon resources such as oil and natural gas and fishery resources (Dudden 2019, p. 172; European Parliament, 2021, p. 4). Indeed, hydrocarbon resources are crucially important for natural resource-deprived Japan, as well as China, which has an increasing demand for energy resources (Sato, 2019).

We have seen a growing effort to construct broader global alliances in an attempt to ensure Japan's security in the region. For instance, in 2019 the Abe government restarted the Quadrilateral Security Dialogue (Quad) with the United States, Australia and India, seeking to enhance cooperation between the four countries (Ministry of Foreign Affairs, 2019). Similarly, the adoption of a New Plan for a Free and Open Indo-Pacific (FOIP), launched by Prime Minister Kishida in March 2023, implies an expansion of Japan's strategic horizon to balance Chinese economic and naval advancement into the Indian Ocean. This was perhaps most clearly on display in 2024 with the trilateral summit between the United States, Japan and the Philippines, in which the countries pledged to work together in a context of rising tension between China and the Philippines (including the direct firing of water cannons at Philippine ships) in the South China Sea, and with Kishida pledging Japan's commitment to 'multilayered cooperation' between partner countries in the Indo-Pacific (Moriyasu, 2024).

It is also in this context that we should understand the decision by the Kishida government to announce in December 2022 its National Security Strategy (NSS) with a more assertive foreign policy *vis-à-vis* China, and a particular focus on China's naval expansion in the Asia Pacific, creating further geo-strategic tensions (Imahashi, 2022). According to the Ministry of Foreign Affairs (MOFA), by 2022 Japan found itself in the 'most severe and complex security environment since the end of WWII', requiring a reinforcement of comprehensive defence architecture (MOFA, 2022). This NSS therefore promised to increase Japan's security budget and counterstrike capability, strengthen its bilateral relations with the United States, and play a more active security role in the region, all of which implies increased defence spending (Imahashi, 2022; Inagaki, 2022). This saw the announcement in August 2023 of an increase of military spending of 13 per cent, with a plan to double the level of military spending within five years, including through the purchase of Tomahawk cruise missiles, specifically with the capacity to strike China (Inagaki, 2023).

Alongside (and interrelated with) these military tensions, we also see growing geo-economic rivalries in the region. This is particularly evident in the increasingly important semiconductor industry. Thus, in 2023 Japan (and the Netherlands) agreed to join the United States in restricting exports of semiconductor manufacturing equipment to China (Reuters, 2023), as a response to heightened political and economic tensions, and with the United States pushing for a further tightening still of those export controls the following year (Sevastopulo *et al*., 2024). This reflected concerns within the Japanese government that Japan's IT sector was lagging behind rivals in the region (METI, 2022a, pp. 6–7). Indeed, this concern over the transition to laggard status in the IT sector is not unfounded. Over the last 30 years Japanese companies' share in the semiconductor industry has steadily diminished, from over 50 per cent of the global market in 1988, to 10 per cent in 2019; all at the same time as an expansion of the industry globally (METI, 2021b, p. 5; Toyokeizai Online, 2021). Whereas NEC, Toshiba, Hitachi, Fujitsu, Mitsubishi and Matsushita were all in the top 10 of global firms in terms of semiconductor sales in 1992, by 2019 Kioxia was the only Japanese firm in the top 10 (Eguchi *et al*., 2021). These heightened rivalries thus reflected, and were prompted by, heightened market competition in the region, which we shall turn now to consider.

Heightened market competition across the region

The rise of regional economic integration has increased the level of competition faced by Japanese firms across the region, creating a growing need to focus on productivity, or otherwise suffer a loss of market share. This heightened competition can be seen in the case of digitalization as it is occurring in Japan.[1] The Japanese government has explicitly identified digitalization as a critical measure to improve business competitiveness (METI, 2022a), with the semiconductor industry (and ICT sector more generally) each attracting growing government policy attention. For instance, METI recently highlighted the need 'to strengthen the competitiveness of user industries in the new digital society', to be achieved through measures 'to develop and secure the semiconductor and digital industry infrastructure in Japan, which will be the source of added value' (METI, 2023, p. 4, author's translation). This is in context to a declining share of the trade in semiconductors prompting considerable concerns over competitiveness, with Taiwan, South Korea and China increasingly outstripping Japan (Todo, 2018). This has led to the situation whereby Japan has become increasingly dependent on imports of advanced semiconductors

