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## THE JAPANESE CHALLENGE TO THE AMERICAN NEOLIBERAL WORLD ORDER

*Throughout this period [from the Renaissance to the middle of the eighteenth century], it was universally held that . . . the state should seek actively to promote the acquisition of wealth . . . the right way to make a country powerful was to stimulate production at home. . . .<sup>1</sup>*

THE END OF THE COLD WAR, with the demise of socialism as a viable alternative for organizing the political economy of the world, reinforced the legitimacy of the U.S.-led neoliberal world order. This event has strengthened to a significant degree the political triumph of the “New Right” in the United States and Britain and seemingly confirmed a long-held conviction among neoliberals that the free play of market forces and a minimal role for the state in economic affairs would ensure efficiency and productivity of the economy. As was the case for the liberals’ attempt to construct a global market society in the nineteenth century, proponents of the neoliberal world order invoked “the magic of the marketplace” while delegitimizing the relevance of the role of the state in economic development as “dysfunctional and ahistorical.” In so doing, they have advanced a liberal view of historical generalization that runs contrary to an understanding of history long held by critics of (neo)liberal doctrines. These critics argue that all modern economically developed states employed the practice of state-led economic development in one way or another when they began to industrialize.<sup>2</sup> Opposed to this is the position that all modern economically developed states have succeeded in their economic development by relying predominantly on self-regulating market forces.<sup>3</sup> Only these forces would generate the competition that promotes the most efficient use of resources, people, and capital.

In other words, on the basis of a particular historical generalization, proponents of a neoliberal world order have, on the grounds of economic efficiency, sanctioned liberal capitalism (or the liberal view of capitalism) as the only

transhistorical, legitimate, and universal model of economic development.<sup>4</sup> In particular, the United States has spearheaded furthering of the globalization of the world economy along neoliberal lines. The neoliberal turn of the two Bretton Woods institutions, the International Monetary Fund (IMF) and the World Bank, in their policy prescriptions and lending conditionality has clearly indicated the influence of the U.S.-led neoliberal world order. These institutions have legitimated only one path to economic development: developing states are expected to adopt the free market blueprint, regardless of the conditions prevailing locally. In short, the U.S.-led neoliberal project has attempted to homogenize the shape(s) of the political economies of the world to an unprecedented degree.

The U.S.-led neoliberal world order, however, did not go unchallenged. Japan has challenged the foundation of the neoliberal world order by “bringing the state back in” for economic development since the mid-1980s, and Japanese attempts to resuscitate the fortunes of state-led economic development were intensified in the 1990s.<sup>5</sup> These efforts resulted in confrontation with the United States in numerous international financial and economic development forums, such as the Asian Development Bank (ADB),<sup>6</sup> the World Bank (the famous controversy over publication of *The East Asian Miracle*),<sup>7</sup> and the Asia-Pacific Economic Cooperation (APEC).<sup>8</sup> The Japanese challenge arguably culminated in Japan’s Asian Monetary Fund (AMF) proposal that intentionally excluded the United States from membership during the Asian financial crisis. Furthermore, in the aftermath of the Asian financial crisis, Japan established the Tokyo-based Asian Development Bank Institute (ADBI) as “a center for alternative development and monetary paradigms” challenging the IMF’s global prescriptions.<sup>9</sup> As such, the Japanese challenge cautions against a still-simplified perception that the postwar Japanese foreign economic policy is nothing but strategic pursuit of, or a free ride on the benefits of, the U.S.-led (neo)liberal world order. This is particularly so considering that despite the historical truism touted by critics of the neoliberal historical generalization noted above, Japan has remained the *only*<sup>10</sup> developed state in the entire post-Cold War era that has directly and officially questioned the universal validity of the so-called Washington Consensus (neoclassical economic orthodoxy<sup>11</sup> or neoliberal doctrine). In both synchronic (only Japan) and diachronic (defying the timeless postwar “checkbook” diplomacy) considerations, the Japanese challenge constitutes one of the most provocative Japanese foreign economic policies in the postwar era.

