A Historical Institutionalist Approach to Asian Financial Regionalism: A Case Study of the Making of Japan's Regional Financial Cooperation Policies, 1997-2017

by

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Acknowledgements

The journey towards the completion of my doctoral thesis is by no means easy nor linear. Instead, it has been filed with challenges, setbacks, and certainly also encouragements. I begin by reflecting on how the central research theme emerged. The main research theme of Asian financial regionalism first emerged when I was interning at the Institute for National Policy Research under Professor Lin Cheng-yi in the summer of 2007. As a fearless, or perhaps naïve, first year undergraduate student, I was mandated to accommodate the former ASEAN Secretary General Rodolfo Severino Jr. for roughly a day to tour Taipei City before his scheduled flight that evening. This was the first instance in which I became aware of the collective endeavours of regional countries to foster the short-term liquidity support mechanism known as the Chiang Mai Initiative. I was intrigued by these regional dynamics. Hence I began following these developments and subsequently attended the lecture on East Asia regionalism and regionalisation during my undergraduate studies.

Fast forward to Spring 2009, the negative effects of the 2008 global financial crisis were still prominent, and I was granted the opportunity to participate in the 18th General Meeting of the Pacific Economic Cooperation Council in Washington D.C. as the youth representative of Chinese Taipei (Taiwan). During the conference, I became acquainted with the Dean of Asian Development Bank Institute Professor Kawai Masahiro and attended his panel discussion. During his presentation, Professor Kawai stated that 'Asians are not very optimistic about the IMF reform…because of the bad memory from the financial crisis of 1997-1998'. Moreover, he also identified Japan's substantial financial contributions to the multi-lateralised Chiang Mai Initiative (Kawai, 2009). These two occasions were important to the formation of this doctoral thesis's central research theme, and I am grateful and feel blessed to have had these opportunities during my undergraduate years.

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Declaration

I, CHIEH-CHI HSIEH, herby confirm that the submitted doctoral thesis is articulated based on my original research and is my original work. This thesis has not been submitted for a degree at another university. The thesis is submitted solely for the Doctor of Philosophy Degree in Politics and International Studies, University of Warwick.

Abstract

The doctoral thesis adopts a historical institutionalist approach to investigate Japan's engagement in Asian financial regionalism from 1997 to 2017. The central research question is whether Japan's involvement in developing Asian financial regionalism is a response to structural factors of power rivalry and economic interdependence. I argue that Japan's involvement is not a response to structural factors, because the state is not a power container. Instead, the main factor shaping how these actors engage in Asian financial regionalism is domestic institutional arrangements. In this thesis, I challenge the mainstream theoretical approaches of neo-realism and neo-liberal institutionalism in their shared perception that the state is a cohesive entity when participating in regional financial cooperation initiatives. These include: 1) the Chiang Mai Initiative; 2) the Asian Bond Markets Initiative; and 3) the Asian Bond Funds.

This central argument is formulated via addressing three research sub-questions deriving from the central research question. These research questions are '*to what extent'*, '*why'*, and *'how'* Japan has engaged in Asian financial regionalism. I conduct these assessments by drawing upon an extensive amount of new primary data collected during my one-year fieldwork in Japan. This includes: 1) archives from the Ministry of Finance, the Bank of Japan, and four industrial associations representing manufacturing, banking, securities, and trading industries; 2) 35 personal interviews with senior officials from the Ministry and the Bank, and private sector actors from the aforementioned four industries.

Through this investigation, the doctoral thesis challenges the conventional conceptual perception that associates cohesiveness and consistency with stability and a state of inertia when it comes to Japanese regional financial policymaking. In addition, I demonstrate that Japan is not a reactive state in Asian financial regionalism. Finally, I also show the importance of domestic variables when conceptualising Asian financial regionalism.

Abbreviations

ABAC	APEC Business Advisory Council
ABMI	Asian Bond Markets Initiative
ABMF	ASEAN+3 Bond Markets Forum
ABMF-J	ASEAN+3 Bond Markets Forum Japan
ABMF-SFI	ASEAN+3 Bond Markets Forum Sub-forum One
ABMF-SFII	ASEAN+3 Bond Markets Forum Sub-forum Two
ABF	Asian Bond Fund
ABF-I	Asian Bond Fund One
ABF-II	Asian Bond Fund Two
ABS	Asian Business Summit
ACC	Asian Common Currency
ACU	Asian Currency Units
ADB	Asian Development Bank
ADBI	Asian Development Bank Institute
AMF	Asian Monetary Fund
AMRO	ASEAN+3 Macroeconomic Research Office
AMU	Asian Monetary Unit
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BIS	Bank for International Settlements
BOJ	Bank of Japan
BOK	Bank of Korea
BSA	Bilateral Swap Agreements
BTM	Bank of Tokyo-Mitsubishi
CEMCOA	Centre for Monetary Cooperation in Asia
CPI	Consumer Price Index
CSIF	Cross-border Settlement Infrastructure Forum
CSD-RTGS	Central Securities Depositories-Real Time Gross Settlement
CMI	Chiang Mai Initiative
CMIM	Chiang Mai Initiative Multilateralisation