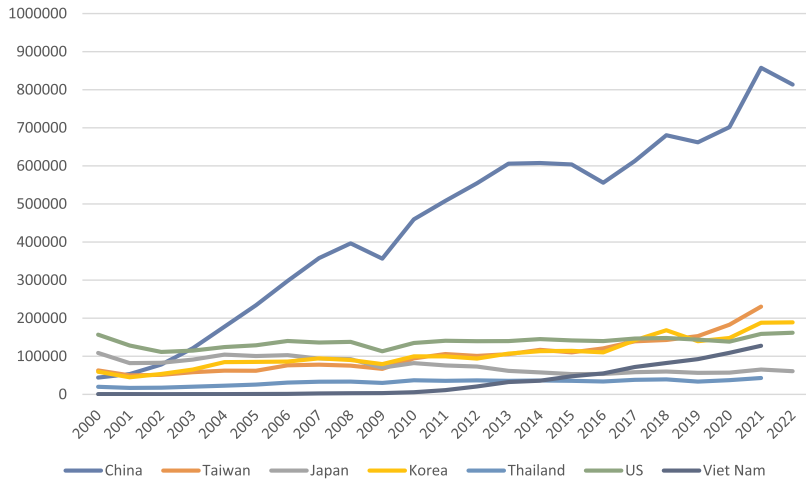

Figure 2 Volume of ICT goods exports in $m (current prices)
Source: UNCTAD (n.d.).

from overseas (further increasing economic interdependence), whilst Japanese ICT firms have become increasingly uncompetitive, prompting METI to promote digital investment and overseas collaboration in research and development (METI, 2021a, pp. 10, 16; Varas *et al.*, 2021). As Figure 2 shows, between 2000 and 2022 Japan went from being the country producing the largest volume of ICT exports in the region, to being outstripped in terms of market share by China, South Korea and Vietnam (and with Thailand close to catching up with the market share of Japan).

Growing concerns about falling behind in terms of regional competition within the process of digitalization have driven government policy in Japan as it seeks to maintain competitiveness. ICT has been identified as one of the key goals of Japan's policies, especially as a means to improve labour productivity (MIC, 2023, p. 164). This has led to the Japanese government putting considerable effort into integrating/progressing digitalization and the digital transformation of the economy. The focus on productivity has been explicit throughout this process. In September 2018, this saw the Ministry of Economy, Trade and Industry (METI) release the Digital Transformation [DX] Report, noting the importance of DX initiatives to produce 'Connected Industries' and warning that without progress in DX, economic losses of up to 12 trillion yen per year could occur from 2025 onward. The following year, in July 2019, METI published 'DX Promotion Indicators and Guidance' with the aim of encouraging digital transformation (METI, 2019). Here, again, the goal was explicitly to increase the international competitiveness of Japanese companies, with a final goal 'to become a digital company capable of winning global competition' (IPA, 2021, p. 4). Developments in ICT have been particularly focused on the semiconductor and digital industries, which are viewed by

METI as central to all social and economic activities, including IT companies but also extending to all industries and socio-economic systems, including manufacturing, services, agriculture and health/medical care (METI, 2021a). In 2021, a shortage of semiconductors highlighted their importance for automobile production and therefore, more generally, Japan's capacity to compete in the world market (METI, 2021a, p. 2; see METI, 2023, for an indication of the importance of semiconductors to the Japanese government).

The experience of heightened competition across the East Asia region, itself a result of greater regional economic integration, has therefore led to considerable pressure upon Japan to improve its economic model in order to remain competitive. This has, in turn, heightened economic rivalries between Japan, China, Taiwan and South Korea, as well as placing downward pressure upon wages (which we will return to in more detail below), as Japan faces the ongoing need to remain competitive. As we turn to now, regional economic integration has also created a vulnerability to disruptive shocks to regional commodity chains.

Increased vulnerability to disruption to region-wide commodity chains

Growing regional economic integration has produced a heightened susceptibility to shocks, or disruptions, to the value chains that constitute the East Asia region, with production processes and commodity chains spanning multiple countries across the region. This has rendered firms in the region increasingly vulnerable to the effects of disruptions to those chains (Daye & Xijia, 2022; Ting-Fang, 2022; Ting-Fang & Tabeta, 2022). Despite efforts by the government and firms to reduce that vulnerability, through reshoring or decoupling, this has nevertheless proven difficult to achieve (Katada *et al.*, 2023; Sugiura & Inagaki, 2023).