In this context, this book offers a historically informed, holistic account of the recent Japanese challenge to the American neoliberal world order and incorporates the interaction between Japanese domestic politics in the political-intellectual milieu and the international environment over the last 150 years. By “the Japanese challenge” I mean a set of Japanese foreign economic policies at the bilateral, regional, and global levels that since the mid-1980s have promoted a state-led alternative model of economic development. The Japanese challenge is aimed at undermining U.S.-led neoliberal attempts to delegitimize the role of the state in economic development through promulgation of the universal validity of the magic of the marketplace. Two interrelated research questions, to be discussed here, are designed to give a detailed and theoretical account of the nature, emergence, and policy developments of the Japanese challenge. Central to this book’s analysis are the historically and socially constructed Japanese conceptions of Japan’s economic development and the associated identities and meanings that have shaped Japan’s interest in challenging the American neoliberal world order. In so doing, this book builds on the insights of a constructivist theoretical framework in the field of International Relations.

The first question is “constitutive”: What made it possible for Japan to challenge U.S.-led neoliberalism? Addressing this question is fundamental to understanding the nature of the Japanese challenge. The answer uncovers deep-seated meaning structures that the Japanese themselves have historically attached to the role of the state in Japan’s economic development, and that enabled the Japanese challenge to be conceivable, plausible, and compelling in the first place. Using a longitudinal intertextual analysis, I inductively examine three major Japanese economic development discourses—Marxism, economic liberalism, and developmentalism—to empirically ground the meaning structures that allow the very possibility of the Japanese challenge. In other words, explicating the ontological question of “how possible” (or what makes it possible) helps connect the historicity of identity (understanding of self) and agency (social conditions of possibility for action).<sup>12</sup>

These are the book’s findings:

1. Despite Japan’s different politico-economic-historical settings since the late nineteenth century, all three discourses have interpreted Japan’s economic development in terms of “normal-abnormal” meaning structures.

- 2 These discourses have determined their normal-abnormal claims by locating Japanese economic development experience in the context of their *respective* interpretations of the role of the state in the history of economic development of the West (or Western advanced economies).
- 3 Developmentalism, which became the dominant discourse in the 1980s (with the rise of Asia) on which the Japanese challenge was established, has claimed a historically informed generalization that state-led economic development was the *normal* practice for all the successful industrializers (including even the first industrializer, Great Britain).
- 4 By extension, Japan's postwar state-led economic development is nothing but normal (not unique or idiosyncratic) in the context of the history of the world economy and is thus transferable to developing countries.

In this vein, the Japanese developmentalists have dismissed the neoliberal evocation of the magic of the market as “hijacking” the history of the world economy. What is *truly* normal or universal is the proven validity of state-led economic development across time and space. In a nutshell, I argue that the discursive, deep-seated meaning structure called normalcy enabled the Japanese developmentalists to challenge U.S.-led neoliberalism by offering a justificatory foundation for the international validity of state-led economic development.

Having established the ontological condition of the Japanese challenge in terms of the deep-seated, historically constructed meaning structures, I relate it to one of the most provocative foreign economic policies in postwar Japan. The second question I ask is “causal”: Why did Japan propose to create the AMF during the Asian financial crisis in 1997 while intentionally excluding the United States from membership? The sheer importance of Japan's AMF proposal in the history of Japanese foreign policy is that this proposal constituted Japan's first-ever attempt to intentionally exclude the United States from an international institutional setting in the postwar era.

This book's primary original claim is that the conception by officials in the Japanese Ministry of Finance (MOF) of Japan and the United States as leaders of two different models of economic development provided the basis on which Japan proposed to create the AMF. Such identity topography on the part of MOF officials (or the MOF as an institution) was internalized when they confronted the United States (the Treasury Department) on proper models of economic development in various international forums such as the ADB,

the APEC, and the World Bank. In particular, I show that the MOF's effort to publish *The East Asian Miracle* in the World Bank in 1993 was a pivotal moment for the MOF to consolidate this binary identity conception internationally and domestically. Thus, Japan's AMF proposal was not an isolated policy choice. A fuller account of the primary reason for Japan's AMF proposal is established only in the historical context of the politics of economic development between Japan and the United States.