CMIM-SF	Chiang Mai Initiative Multilateralisation- Stability Facility
CMIM-PL	Chiang Mai Initiative Multilateralisation- Precautionary Line
DKB	Dai-ichi Kangyo Bank
DPJ	Democratic Party of Japan
EAEC	East Asia Economic Caucus
EAEG	East Asia Economic Grouping
EAS	East Asian Summit
EMEAP	Executives' Meeting of East Asia-Pacific Central Banks
EPA	Economic Partnership Agreements
ERPD	Economic Review and Policy Dialogue
EU	European Union
FB	Fuji Bank
FDI	Foreign Direct Investments
FILP	Fiscal Investment and Loan Programme
FSA	Financial Services Agenecy
FTA	Free Trade Agreement
FTAAP	Free Trade Area of the Asia Pacific
GHQ	General Headquarters'
HKMA	Hong Kong Monetary Authority
IBJ	Industrial Bank of Japan
ICFF	Investment Climate Facilitation Fund
IIMA	Institute of International Monetary Affairs
IMF	International Monetary Fund
IR	International Relations
JAFTA	Japan-ASEAN Financial Technical Assistance Fund
JBA	Japanese Bankers Association
JBIC	Japan Bank for International Cooperation
JFTC	Japan Foreign Trade Council
JGB	Japanese Government Bonds
JSDA	Japan Securities Dealers Association
LDP	Liberal Democratic Party

MAS	Monetary Authority of Singapore
METI	Ministry of Economy, Trade, and Industry
MITI	Ministry of International Trade and Industry
MNE	Multi-national Enterprise
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs.
MUFG	Mitsubishi-UFJ Financial Group
NEXI	Nippon Export and Investment Insurance
NPL	Non-performing Loan
ODA	Official Development Assistance
PARC	Party Affairs Research Council (LDP)
PBC	People's Bank of China
PECC	Pacific Economic Cooperation Council
PPP	Public-Private Partnerships
PRI	Policy Research Institute (MOF)
PTM	Price-to-Market
RCEP	Regional Comprehensive Economic Partnership
SDR	Special Drawing Rights
SMBC	Sumitomo-Mitsui Financial Group
SMBC	Sumitomo-Mitsui Banking Corporation
SME	Small and Medium Enterprises
T21PPI	The 21st Century Public Policy Institute
TPP	Trans-Pacific Partnership
UK	United Kingdom
US	United States

Chapter One. Introduction

I. Background

'[T]he financial crisis has shown — once and for all— how seamlessly interwoven the fates of the countries of Southeast Asia have become…In an increasingly global world economy, ASEAN members must realise that they must work more closely as a group in international negotiating forums if they are to have any influence in shaping the emerging architecture of the global economy and the new structure of international finance. Otherwise, they will have to resign themselves to having their destiny determined by others.'

Former ASEAN Secretary General Mr. Rodolfo C. Severino, Jr. (1999)

When referring to the starting point of Asian financial regionalism[1], few would disagree that the 1997/98 Asian financial crisis was the defining moment. Notably, Southeast Asian countries of the Association of Southeast Asian Nations (ASEAN) formed a dialogue partnership with their three Northeast counterparts (i.e. Japan, China, and South) known as the ASEAN+3 finance ministers' process in 1997.

The significance of the launching of the ASEAN+3 finance ministers' process is due to it being in stark contrast to the prevailing form of regional dynamics from the 1980s to 1990s, often referred to as *regionalisation* in which 'processes of [regional integration] derive their driving force ["]from markets, from private trade and investment flows, and from the policies and decisions of companies["]' (Breslin and Higgott, 2000: 344). For instance, Asia's regionalisation is exemplified in increased trade flows as well as in the creation of regional production networks from Japan's

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[1] Scholars such as Nakagawa Rika (2007: 180) has identified the differences between monetary regionalism and financial regionalism by distinguishing four types of regional financial cooperation: 1) exchange rate stabilisation; 2) macro-economic surveillance; 3) developing financial market infrastructures; and 4) exchange of information, interstate policy dialogues, fostering human capital, and joint studies and research. According to Nakagawa (2007), regional monetary regionalism refers to collective state actions in exchange rate management such as the CMI, whilst regional financial regionalism includes all four types of regional financial cooperation initiatives. In this research, I follow her categorisation and use terms 'financial regionalism' and 'regional financial cooperation initiatives' interchangeably.

outward foreign direct investments (FDI) to Southeast Asian regions in the wake of the 1985 Plaza Accord (see Hatch and Yamamura, 1996; Pempel, 1997). However, increased economic interdependence between Asian economies with the absence of formal regional governmental structures in the region created what Calder and Ye (2004) referred to as an 'organisation gap'. Hence, with the proliferation of interstate agreements in both trade (e.g free trade agreements) and finance in the wake of the Asian financial crisis, this has generated the so-called 'new' wave of regionalism scholarship in Asia (Payne and Gamble, 1996; Breslin and Higgott, 2000).