This vulnerability to disruptive shocks became especially apparent following the start of the US–China trade war that began in 2018. This meant products produced in China became more difficult to export to the United States, prompting efforts by the Japanese government to promote decoupling from China (Liu *et al.*, 2022; Robinson, 2022; Song, 2022). Some Japanese manufacturers, such as Sharp, Ricoh and Kyocera, sought to shift production to Vietnam and Thailand (Obe, 2021).

However, as Japanese firms have become more closely interconnected within East Asian supply chains, especially linked to China, decoupling the two countries' economies has become increasingly difficult to achieve, with firms largely resisting attempts by the government to promote decoupling or reshoring. This has seen Japanese business seeking to stall attempts to decouple from China, on the grounds that production needs to be transnational, and that efforts to re-nationalize those transnational processes 'will undermine the market development of Japanese companies and certainly reduce their competitiveness from a regulatory aspect' (Takamoto

Suzuki, head of economic research for Marubeni in China, quoted in *Nihon Keizai Shinbun*, 2022, authors' translation). Similarly, a rapid shift to domestic production risks higher production costs as cheaper imported goods are replaced by more expensive domestic products and services, having a negative impact on economic activity (Kiuchi, 2021) and business competitiveness in Japan.

Similarly, Japan's digital-related manufacturing industry depends on production overseas for design (Semiconportal, 2022). This created considerable problems following the beginning of the trade war between the United States and China, as Chinese products were increasingly difficult to include in the supply chain for Japanese firms, if they wanted to avoid being impacted by US tariffs. For instance, when China was placed on the trade restriction list and exports of CMOS image sensors for high-end 5G smartphones to Huawei were restricted by the US Department of Commerce, Sony's sales were affected, witnessing the firm slipping four places in the global rankings between 2020 and 2021 (Semiconportal, 2022).

The growing geo-political tensions between Japan and China have also exposed a rift between Japanese firms and the government. On the one hand, the Japanese government is encouraging Japanese firms to diversify away from China and strengthen supply chains in alternative locations, especially Southeast Asia. This was a view especially advocated by both the Abe and Suga administrations. Japanese firms were, however, largely opposed to this process of decoupling, which they fear will have a detrimental impact on production and productivity. They were therefore largely unresponsive to this policy stance of the government, with Japanese companies maintaining their

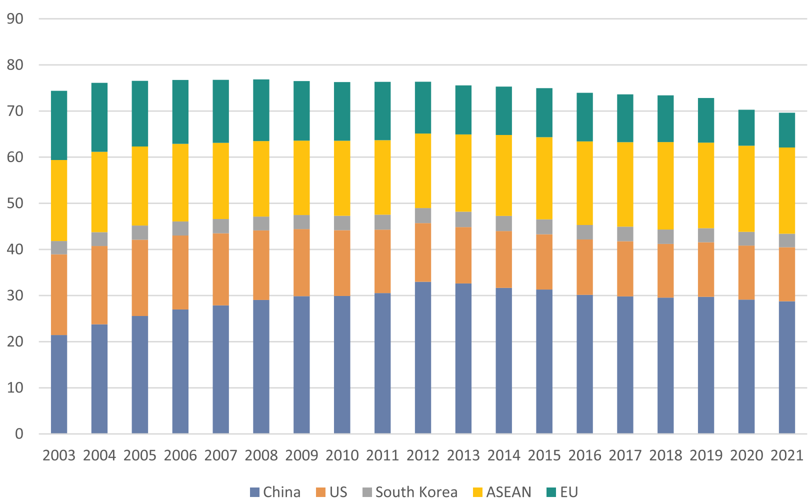

Figure 3 Proportion of Japanese overseas subsidiaries (percentage)
Source: Kaigaijigyou katudou kihon chosa (2023).