More specifically, I explain the development of Japan's AMF proposal, from initial *cooperation* to *conflict* with the United States and the IMF, as emerging out of Japan's (more precisely MOF officials') *interpretation* of the structure of its interaction with the United States and the IMF. The structure is social, that is, not as "an environment that is external to and independent of the agent [the MOF on behalf of Japan], but as a social context woven from rules and meanings, which define relationships between the self and others and give interactions their purpose."<sup>13</sup> MOF officials' identity conception of Japan and the United States in the sphere of economic development played a central role in producing Japan's AMF proposal by giving Japan its interaction purpose when Japan confronted the U.S.-led IMF bailout operation in Thailand.

Tracing closely the detailed processes and timings of the social interaction between Japan and the U.S.-led IMF bailout operation, I demonstrate how the AMF proposal was deemed most compelling over the range of other possible policy actions by MOF officials according to their understanding of the structure of their interactions with the U.S.-led IMF bailout operation. I argue that the immediate cause of Japan's AMF proposal lies in Japan's interest in defending the Asian (or Japanese) model of economic development, as the MOF *interpreted* the U.S.-led IMF bailout operation in Thailand as unduly rolling over the Asian model. The AMF proposal was a Japanese attempt to institutionalize a financial mechanism for quick disbursement of funds to help the crisis-affected Asian economies fight against the U.S.-led IMF imposition of a neoliberal economic model. As such, exclusion of the United States from AMF membership was a key factor in realizing such an interest.

In answering these two questions, I theoretically and methodologically draw on a constructivist approach to International Relations in two important senses.<sup>14</sup> On the one hand, constructivists take ideas and discourse seriously: *discourse, or how we think and talk about the world, largely shapes practice.* This facilitates the first, constitutive question I have for the Japanese challenge. Of equal importance is the commitment of the constructivist approach

to opening up the black box of actors' interests. It endogenizes actors' interests by connecting the actors' interpretation of their social and material environment to their choice of action. Thus, it stresses how actors' social identities, for example, affect their interests and the strategies they employ to realize those interests. This crucial insight stems from constructivist conceptualizations of agent and structure in world politics.

In contrast to a realist world of international relations, where the identities of both actors (states as unitary actors) and structure are fixed as egoistic utility maximizers and anarchy respectively, the identities of both actors and structure(s) in a constructivist world of international relations are socially and interactively constructed to the extent that they can vary, as evident in Wendt's "Anarchy Is What States Make of It."<sup>15</sup> This notion of agent and structure takes constructivists to focus on the social, interactive processes of agent-structure that transform actors' identities and their associated interests. One should not make a priori assumptions about actors' interests. Neither interests nor identities (of actors) can be conceived of prior to their interaction with others; this is in opposition to realists' transhistorical emphasis on guarding against the moral and idealistic pretenses of actors and uncovering rational power calculations behind their moves. Interests are always to be acted out in the context of socially constructed collective meaning. By endogenizing formation of interests through *problematizing actors*, constructivism is able to offer a better way of dealing with overdetermination of given interests as well as underspecification of the kinds of interests at stake to which rational theorizing of international relations is often vulnerable. The answer to the second, causal question benefits from this identity-based constructivist theorizing of interest formation.

Yet constructivism (or constructivist empirical works), as it stands now, shows some limitations to fully delivering on its own promise. Two major charges stand out inside and outside constructivist scholarship. The first charge is its relative neglect of a constitutive analysis that explores actors' social conditions of possibility for a particular course of action at a given moment. This shortcoming is reflected in constructivist self-criticism. As Ruggie puts it, "They [constructivists] do not begin with the actual social construction of meanings and significance from the ground up."<sup>16</sup> Or, in Cederman and Daase's words, this practice leads to "premature ontological closure" in analyzing the structure of identity and interest.<sup>17</sup> By skipping over the how-possible (or what makes it possible) question,<sup>18</sup> constructivists

only partially live up to their aspiration to holism in explaining social and political action.