Since the occurrence of the Asian financial crisis, the region has witnessed substantial developments in interstate cooperation in managing regional financial affairs. Breslin and Higgott use the term *regionalism* to depict this type of 'state-led projects of cooperation that emerge as a result of inter-governmental dialogues and treaties' (2000:344). These regional cooperation initiatives are mirrored in: 1) the establishment of a short-term liquidity support mechanism, known as the Chiang Mai Initiative (CMI) and its current multi-lateralised framework (CMIM); 2) the collective regional effort to cultivate the development of regional bond markets under the Asian Bond Markets Initiative (ABMI) and the Asian Bond Funds (ABFs); and 3) the more recently established ASEAN+3 Macroeconomic Research Office (AMRO) that aims to fulfil the surveillance mandate for regional economies (Webber, 2010; Grimes, 2009, Emmers and Ravenhill, 2011).

Arguably, the most commonly investigated question by politics scholars is *why* Asian governments decided to engage in regional financial cooperation, especially with an unprecedented range of policy areas such as capital market reform and developments, macro-economic risk management via monitoring regional capital flows, and developing regional 'self-help' safety network (ASEAN, 1999b). This is in strong contrast with the conventional 'ASEAN Way' of diplomacy in which the norm of 'non-interference' in other states' internal affairs is its very core foundation (Achayra, 2000; Katsumata, 2004).

The remarks by former ASEAN Secretary General Mr. Severino provide insights as to what may have been the collective interest of ASEAN members states. These include the 'interwoven' fates of ASEAN Countries due to the Asian financial crisis, avoiding '[ASEAN countries'] destiny [to be] determined by others', and the necessity of working as a group to '[shape] the emerging architecture of the global

economy' (Severino, 1999). Based on these insights, scholars working in different theoretical perspectives in International Relations (IR) scholarship have attempted to conceptualise these developments by focusing on the aspects of power rivalry and relative gain (Bergsten, 1998; Ravenhill, 2002; Webber, 2001, 2010), functionalist logic of economic interdependence (i.e. Mattli, 1999; Mattli and Woods, 2009; Rose, 1999; Stubbs, 2002; Hamilton-Hart, 2003), as well as ideational contention and common experience and perception (i.e. Higgott, 1998; Lee, 2006; Beeson, 2006). Although Mr Severino's remarks provide insight into why ASEAN members needed to engage in Asian financial regionalism, what is unclear is if his statement is also applicable to the Plus 3 countries.

In this thesis, I investigate Japan's role in the development of Asian financial regionalism. Japan's involvement in these developments deserves observers' attention for two reasons. The first reason is that Japan is the most significant regional economy in the region and possesses substantial economic clout vis-á-vis ASEAN member countries and both China and Korea. With concern to the aspect of power, how the Japanese government perceives these regional financial cooperation initiatives, where the country's interests are situated, and the type of actions it has conducted to fulfil its interests in these processes are all important factors that must be taken into account when conducting research on Asian financial regionalism. This is especially true in the case of regionalism, which considers states as the central entities spurring these developments.

The second reason why Japan is an important case study is that the country has long been criticised for its hesitance to take on any leadership role in international affairs due to the structural constraints imposed by the United States (US). This has contributed to the renowned argument that Japan is a 'reactive' state (Calder, 1988). Nevertheless, with the US government excluded from both the ASEAN+3 finance ministers' process and the Executives' Meeting for East and Asia Pacific Central Banks (EMEAP) platform, this engenders the question of whether Japan has engaged in regional financial cooperation initiatives in a reactive manner. More importantly, with China surpassing Japan as the second largest economy in the world in 2010 (Barboza, 2010), this provides a testing ground to evaluate whether Japan's diminished economic power is a factor that has changed its reactive foreign policy stance in this policy area. These aforementioned points explain why Japan is an important case study to

investigate. In the next section, I delineate the central research question and research questions that underpin this doctoral thesis.

II. The Central Research Question and Three Research Sub-questions: 'To What Extent' , 'Why', 'How'

The central research question of this doctoral thesis is whether Japan's engagement in Asian financial regionalism is a response to the structural factors of power rivalry and economic interdependence. I argue that given the state is not a power container nor a cohesive entity, Japan's involvement in Asian financial regionalism cannot be regarded as a response to structural factors of power rivalry and economic interdependence. Instead the most important variable that shapes Japan's involvement in this process is domestic institutional settings. This includes the institutional arrangement at the meso-level that shapes the behaviours of meso-level/state actors, and institutional settings at the micro-level that shapes the behaviours of micro-level/non-state actors. Given prevailing approaches adopted to study Asian regionalism, namely neo-realism and neo-liberal institutionalism, take for granted that the state is a cohesive entity, these important meso- and micro-level dynamics have hitherto been overlooked in the field of inquiry. This is why I have adopted a historical institutionalist approach to study Asian financial regionalism, using the case study of Japan. I will elaborate on the central thesis argument and research method in subsequent sections.