tech-related trade and production in China. Whilst some Japanese companies have sought to diversify their bases to Thailand and other Southeast Asian countries in the tech-field, nevertheless, Japanese companies' presence in China remains strong (see Figure 3). Further, as illustrated by the Joint Statement of the 8th China–Japan Entrepreneurs and Former Senior Government Officials Dialogue issued by Keidanren, businesspeople in both countries have consistently emphasized the importance of continuing to collaborate in the area of smart technologies in healthcare and elderly care sectors, to promote digital and green transformation and to secure supply chains in the Asia Pacific (Keidanren, 2022). Indeed, Japanese firms have consistently sought to maintain or enhance collaboration with Chinese business. For instance, in 2019, Toyota sought further local production in China, forming a partnership with two Chinese autonomous driving start-ups for road testing and high-definition mapping. In the same year, the Japanese company also joined the Apollo project, the self-driving development platform spearheaded by Chinese search engine provider Baidu. Meidensha became the first EV production base in China in 2022, indicating a continuing strong and complex supply chain between Japan and China (Teikoku Data Bank, 2020). Similarly, in 2023 Nissan announced a joint venture in China with Dongfeng Motor Co., to produce and export electric vehicles in China under the Nissan brand (An, 2023).

This vulnerability to disruption to regional commodity chains is also highlighted if we again turn to consider developments in the semiconductor industry. In particular, the US–China trade war prompted the Japanese government to promote alternative supplies of semiconductors outside of China. This saw the launch of the 'Semiconductor and Digital Industry Strategy' in 2021. This, and other initiatives, such as the Domestic Investment Promotion Project for Supply Chain Measures, sought to stabilize Japan's supply chain (state official at METI, personal communications July 2022; Tomoshige, 2022a). This has also included moves to regenerate Japan's domestic semiconductor industry through collaboration with the Taiwan semiconductor giant, TSMC (Nagao, 2024; Toyokeizai Online, 2021). Similarly, the current Kishida government announced large-scale funding ($US 7.7 billion) to support domestic semiconductor manufacturing to counter China (Tomoshige, 2022b). Yet, even efforts to shift towards Taiwan have proven difficult as this has the potential to provoke China and worsen relations between China and Japan, including the tensions over the Taiwan Strait, thus highlighting the difficulties involved in attempts to disentangle the now highly interconnected economic and political relations of East Asia (Kiuchi, 2021). Indeed, Japan has become increasingly aware that any potential conflict between China and Taiwan would have detrimental consequences by disrupting its attempt to use its relationship with Taiwan and TSMC to advance the development of its semiconductor industry (Miller, 2022). Similarly, one of the perhaps unexpected effects of the US–China trade war, and the imposition of export restrictions by the United States on semiconductors, was to boost exports by Japanese firms of 'older generation' chips to China. This quite clearly illustrates the obstacles to unravelling regional commodity chains, with the US restrictions prompting Chinese firms to find alternative ways to import chips from Japan. As Masato Goto, president of Screen Semiconductor Solutions, put it, 'In China, there's demand for securing legacy-generation chip tools in mass, as advanced chips cannot be exported to the country' and as a result 'while we abide by the government restrictions, the Chinese market will remain important to us' (quoted in Satoh, 2024).

Declining popular support and nationalist legitimation strategies

Faced with rising competition, Japan's labour market has undergone a considerable transformation over the past 20 years, shifting from having one of the highest levels of labour market security amongst advanced capitalist democracies, to now one of the most precarious. The growing use of non-regular employment has been a major trend affecting the country, with the once prominent 'lifetime employment' system being replaced with a growing reliance upon agency, temporary and fixed-term employment (Shibata, 2022, pp. 1554–1555). Heightened regional competition has been one of the main factors prompting a move by Japanese policymakers to actively pursue the liberalization of the labour market, in an attempt to improve the competitiveness of production in Japan. This explains the large increase in the proportion of workers employed through non-regular contracts, including temporary agency workers, part-time and fixed-term employment. This, in turn, has produced a significant change to the wage regime in Japan, including a rise in the degree of labour market insecurity, stagnating wages, declining job satisfaction, and an overall decline in the level of popular support for Japan's economic model. All of this has created a growing legitimation crisis for Japan's political elite, witnessing the first significant defeat for the dominant party (in a dominant one-party system), the Liberal Democratic Party (LDP), in 2009, and then witnessing the (returning) LDP Abe government (2012–2020) turn increasingly to a nationalist political strategy in an attempt to build political support (Bärnthaler, 2022).