Despite constructivists' stress on the importance of actors' consciousness in defining their identities and interests, the absence of constitutive analysis makes it hard for constructivists to explain the *emergence* of the actors themselves.<sup>19</sup> This is related to explication of a deep-seated meaning structure ("particular interpretive dispositions" in Doty's words<sup>20</sup>; "deep-seated cultural mentalities" in Reus-Smit's words<sup>21</sup>) that enables possibilities for a certain course of action and constrains others. In other words, before any policy possibility is deemed valuable, it has to be made "thinkable" in the first place on the part of actors.<sup>22</sup> Weldes makes this point clear, saying:

Meanings . . . for states are necessarily the meanings . . . for . . . individuals who act in the name of the state. . . . And these . . . officials do not approach international politics with a blank slate onto which meanings are written as a result of interactions among states. . . . Their appreciation of the world, of international politics, and of the place of their states within the international system, is necessarily rooted in collective meanings already produced, at least in part, in domestic and cultural contexts.<sup>23</sup>

In this regard, Peter Hall's illustration is instructive in clarifying the connection between a deep-seated meaning structure and a state's policy development. He argues that the emergence and persuasiveness of new ideas and identities engendering a particular policy stand in a conditioning relationship with a *terrain* already defined by a prevailing set of what he calls the "political discourse of a nation."<sup>24</sup> The deep-seated meaning context (of a particular issue area) within which political actors are embedded affects the possibility of developing particular policies.<sup>25</sup> For example, the flip side to the Japanese challenge is that, so long as the predominant interpretative disposition of economic development held by the United States remains discursively constructed on the basis of the magic of the marketplace, any possibility of the United States becoming an *agent* that practices exporting state-led economic development to the world is precluded. Without constitutive analysis, one has yet to explain how *Japan*, not others, comes into being in the first place as a challenger to an American neoliberal world order. In other words, what would be an enabling, permissive environment for the Japanese challenge? To fully materialize the constructivist commitment to holism in explaining social and political action, it is necessary to begin foregrounding, say, the Japanese challenge by exploring the "terrain"

of the Japanese agency in the politics of economic development. Empirically, this requires “grounding” or “historicizing”<sup>26</sup> the domestic discursive meaning structures that the Japanese themselves have historically attached to the role of the state in Japanese economic development experience. This is logically prior to the domain in which Japan causally develops a set of foreign economic policies challenging neoliberalism.<sup>27</sup>

The second charge against constructivism is concerned with causal indeterminacy in relation to the *why* question and is largely due to constructivists’ analytical processes, which tend to take social structures in their inquiry as exogenously given. Rather than examining a detailed process of social interactions that shape identities and interests of actors, certain social structures (whether they be ideas, norms, or identities) are already given. Empirical constructivists sequentially measure changes in state behavior as effects of the already-given normative or identity structures.<sup>28</sup> As such, few constructivist research projects empirically demonstrate the interactive process through which identities and interests are defined, redefined, and transformed in the process of policy making.<sup>29</sup>

This analytical bracket engenders the problem often associated with “revealed preferences”: there is no independent measure of the impact of the already-given social facts on behavior, apart from the behavior itself (this also gives rise to the issue of circularity). Without a clear analytical path and independent measure of the structure of identity and interest, constructivists are unlikely to establish more than a correlative relationship between an identity and an outcome.<sup>30</sup> A specific causal mechanism or link between identity and interest remains to be fully developed.<sup>31</sup> In addition, exogenously given social structures also invite the criticism that “operationalizing mutual constitution is a dilemma for all empirical constructivists.”<sup>32</sup> Constructivist empirical works are still individualist in practice.<sup>33</sup> Taken together, underspecification of the process generated by exogenously given social structures elicits theoretical and methodological gaps that might undermine the constructivist ontology of interest as a product of intersubjective and contingent social interactions.<sup>34</sup>

This book is designed to fill these gaps. There is no single work offering an account of both constitutive and causal analyses of foreign policy.<sup>35</sup> I offer this account of the Japanese challenge on both constitutive and causal terms as has been summarized here. In developing a causal analysis applied to Japan’s AMF decision, I do not take as exogenously given the social identity structure of Japan and the United States in the politics of economic development. I shed



light on the processes by which Japan (or MOF officials), since the mid-1980s, has internalized the binarization of itself and the United States as the leaders of different models of economic development. Analysis of the processes of identity formation not only is important in its own right as part of an ongoing process of agent-structure interaction, with historical insights into the origin and development of the formation of identity constructs, but also significantly contributes to explaining how Japan built the AMF proposal that intentionally excluded the United States from membership. As I demonstrate, the MOF's own understanding of its conflict with the United States during the process of identity formation played a key role in actualizing Japan's AMF decision. In particular, Japanese experiences with the United States at the World Bank crucially affected MOF officials in terms of how they defined the institutional purpose of the AMF.