In order to critically assess the central research question of whether Japan's actions are shaped by structural factors of power rivalry or economic interdependence, I address three research sub-questions. The first research question is *to what extent has* Japan engaged in regional financial cooperation with regional countries under the ASEAN+3 framework as well as the EMEAP platform. The second research question is *why* Japan has engaged in Asian financial regionalism. The final research question concerns *how* Japan is involved in the regional financial cooperation initiatives of the CMI/CMIM, the ABMI, and the Asian Bond Funds (ABFs). Hence, this thesis challenges mainstream IR approaches adopted to investigate Asian financial regionalism, such as neo-realism and neo-liberal institutionalism.

Different from mainstream IR scholarship that immediately focuses on the '*why*' question without problematising the state as a cohesive entity (see Chapter 2 for this discussion), I address this by first enquiring into '*to what extent*' has Japan actually

taken part in developing Asian financial regionalism. The principal reason for beginning with the investigation of the first research question is because Japan was not a crisis-hit country. This indicates that the causal relationship between the eruption of the Asian financial crisis and interest in developing Asian financial regionalism, which applies to crisis-hit countries, may not be applicable to the case study of Japan. To complicate this issue further, at the height of the Asian crisis, Japan's Finance Minister Miyazawa Kiichi[2] announced the financial support package known as the New Miyazawa Initiative. The Initiative contained the total amount of US$30 billion of capital and was aimed to provide assistance to Asian countries' short-term economic recovery and long-term economic reform (Miyazawa, 1998). The disparity between Japan's insufficient demand to solve common problems of the Asian crisis, and the country's substantial level of support to ASEAN countries, suggests that there are more complex narratives than the ones put forward by neo-liberal institutionalists (e.g. Mattli, 1999).

In addressing the first research question of *'to what extent'*, it forces one to reconsider which actors in Japan are important stakeholders in these regional financial cooperation initiatives. This includes meso-level actors involved in the making of regional financial cooperation policies, as well as micro-level actors that have been affected by the Asian crisis, or are prone to the effects of financial crises. For instance, although Japan was not a crisis-hit country and this exposes the limitations of the functionalist logic proposed by neo-liberal institutionalist theory, this may be the case where one has misidentified where the demand exists. For instance, Japanese private sector actors have a large presence in Southeast Asian countries. This includes the aforementioned regional production network created by Japanese corporations comprised of capital-intensive production from the Asian newly industrialising economies, and labour-intensive production from China and ASEAN countries (see Hatch, 2001). Another example is Japanese financial institutions' business transactions with regional countries. For instance, the work of Katada and Solís (2010: 141) found that more than 65% of Japanese banks' claims were placed in Asia, whilst more than 30% of claims in Asia were owed to Japanese banks prior to the Asian financial crisis. The close business transactions of Japanese micro-level actors in the region make them

[2] The order of Japanese and Chinese names identified in this thesis follows their shared traditional format of beginning with their family names followed by their forenames.

important stakeholders of these regional financial cooperation initiatives and may tentatively suggest that a functionalist rationale does exist in the case study of Japan. The important point I identify here is that debate on the first research question will allow one to unveil who the important stakeholders of regional financial cooperation initiatives are at both meso- and micro-levels. In turn, this sets the stage for the critical assessment of the second research question.

With regard to the second research question on *why* Japan has engaged in the developments of Asian financial regionalism, this investigation is important to the scholarship on Asian regionalism for three main reasons. Firstly, after identifying the important stakeholders of these regional financial cooperation initiatives, it allows the critical assessment of existing arguments put forward by mainstream IR scholars. For instance, the inclusion of micro-level actors in the discussion would allow one to evaluate whether the variable of power rivalry/relative gains in regional financial cooperation is the sole factor that explains Japan's pro-active engagements (see Grimes, 2003, 2009, 2011, 2015; Terada and Ong, 2011). On the other hand, it also allows one to examine whether the functionalist logic of economic interdependence is applicable to Japan (Rose, 1999; Stubbs, 2002; Katada, 2002).

Secondly, encompassing micro-level actors in the discussion will also unveil the interactive dynamics amongst these private sector actors. These interactive dynamics are important for the scholarship because they have significant implications for Japan's regional financial policymaking. For instance, it is shown in the works of Katada (2002b) and Katada and Solís (2010) that one of the reasons that contributed to the failure of Japan's Asian Monetary Fund (AMF) proposal was the different stances upheld by various private sector actors in Japan. A similar scenario may have potentially taken place in other regional financial cooperation policies put forward by the Japanese government. Finally, it is also important to point out that the *why* question also includes the investigation of the underlying reasons that may have hindered important stakeholders' involvement in these regional financial cooperation initiatives. The rationale behind this is the opportunity costs for micro-level actors. Moreover, the inaction and passive engagements of these actors also have implications for Japan' regional financial policymaking.