The move towards a much more flexible workforce has also contributed to declining wages. This has been compounded by a growing trend of hiring migrant labour from East Asia, much of which often flouts the regulations in place to ensure against the exploitation of migrant labour, and which has put further downward pressure on wages (Moriya, 2018; O'Donovan, 2020). As a result, and as Figure 4 shows, average wages in Japan have barely increased at all between 2000 and 2022, and have fallen considerably in relative terms compared with other countries (shown in US dollars of purchasing power parities). This is perhaps best illustrated by the fact that in 2015, and for the first time, South Korea saw higher average wages than Japan. This downward pressure on wages and working conditions in Japan has led to widespread disaffection among workers and destabilized employment relations, especially in

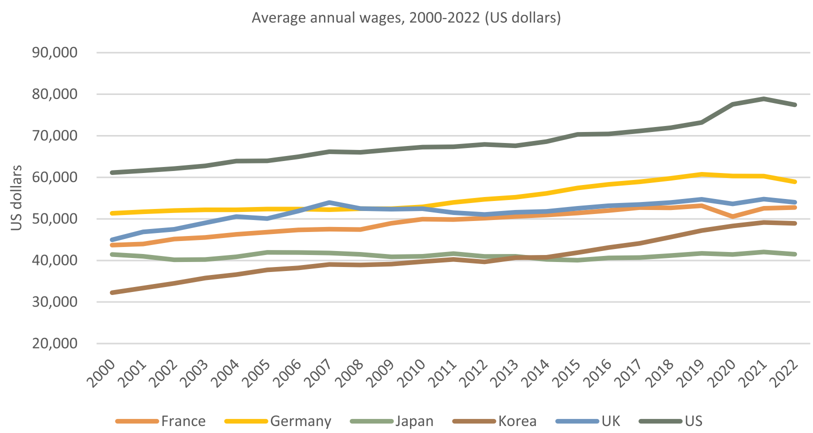

Figure 4 Average annual wages, 2000–2022
Source: OECD (n.d.), https://stats.oecd.org/Index.aspx?DataSetCode=AV_AN_WAGE.

the manufacturing sector where these trends have been felt most severely (METI, 2022b, pp. 74–76). This is leading to high levels of employee turnover, with unstable employment, lack of job satisfaction, the repetitive nature of work and management practices all commonly cited by workers as key reasons for the high turnover (dip research institute, 2022).

Further, the Bank of Japan has overseen a prolonged depreciation in the value of the yen to render exports more competitive. The effect of this, however, has also been to undermine the purchasing power of Japanese workers and consumers, further contributing to a decline in the relative GDP per capita when measured in purchasing power parity terms, as seen in Figure 5 (Noguchi, 2021).

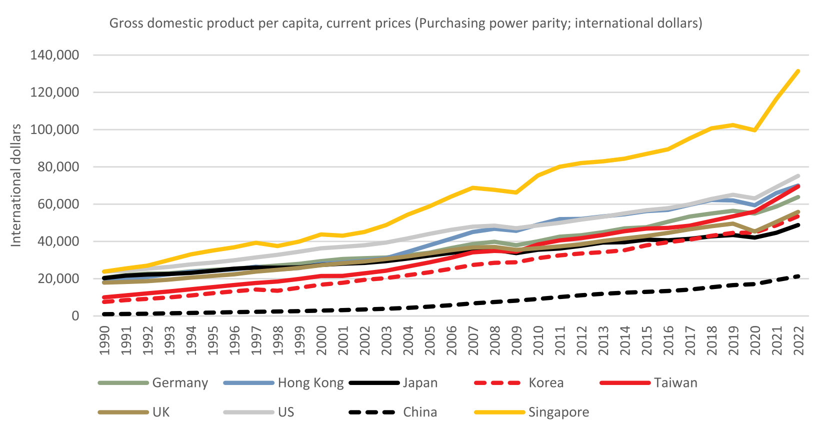

Figure 5 GDP per capita in purchasing power parity terms, international dollars
Source: IMF (n.d.).

In the face of declining working conditions and wages, workers in Japan, particularly non-regular, part-time and fixed-term workers, have become increasingly restive, often turning to protest and other forms of dissent as a means to vocalize dissatisfaction with wages, employment stability, workload, education, training and skills development and welfare benefits (MHLW, 2020, p. 29, 2022, pp. 29–30). This includes legal claims, strikes (especially by unions representing precarious workers), and protests and demonstrations, with key issues of dispute including unpaid wages and overtime, termination of contracts, bullying and harassment, reduced working hours without workers' agreements, and forced 'voluntary' retirement. In recent years, a number of strikes have been staged by non-regular workers in the retail, hospitality and logistics sectors, including 18 days of strike action in March 2023 in demand of wage increases (Kahoku Shimpō, 2023; *Tokyo Shinbun*, 2023a). Other disputes include medical workers who took strike action in 2019, and construction industry drivers in the Kansai Namakon Union who were arrested during strike action in 2018 and 2019 (Rentai Union, 2023). This is also part of a longer-term trend, whereby protests staged by workers increased substantially in the 1990s, and which since the 2008 global economic crisis have increasingly been conducted by non-regular workers (Shibata, 2020, pp. 56–60).