Furthermore, I develop an identity-intention analytical framework that offers an empirically testable microfoundation for a causal mechanism between an identity and an interest. I draw on analytical philosophy, social psychology, and constructivism in establishing such a microfoundation. The analytical framework I advocate in this book is anchored in an "interpretivist notion of identity."<sup>36</sup> As will be discussed in greater detail, the interpretivist notion of identity differs from the social identity theory (SIT)-based in-group and out-group action theory and role identity theory in its adherence to causation in explaining choices of action. The crux of the identity-intention framework is that identities, as a cognitive heuristic, constitute the basis for interpretation of unfolding events, which in turn affects valuation of incentives by informing actors as to which actions are valuable, necessary, and compelling.

In this book, I adopt Wendt's definition of identity as "a property of intentional actors that generates motivational and behavioral dispositions."<sup>37</sup> This definition resonates with the analytical framework already briefed, which emphasizes the intersubjective quality of the formation of actors' interest. In the context of Japan's AMF proposal, this basically means that *the emergence of what Japan wanted (AMF establishment) depended on its interpretation of what the U.S.-led IMF bailout operation wanted* ("demolishing the Asian model of economic development"<sup>38</sup>). I test the validity of this framework against the formation of Japan's interest in the AMF proposal. The analytical focus is on the role of identity in this interpretative function.

As I have noted, this analytical effort is a response to criticisms leveled against constructivism for its failure to specify a causal link. Together with

a process-tracing technique facilitating detailed analysis of policy making, I construct a theoretically rigorous and empirically rich account of Japan's AMF proposal. Even though the identity-intention framework is tested against one specific instance of Japanese foreign economic policy, the framework is in principle applicable to analysis of interest formation emerging out of any social interaction, with some scope conditions (as is noted in Chapter 3).

Throughout this book, I do not take Japan as a unitary actor but rather open up the black box. In the task of grounding the discursive meaning structures attached to the Japanese economic development experience, three major economic development discourses are identified and discussed: Marxism, economic liberalism, and developmentalism. Each discourse, operating within its respective historical interpretation of the role of the state in economic development, interprets in its own way the role of the state in Japan's economic development and its associated meanings in the history of the world economy. The analysis illustrates divergent, seamless Japanese efforts to make sense of their economic development experience in the historical context of the world economy. On this basis, I examine how the developmentalist thread<sup>39</sup> won out over the other contending visions and became the basis of Japanese foreign economic policy. Moreover, I shed light on the role Asian economies' success played in empowering the developmentalist notion of normalcy.

With respect to Japan's decision to propose the AMF, I scrutinize the interactions between MOF officials and others, such as the Ministry of Foreign Affairs (MOFA) and big business in Japan. In particular, given the private (both financial and trading sectors) sectors' high exposure to the Asian financial crisis, their posture on the AMF proposal is carefully explicated vis-à-vis MOF officials. The interplay of the domestic and the international looms large, as these domestic actors work with the United States and the IMF under different relational contexts. The MOFA, for example, traditionally defines its top priority in terms of maintaining a good relationship with the United States. This has not been the case for the MOF. Even within the MOF, there is a pro-IMF faction that has a close tie with that institution. By linking analysis of domestic discursive meaning structures attached to Japanese economic development to Japan's actual policy choice of the AMF proposal, this book treats domestic and international structures and processes as two faces of a single sociopolitical order that shape the emergence and development of the Japanese challenge.

## PUZZLES

Japan presented itself as a leader of “antiparadigmatic” views on economic development ideas when it pressed the World Bank to publish *The East Asian Miracle* in 1993. What is behind this Japanese challenge? This simple question remains enmeshed in many apparent contradictions. First, the Japanese challenge theoretically runs counter to Krasner’s provocative hypothesis on states’ preferences of regime “types.” He argues that small, poor states in the South tend to support those regimes that allocate resources authoritatively, while the richer states in the North favor those regimes whose principles and rules give priority to the market mechanism.<sup>40</sup> Was or is Japan a small, poor state in the South?