The final research question is *how* Japan is involved in Asian financial regionalism. This research question is concerned with the strategy adopted by Japan

when engaging in regional financial cooperation initiatives. What makes Japan an interesting case study is that the country's pro-activism towards Asian financial regionalism seemingly deviates from its conventional 'reactive' foreign policy approach to international affairs (Calder, 1988; Sudo, 1992). Scholars of Japan's foreign policy have long been intrigued by why Japan, a country with substantial economic clout, is not a revisionist state and adheres to the Yoshida Doctrine which prioritises US-Japan bilateral relations over engagements in regional and multi-lateral regimes (Calder, 1988; Sudo, 1992; Berger, 1993; Katzenstein and Okawara, 1993; Hook, 1996b; Sugita, 2016). As a consequence, this has led to discussions on the 'abnormality' of Japan's foreign policy (Hook, 1996b, Hagström, 2015).

In the case of Asian financial regionalism, Japan's actions seem to be following a trajectory of pro-activism. For instance, under then-Vice Minister of Finance for International Affairs Dr Sakakibara Eisuke, Japan proposed the AMF, which was envisioned to become 'Asia's own version of the International Monetary Fund' (Sakakibara, 2017). Another instance includes the aforementioned New Miyazawa Initiative proposed in 1998. In addition, Japan's participation in the ASEAN+3 finance ministers' process and the EMEAP framework are all examples that tentatively suggest that the country has deviated from its conventional foreign policy approach. This is due to the two regional financial cooperation frameworks both exclude the US government's involvement.

Japan's pro-activism in developing Asian financial regionalism also seems to be an anomaly to Japan's conventional approach to ASEAN. As noted by Hook *et al.* (2002: 18), Japan's history of war aggression and colonialism has led many East and Southeast Asian countries to reject the legitimacy of Japan's leadership role in the region during the post-war epoch. Therefore, Japan has been very attentive when engaging with ASEAN member countries. Notably, in 1977, when then-Prime Minister Fukuda Takeo embarked on his Southeast Asia tour, he famously stated that 'the [Japanese] Government and the people of Japan will never be sceptical bystanders in regard to ASEAN's efforts to achieve increased resilience and greater regional solidarity: but will always be with you as good partners, walking hand in hand with ASEAN' (Sudo, 1992: 242). Since then, Japan's engagement with ASEAN has been predicated on the 'Fukuda Doctrine', which underscores equal and 'heart-to-heart' partnership (Liam, 2013).

What accounts for this deviation of Japan's foreign policy approach not only in Japan-US bilateral relations, but also in the Japan-ASEAN foreign relations? Moreover, has the unconventional approach become the new 'normality' and has it been consistent? These are the questions that will be discussed through the assessment of three regional financial initiatives (i.e. CMI/CMIM, ABMI, ABFs).

III. Central Thesis Argument

The central thesis argument is that the state is not a power container, and as a result, state power is fluid and under constant contestation. Thus, Japan's involvement in Asian financial regionalism cannot be regarded as a response to structural factors of power rivalry and economic interdependence. This indicates that different state and private sector actors have engaged/disengaged at different time junctures. In the case of meso-level actors, three state actors are important stakeholders: the Liberal Democratic Party (LDP), the Ministry of Finance (MOF), and the Bank of Japan (BOJ). I argue that the underlying reason why the Japanese government has shown consistency in its active and persistent approaches to develop the regional short-term liquidity support mechanism and fostering Asian bond markets, is the socio-economic and political context *within* the state that demands the MOF take an active role in managing exchange rate risks (see Chapter 3). Although the socio-economic and political context that demands the MOF's active management of exchange rate risk, a policy dating back from the early 1990s, has not changed, this does not indicate that private sector actors agree with the policy decisions of the MOF. As illustrated in Table 1.1, this is made apparent when assessing the different levels of positive responses from micro-level actors toward the different iterations of regional financial cooperation policies put forward by the Ministry throughout the timeframe of this investigation (e.g. yen's internationalisation, AMF, CMI, ABMI) (see Chapters 5 and 7 for this discussion).

Table 1.1 Responses of Japanese Actors Towards Regional Financial Cooperation Initiatives (1997-2017)

	Developments of Bond Markets in Asia		Developments of Short-term Liquidity Support Mechanism		Yen's Internationalisation
	Prior-2007	**Post-2007**	**Prior-2007**	**Post-2007**	
Ministry of Finance	+	+	+	+	+
Bank of Japan	+	+	+	+	+
Keidanren	-	+	-	+	+
Japan Foreign Trade Council	-	+	n/a	n/a	n/a
Japanese Bankers Association	-	-	-	-	-
Japan Securities Dealers Association	-	+	-	n/a	+