Marking the changed nature of Japan's labour market, February 2023 saw, for the first time, the annual round of pay negotiations (the 'spring offensive') include collective wage bargaining for non-regular workers (*Tokyo Shinbun*, 2023b). This saw 16 unions that support non-regular workers submit a pay claim to more than 30 companies across Japan for a 10 per cent increase in the hourly wage (Aoki, 2023). At the same time, unions protested outside the building of the main business federation, Keidanren, demanding better pay and conditions for Japan's increasingly flexibilized workforce (Tokyo Tobu Rodo Kumiai, 2023). In part as a result of this increasingly restive stance of organized labour, 2024 saw a widely reported wage hike as a result of the annual pay negotiations, albeit with some variability across the labour force, with SMEs and non-regular workers especially facing concerns that wages will not keep up with the headline national agreements (NHK, 2024a, 2024b).

In this context of declining labour market security, the Abe government (2012–2020) focused on presenting Japan as a strong nation and an international leader, which formed a core element of his political legitimation strategy. This was perhaps most clearly visible with the Abe Doctrine, which combined a commitment to promote a liberal economic and political vision, alongside a more robust security role for Japan, and a rejection of (what was perceived to be) excessive guilt over Japan's actions during its imperial phase up to the end of the Second World War and an attempt to depict Japan as having great power status (Dobson, 2017, pp. 209, 217). This also included the promotion of historical revisionism, according to which the Abe administration sought to deny wrongdoings which took place as part of Japan's colonial past, with Abe making a number of statements which appeared to downplay Japan's guilt. This saw a recanting of the 1993 official acknowledgement of

Japan's wartime forced recruitment of Asian 'comfort' women, made by Yohei Kono in 1993, prompting heavy criticism from China, South Korea and the United States (Ramirez, 2021, p. 156). Further, Abe intervened in the media industry to pressure journalists not to present Japan's past in too negative a light, especially when it came to the matters of 'comfort women' and forced labour during Japan's imperialist era during the Second World War.

This nationalist stance has continued under both of Abe's successors. For instance, Prime Minister Suga courted controversy by rejecting the appointment of academic advisers to the Science Council of Japan, seemingly on the grounds that they had been critical of Abe's security policy (*Japan Times*, 2020). Similarly, upon replacing Suga, Prime Minister Kishida continued this nationalist stance, prompting heavy criticism from South Korea following his administration's approval of school textbooks which were accused of wrongly describing the forced labour of Koreans during the Second World War as having merely 'participated' in the work (Hyo-jin, 2023). Similarly, in 2023, China and South Korea both criticized Japan's Prime Minister Kishida's 'ritual offering' to the Yasukuni Shrine, which honours war criminals, which was considered an act of glorifying Japan's wartime aggression, prompting South Korea's Foreign Ministry to declare 'deep disappointment and regret' (*Japan Times*, 2023).

Conclusion

Growing tensions within the East Asia region are of increasing concern. This represents one manifestation of the more general 'polycrisis' afflicting the contemporary global political economy. In the present paper, we have used a regulation theory framework to explore how the institutional shifts that constituted the move towards a neoliberal model of capitalism have generated a number of growing tensions, or pathologies, which exist at the intersection between the domestic and the international, but are increasingly visible at the East Asian regional level. These pathologies are both intedependent and mutually reinforcing. Japan's increasing integration within the East Asia economy has contributed to a heightening of competition, increased national rivalries, greater vulnerability to region-wide disruption (but in a form that prevents significant decoupling as a response to that vulnerability), and domestic labour market insecurities that are fuelling, and prompting, nationalist political responses and an increasingly assertive Japanese state. These tendencies are reinforcing each other in a way that renders it difficult to foresee an end to the cycle of tensions and turbulent interconnectedness. As pathologies, they represent systemic sources of destabilization that are dysfunctional, self-perpetuating and act to make a bad situation worse.