Second, the Japanese challenge seems to go against Japan’s economic interests. If all developing states truly applied a Japanese model of economic development, it would not be in the best interest of Japan or in that of the most internationally competitive Japanese multinational corporations. This is because the Japanese model implies a protectionist tendency. Put another way, Japan had no incentive to turn the tide; it could have continued its free ride on the U.S.-led neoliberal world order.<sup>41</sup> Japan previously adopted the policies of a developmental state (tariffs, subsidies, government administrative guidance, and so on) in order to catch up to the West. However, economic liberalization is now beneficial for Japan since it has caught up.<sup>42</sup> From a realist or economic nationalist perspective, one would expect that Japan would encourage other developing states to liberalize in order to further its own economic interests. In this respect, Lanciaux predicted that Japan would not continue to promote the model that is not in its best economic interests.<sup>43</sup> The Japanese challenge is thus puzzling even to those critics of free trade liberalism, who have long criticized the dual standards of economic development that developed states apply to themselves<sup>44</sup> and to other developing states.

Third, Japan’s coming out (clear articulation of its model by the Japanese themselves) had the effect of making Japan more vulnerable in bilateral trade negotiations with the United States. One effect of this situation was manifested in U.S. adoption of a “result-oriented” approach in bilateral trade negotiation with Japan.<sup>45</sup> Lastly, the Japanese challenge has, since the mid-1980s, taken place in a political-intellectual milieu that globally tones down any positive social standing for the “state.” Put another way, as Japan has become economically more powerful in the world market, why does it not endorse free trade and discard the mercantilist element in its own history (like everybody else,

from the point of view of critics of free trade liberalism)? This is particularly troubling because there exists *within* Japan a liberal interpretation of Japanese economic development (see Chapter 4).

Surprising many observers, in 1997, four years after World Bank publication of *The East Asian Miracle*, Japan proposed to create the AMF in the midst of the Asian financial crisis. This is an unexpected call, considering that the proposed institution was supposed to be financed and run by *only* Asian countries, thus excluding the United States from membership. At the annual meetings of the World Bank and the IMF on September 21, 1997, Japan explained that the AMF was necessary to help governments in trouble cope with the currency crisis. Intentionally excluding its all-time postwar ally (or patron), the United States, from membership in such an international institution was Japan's boldest and most independent policy initiative in the postwar era. With the exception of the wars fought against the Western powers (that is, the Russo-Japanese War and the Pacific War), this could arguably count as the second (in conjunction with Japan's challenge to the World Bank) *civilian* revolt against the West since Japan was forced to open up by Commodore Perry in 1853.<sup>46</sup>

The question of why Japan proposed establishment of the AMF with exclusion of the United States also poses challenges to the accepted wisdom of the day on Japanese foreign policy. First, the Japanese proposal stands in stark contrast with its earlier East Asian Economic Caucus (EAEC<sup>47</sup>) back-off. Despite its initial interest, Japan, the assumed center of the EAEC, semiofficially refused to join the grouping by not attending the April 1995 proposed ASEAN (Association of Southeast Asian Nations)-sponsored meeting in Thailand. Japan was known to be dragging its feet on the issue mainly because of pressure from the United States, which did not want to be left out in the cold with the emergence of a new economic bloc centered on Japan. This elusiveness on the part of Japan seems to reconfirm that Japan is a reactive state,<sup>48</sup> an assessment that would also be endorsed by the realist account, given Japan's market and security dependence on the United States.<sup>49</sup> In addition, this evidence seems to enhance the notion of Japan's aversion to regional economic institutionalization.<sup>50</sup> Japan's AMF proposal seems to defy its aversion proposition, as well as policy behavior expectations borne out by the realist account. Aware of U.S. opposition to any economic institution restricted to East Asia, how could a reactive state such as Japan possibly propose such an exclusionary regional institution, and even exclude the United States from it?