*** (+) Increased interest (-) insignificant Interest**
Source: Based on this doctoral thesis

Moreover, the cohesiveness of Japan's involvement in Asian financial regionalism should be problematised. Instead of merely evaluating whether Japan has actively and persistently engaged in this process, one should further enquire whether there are diverging but complementary approaches that contribute to this cohesiveness (see Table 1.2). I argue that the variable of institutional arrangement is paramount to this cohesiveness. In the case of meso-level actors, the underlying reason for this relative cohesiveness when participating in regional financial cooperation initiatives is the clearly designated mandates of the MOF and the BOJ based on the *1998 Bank of Japan Act* as well as the inaction of the LDP. As will be shown in Chapters 4 and 6, the institutional arrangement has shaped the respective behaviours of the Ministry (i.e. active) and the Bank (i.e. active yet reticent) when the two organisations partake in developing Asian financial regionalism.

Yet, what is crucial to identify is that cohesiveness does not necessarily indicate a state of inertia. Instead, both the MOF and the BOJ have adopted different strategies to increase their engagement in order to fulfil their respective organisational objectives. In the case of the MOF, this is most apparently shown in its conducting of the act of *layering* to increase its leverage over politicians via fostering bond market developments (see Chapter 6). The inaction of the LDP in these processes has also

contributed to the MOF remaining at the forefront of regional financial cooperation policymaking. As for the case of the BOJ, in order to fulfil the Bank's organisational goal of maintaining financial stability, it has been signing bilateral swap credit lines with yen assets and participated in the less politicised EMEAP framework for bond market developments. The difference between the BOJ's actions in the MOF-BOJ dyad relation and the MOF's adopted strategies in the MOF-LDP/politicians dyad relation is that the former reinforced the working relationship between the two organisations without the expense of the BOJ, whereas the latter reinforced the working relationship at the expense of politicians (see Table 1.2). As a result, although the MOF's primacy in regional financial cooperation policymaking was an unintended consequence at the time of the enactment of the *1998 Bank of Japan Act*, the organisation has been able to sustain its prominence in this policy area for the past two decades due to the support of the BOJ, as well as its *layering* strategy against the LDP/politicians (see Chapters 4 and 6).

Table 1.2. State Actors' Policy Preferences

	Monetary Policy	**Yen's Internationalisation**		**Development of Short-term Liqudity Support Mechanism**		**Bond Market Developments**	
	Pre-1998	**Pre-2000**	**Post-2000**	**Pre-2000**	**Post-2000**	**Pre-2000**	**Post-2000**
LDP	-	+	n/a	n/a	n/a	n/a	n/a
MOF	-	+	+	+	+	+	+
BOJ	-	+		n/a	+	+	+

*** (+) cooperative relations (-) contentious relations (n/a) impartial**
Source: Based on this doctoral thesis.

In the case of micro-level actors, there are four important stakeholders. These include: 1) the Japanese Business Federation (herein *Keidanren)*; 2) the Japanese Bankers Association (JBA); 3) the Japan Foreign Trade Council (JFTC); and 4) the Japan Securities Dealers Association (JSDA). The consistency of their responses is shown when observing the economic rationale behind their actions. If micro-level actors perceive regional financial cooperation initiatives as economically rewarding and aligned with their economic interests, they have voiced their support of the government's endeavours. As a result, this has manifested in their inconsistent

responses to the developments of the CMI/CMIM and the ABMI throughout the time period under investigation (see Table 1.1). Thus, what is made apparent is that the state's ability to mobilise support from private sector actors is in question.

In terms of how micro-level actors have engaged in these processes, the variable of institutional arrangements is also paramount in shaping their actions. I argue that the collapse of the financial segmentation system inevitably led to the change of actors' relations within the *keiretsu*/main-bank system. The so-called *keiretsu*/main-bank system depicts a long-term working relationship between banks and corporations, with the former acting as the nexus of coordinating cross-industry businesses via provision of information, finance, and monitoring firm performances (Vogel, 2006)(see Chapter 3 for detailed discussion). Arguably the most striking evidence of the changing relationship is how manufacturing corporations, led by the *Keidanren,* have challenged the banking industry, led by the JBA, on multiple occasions. For instance, these include advocating the government's initiative to internationalise the yen and underscoring the importance of direct finance (see Chapter 5), as well as promoting bond market developments post-2009 (see Chapter 7). Not only does this contradict the core business transactions of commercial banks in Japan, but also that the *Keidanren* has achieved this by forming coalition with the JSDA in shaping the socio-economic and political context in both occasions (see Table 1.1). This strongly contradicts the working relationship between manufacturing firms and their main-banks under the *keiretsu* system. Although this may suggest a new working relationship between the *Keidanren* and the JSDA, and to a lesser extent the JFTC, this is not an accurate depiction of their relationships (see Chapter 5). In fact, the inconsistency of the *Keidanren*'s support of yen's internationalisation after 2002 and bond market developments post-2011 exemplifies that these coalitions are formed in an ad hoc manner. This is dissimilar to the long-term working relationship under the main-bank system.