In making this argument through a regulation theory framework we are able to add to our understanding both of the consequences and implications of Japan's transformation towards a neoliberal model of capitalism, which has been ongoing for the past 35 years. Whereas changes to specific national models of capitalism are often understood in terms of internal (domestic) institutional transformations; in the present paper, we instead focus on how interconnected changes across the institutions of a particular national model of capitalism become visible at the level of the broader regional (and global) economy. In highlighting the sources of strain and dysfunctionality that are generated by neoliberalization we are able to draw attention towards the regional consequences of pressures generated within national political economies. As such, we contribute both to an understanding of Japan within the East Asia region, and more generally to our knowledge of the institutional implications of neoliberalization, and how this includes attempts by national states to manage the integration of national economies within the wider world market. In drawing on the notion of pathologies, we add to the conceptual apparatus through which regulation theory can inform analysis of the dysfunctionalities of particular modes of regulation of capitalism.

Whereas some of what we have discussed above has been depicted in recent literature as a process of moving towards state capitalism (Alami & Dixon, 2023), the present paper aims to show instead how these trends are part of a complex and tension-ridden process that can be explored and understood through an exploration of the institutional shifts that constitute the process of neoliberalization. This has produced four key tensions, or 'pathologies' that are destablizing both Japan and the wider East Asian region. This has seen an increasing national assertiveness of the state, but in a web of complex relations that ensures this growing assertiveness is likewise constrained by, and acts to advance further, the multiple pathologies associated with late-stage neoliberalization. The moves towards state capitalism that have been noted, therefore, are at the same time constrained and hampered by a process of international economic integration and political and socio-economic instability that is generating new tensions and obstacles that stand in the way of a new cycle of accumulation.

Finally, the pathologies of late-stage neoliberalism that we have focused on in the current paper are also visible in other regions and globally. Indeed, *most*, and possibly all, advanced capitalist democracies face similar pressures and tensions. The UK's move towards Brexit, the US–China trade war under both Trump and Biden, and the growing calls for protectionist measures to be adopted by the European Union in its trade relations with China, all display similar characteristics. The pathologies of late-stage neoliberalization have seen similar institutional shifts in different contexts, suggesting that our understanding of these interconnected pressures would likewise benefit from a similar regulation theory-informed exploration of the interconnected institutional shifts and accompanying emergent pathologies, as they have developed in different regional contexts.

Ethical approval statement

The interviews for the research were approved by the University of Sheffield Ethics approval system (application 047457).

Acknowledgements

Earlier versions of the paper were presented at the Japan Politics Colloquium, University of Oxford, February 2022, and the POLSIS Political Economy Research Group workshop, June 2023. We are grateful to the participants of those workshops, including Chris Hughes, Hugh Whittaker, Gill Steel, Ian Neary, Giulio Pugliese, Fumi Gotoh, Lucy Abbott and Ruben Gonzalez Vicente. We also acknowledge the extremely helpful suggestions of the anonymous reviewers and the editorial guidance of Paul Langley.

Disclosure statement

No potential conflict of interest was reported by the authors.

Funding

The research was supported by the School of East Asian Studies and Max Batley small grants in Peace Studies, University of Sheffield.

Note

1 By ‘digitalization’ we mean the global trend of adopting digital technologies in order to improve or change business models in an attempt to create new sources of value and find new ways to enhance productivity (Moore, 2015; van der Zande *et al*., 2020, p. 32).

ORCID

Saori Shibata https://orcid.org/0000-0002-5944-9721
David J. Bailey http://orcid.org/0000-0002-2464-7293

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Saori Shibata is a Lecturer in East Asian Studies at the University of Sheffield. Her research focuses on Japan's political economy, including the changing nature of work, the digital economy and how Japan's model of capitalism is transforming. She is also on the editorial board of the journal, *Global Political Economy*. She has recent publications in the *Review of International Political Economy* and *New Political Economy*, and is the author of *Contesting precarity in Japan: The rise of nonregular workers and the new policy dissensus* (Cornell University Press).

David J. Bailey is Associate Professor in the Department of Political Science and International Studies, University of Birmingham. His work focuses on the changing ways in which capitalism is contested, and how capitalism changes as a result of this contestation. He is currently the Convenor of the Critical Political Economy Research Network and on the editorial boards of *Capital and Class* and *Global Political Economy*. Recent publications are in *Environmental Politics* and *Work, Employment and Society*.