Second, the Japanese proposal does not seem to derive from Japan's economic interests, *material interests narrowly defined as immediate, short-term economic gains*. Despite Japanese banks' high exposure to the Asian economies in trouble, many of them supported solution (of the crisis) through the IMF. They argued against the AMF because "such a fund as the financial last resort creates a psychology of dependence."<sup>51</sup> Moreover, many businessmen, particularly from the manufacturing or exporting sectors, demonstrated their doubts about the AMF. They were aware that it would be dangerous to supply easy money in the name of an Asian rescue that could undermine the reforms and adjustments that the stringent conditionality of the IMF usually provided. They were also aware that such action (creating an AMF that would allow the affected countries to have more maneuvering space with the IMF) might result in loss of golden opportunities for further liberalization of the Asian markets.<sup>52</sup> Such opposition from the private sector evidently invalidates the claim that Japan would use such a fund to help Japanese industrial and financial sectors withdraw from Thailand and possibly from other financially troubled countries in Asia without accruing significant losses. Who could calculate the utility of the AMF better than a Japanese private sector that had risked its assets in the troubled economies in Asia?

Lastly, the Japanese proposal came abruptly after Japan's initial cooperation with the IMF in managing the Thai crisis. When the financial crisis hit Thailand in May 1997, Japan hosted an international conference in Tokyo to help facilitate concrete terms of an agreement between Thailand and the IMF. By August 4, 1997, Thailand and the IMF had reached a basic agreement. Japan began to participate in an IMF bailout operation after \$17.2 billion for Thailand was agreed on August 11. In less than forty-five days of working with the IMF, Mitsuzuka, Japan's finance minister at that time, put the idea of the AMF, the "Asian only institution," on the table on September 21. What happened around and after Japan's participation in the IMF-led bailout? What made it imperative for Japan to set up an AMF that intentionally excluded the United States?

Given the unusually assertive nature of Japanese foreign economic policy, manifested in the Japanese challenge in general and the AMF proposal in particular, many studies have explored these problems. With respect to emergence of the Japanese challenge, for example, Yasutomo explains that in the 1980s there were three specific catalysts for the Japanese challenge to neoliberal doctrine: "the assumption to office of the Reagan administration, with

its strong ideological commitment to a universal development philosophy; the intensification of the accumulated debt crisis in Latin American states; and the impressive accomplishments of state-led economic development in Asian states.<sup>53</sup> The track records of structural adjustment loan (SAL) programs in both Latin America and Africa gave Japan instructive case studies of a failure of the neoliberal doctrine. In contrast, the emergence of an economically successful Asia offered an alternative answer to the question of sustainable development. In short, these two phenomena together triggered in Japan a reassessment of its own development experience.<sup>54</sup> Along with it came amplified doubts about the Reagan administration's seemingly inflexible universal development approach. This explanation, which explicitly or implicitly relies on the concept of "learning" defined as "changes in belief systems or cognitive structures as the result of experience and study,"<sup>55</sup> however, might produce necessary but not sufficient conditions for the emergence of the Japanese challenge. That is to say, it does not explain why the learning derived from these *objective* realities did not take place in other developed states. Since the mid-1980s, Japan has remained the only developed state to explicitly challenge neoliberal doctrine.

More specifically, Wade offers four plausible reasons for the Japanese challenge: ideological conviction of its own or an Asian-state-led model of economic development; the MOF's organizational interest in preserving its positive role in Japan's economic development against the World Bank's criticism of Japan's concessional and directed aid practice; national material interest promoting "interventionist" policies as a cloak to facilitate economic collusion between Japan and developing countries; and nationalism as part of a wider attempt by the Japanese elite to overcome a sense of being inferior (that is, "economic superpower and political pygmy" or "dinosaur with a huge body but a tiny brain") to other states and assert its own views on appropriate rules for the international economy. In other words, the last reason points to Japan's desire to develop "an ideology that goes beyond Japan's uniqueness and yet remains distinct from free trade and orthodox liberalism."<sup>56</sup>