Finally, Japan's foreign policy approach has not changed in terms of the country's bilateral relations with the US and its foreign relations with ASEAN. In terms of Japan-US bilateral relations, Japan's AMF proposal was indeed an anomaly, and Japan has attempted to re-engage the US in Asian financial regionalism subsequently, such as in the case of the Manila framework. As for Japan-ASEAN foreign relations, during the infancy of the ASEAN+3 financial ministers' process, the Ministry's actions

did bear a pro-activism trajectory in formal diplomacy (*omote*). However, for the majority of the time period under investigation, the Ministry and the BOJ's collective actions resemble what Hook *et al.* (2002) have identified as a quiet and incremental foreign policy approach (see also Dobson, 2013).

IV. Research Method: Operationalising the Thesis' Investigation

In order to investigate the three research sub-questions of this doctoral thesis, I adopt a historical institutionalist approach to investigate Japan's engagement in developing Asian financial regionalism. In tandem with the analytical framework, I approach the central research theme via a process-tracing research method.

As noted in the work of Bennett and Checkel (2015: 28-30), the advantage of the process-tracing research method is that it includes both inductive and deductive logic in the investigation. This is similar to the analytic narrative approach promoted by scholars such as Robert H. Bates, Avner Greif, and Margaret Levi (see Bates *et al*., 1998; Levi, 2003; Levi and Weingast, 2016: 4). For instance, the two approaches' shared emphasis include 'sequencing and fine-grained description' to make casual interferences, as well as 'generating testable implications' (Levi and Weingast, 2016:4-5). The key difference, however, lies in the way the analytic narrative approach generating testable implications is grounded solidly in rational choice theory (Bates *et al*. 1998: 5-10), whereas the process-tracing research method does not focus on actors, but variables (Levi and Weingast, 2016). In other words, scholars that adopt the analytic narrative approach focus on why observed outcomes deviate from what is predicted by rational choice theory (theoretically-grounded), whereas the process-tracing approach focuses on explaining puzzles that emerge from observed events (empirically-grounded) (Thelen, 1999: 372-374).[3] Accordingly, the process-tracing research method works well with historical institutionalism insofar as these approaches incorporate both rational and cognitive dimensions in their analytical frameworks (see Hall and Taylor, 1996). Moreover, its treatment of history as 'processes over time'

[3] The emphasis on theory-building for the analytical narratives approach is clearly identified in the recent work of Levi and Weingast (2016: 5). They stated that 'analytic narratives include features that make the cases amenable to modelling, which not all puzzles or problems are', and that what is 'essential to the model building is the choice of cases in which the key actors interact strategically'. This aligns with the authors' argument that institutions should be 'analysed as the equilibria of extensive-form games' along with Robert Bates, Avner Greif, Jean-Laurent Rosenthal in their 1998 monograph *Analytic Narratives* (Bates *et al.*, 1998).

enables the investigation of macro-, meso-, and micro-level dynamics, which is the central thrust of this thesis. I will return to this point in Chapter 2.

So how have I achieved this in the doctoral thesis? Firstly, this entails the elaboration on the types of interactive dynamics that I analyse in this research. Subsequently, I will indicate the type of materials I have acquired during the course of my one-year fieldwork in Tokyo, and how I intend to utilise them for the discussion of the thesis.

1. Interactive Dynamics at Macro-, Meso-, and Micro-levels

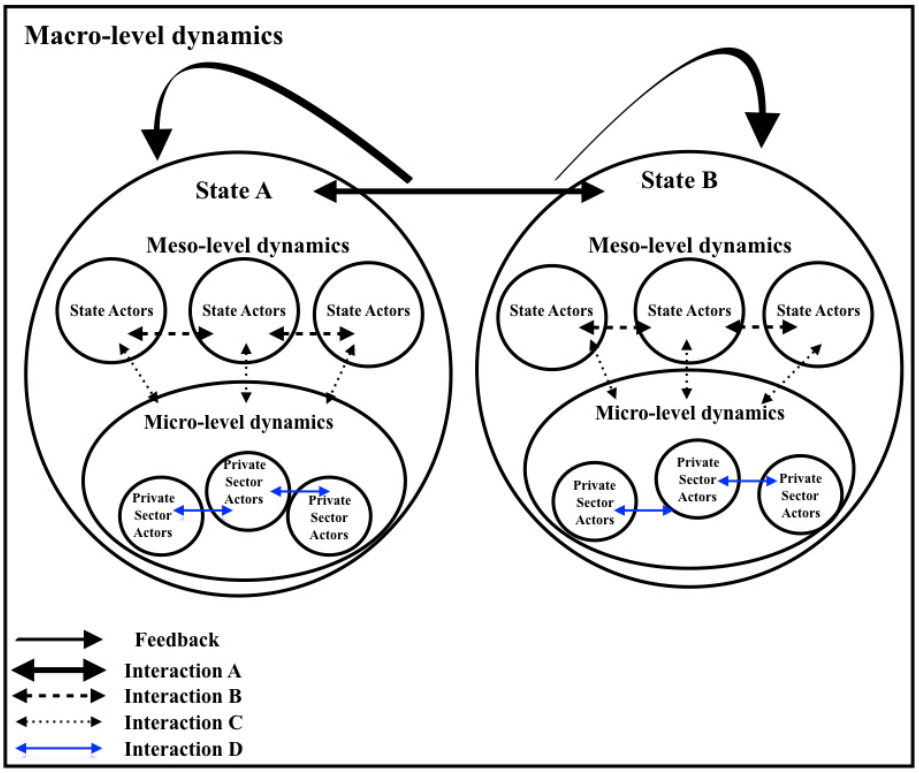
With regard to the types of interaction I analyse in this thesis, there are four different types of interactive dynamics: 1) macro-; 2) meso-; 3) micro-; and 4) meso-micro (see Figure 1.1). To reiterate, the sequence of the three research sub-questions is '*to what extent*', '*why*', and '*how*' Japan has engaged in Asian financial regionalism. The aim of this is to not take for granted the state as a cohesive entity, but rather problematise it. This is achieved by revealing important stakeholders of regional financial cooperation policies, and investigate whether their interactive dynamics have shaped the way Japan engages in developing Asian financial regionalism. Therefore I distinguish these interactive dynamics into the four aforementioned types of interactions.