Even though these four plausible reasons are suggestive for explaining the emergence of the Japanese challenge, there are two problems in this account. On the one hand, they are underspecified in terms of the relative importance of the four.<sup>57</sup> Empirically, for example, Wade himself suggests that the best way to gauge the degree of Japan's material interest in promoting state-led economic development is to study what Japan does in the ADB. Japan has

had a great deal of influence in the ADB since its foundation, and he argues that one can infer the relative importance of these reasons from the pattern of the ADB lending.<sup>58</sup> In this respect, Wan reports on an interesting empirical result. In his study of Japan's policies toward the ADB from the early 1960s to the mid-1990s, he finds that as Japan became more powerful in the ADB it has also become less concerned about its tangible and immediate economic gains from the bank.<sup>59</sup>

On the other hand, Wade's suggested reasons eventually face the same predicament as Yasutomo's three specific catalysts mentioned earlier. They are incomplete in that they unquestionably accept that the challenge takes place in Japan. That is, why does *Japan* challenge the neoliberal doctrine but not others, such as France and Germany? In the end, it is well known that Japan patterned its state-led economic development after the French and German models (even the Hamiltonian American model) of economic development when it began to call for "enriching the nation, strengthening the army" in the late nineteenth century.

Thus, any developed state could have challenged the neoliberal doctrine in the face of such unfolding events in the world economy of the 1980s. Any of them could have done it out of a desire to make an ideational or ideological contribution to international society. Any of them could have done it to exercise a leadership role by becoming a source of metapolicies for developing states as well. The possibility was open to any who shared the historical experience of state-led economic development,<sup>60</sup> but only Japan did it. Why does the idea of state-led economic development resonate more in Japan than in other states? As such, the question of why Japan challenged the American neoliberal world order could not be fully addressed without answering the question of what made it possible for Japan to challenge it.

When it comes to Japan's AMF proposal, three plausible reasons have so far been suggested by previous studies.<sup>61</sup> The first, a material explanation, stems from the exposure of Japanese private sectors (banks and manufacturers) to troubled Asian economies. Japan could take advantage of the AMF on its mission to rescue their private sectors. The second is "ideational": the AMF could have been a perfect mechanism for Japan to put into practice its own version of a crisis management solution. The third is linked to Japan's ongoing efforts to build its influence in Asia through playing a regional leadership role.

As is discussed in my examination of these explanations in detail (Chapters 2 and 6), however, they are at best underdetermined in accounting for the

nature of Japan's interests in creating the AMF, let alone furnishing causal mechanisms of how *their* definitions of the Japanese interests were formed and projected as a foreign policy. This is partly because this research does not focus solely on the AMF per se. In addition to some empirical evidence undermining these explanations, I claim that their indeterminacy pivots on their failure to pay due attention to Japan's intention to exclude the United States from AMF membership, as the institutional purpose of the AMF was inseparable from its exclusion of the United States. In other words, emergence of the AMF and exclusion of the United States are two sides of the same coin in Japan's decision-making process. At a substantive level, they do not capture an important turning point in Japan's policy choice toward the AMF proposal: the Japanese proposal came after Japan's initial cooperation with the IMF in managing the Thai crisis. A fuller account of Japan's AMF decision emerges from the relaxation of bracketing the social processes that influence formation of identity and interest of Japan as an agent in the politics of economic development.

#### **ALTERNATIVE EXPLANATIONS**

Against the arguments so far discussed, I explore a number of alternative explanations, collected from the existing literature on Japanese foreign policy. I identify here three approaches; variants within each approach are considered as well. They are "interest group," "state-centered," and "systemic" approaches. These three show a striking parallel to rationalist International Relations theories on foreign policy. The interest-group approach is reflective of liberalism (not neoliberalism), while domestic grand strategy reflects the state-centered approach. The systemic approach resembles the two neo-utilitarian theories (neoliberalism and neorealism).<sup>62</sup> They all assume policy actions arising from exogenously determined interests that define the ends actors intentionally pursue by choosing from among available alternative courses of action. Simply put, policies can be understood primarily on the basis of plausibly inferred material interests of key actors. These approaches differ, however, on who the key actors are and which level of analysis should be prioritized. By deductively drawing inferences from these alternative explanations, I test them against empirical evidence to see whether they are persuasive in accounting for the Japanese challenge in general and Japan's AMF proposal in particular. Previous explanations for this book's research questions are explored in detail within each theoretical approach. In addition, rationalist treatments of the influence of ideas on policy choice are also discussed in relation to the research questions.