As shown in Figure 1.1, I use macro-level developments to refer to interactive dynamics between states as a whole, as well as between meso-level organisations from different countries (i.e. Interaction A). For instance, I use Interaction A to indicate macro-level dynamics between the MOF and the US Treasury during the negotiations of the Yen-Dollar Accord and the 1985 Plaza Accord (see Chapter 3), as well as the external engagement of the MOF in the ASEAN+3 finance ministers' process and the BOJ's foreign relations with its counterpart central banks either in the EMEAP framework or in the region (Chapters 4 and 6). The discussion of macro-level dynamics also includes the strategy meso-level actors have adopted when engaging in Asian financial regionalism.

In terms of meso- and micro-level dynamics, these developments are arguably the most important component of the doctoral thesis. These interactions includes two horizontal dynamics (i.e. Interaction B and Interaction D) and one vertical dynamic (i.e Interaction C) (see Figure 1.1) and are confined within the state. In regard to Interaction

B, I refer to this as meso-level dynamics. I focus on the interactive dynamics amongst three meso-level actors, which are the MOF, the BOJ, and politicians (LDP and the Democratic Party of Japan). I focus on how historical developments have created institutional arrangements that unevenly distribute power amongst these actors leading up to the Asian financial crisis. Moreover, I also put emphasis on why there are varying degrees of pro-activism amongst these meso-level actors in the making of Japan's regional financial cooperation policies.

Figure 1.1 Macro, Meso, and Micro-level Dynamics



Source: Author

With regard to Interaction C, this discussion is associated with why private sector actors in Japan have engaged/disengaged in the development of Asian financial regionalism. I selected four private sector actors in Japan that either have substantial business transactions in the Asian region leading up to the Asian crisis, or their businesses transactions' have a more global outlook and are sensitive to the effects of financial crises. These actors are:1) *Keidanren;* 2) the JFTC; 3) the JBA; and 4) the JSDA. The analysis on vertical interactive dynamics between meso- and micro-level

actors is focused on whether these four selected private sector actors have expressed their support via official documents released by these organisations, and compare it to the state's pro-activism in developing Asian financial regionalism during the time period under investigation. Again, this discussion will enable readers to better understand how I reached the conclusion that the state is not a power container.

Finally, in regard to Interaction D, I refer to this as micro-level dynamics. Similar to the approach adopted to analyse the meso-level dynamics of Interaction B, I also focus on the historical developments that created institutional settings and gave rise to the uneven distribution of power relations amongst the four private sector actors. In the case of Japan, I investigate the so-called *keiretsu* relationship or main-bank system to identify how actors cooperate and compete under the system (Chapter 3). In turn, I assess whether the collapse of the institutional setting has induced change in the four actors' relationships when engaging in regional financial cooperation initiatives. Once again, the decision to not engage in the government's regional financial cooperation initiatives of the CMI/CMIM, the ABMI, and the ABFs is an integral part of this debate insofar as it will show the divergence between the state's political rationale and the market's economic rationale.

2. Archival Materials and Personal Interviews

Regarding the type of resources I have acquired to operationalise the research, there are two main sources of primary data, which are: 1) archival materials; and 2) personal interviews. These two types of primary data were obtained during my one-year fieldwork in Tokyo, and subsequent stints of fieldwork in Singapore, London, Kyushu, and Kyoto.

There are two benefits to utilising both archival research and personal interviews. First, the two methods complement each other. Second they act as a method to cross-reference both sources of information. For instance, when surveying public statements released by firms or industrial associations, these documents are evidently the end results of a lengthy and filtered process of consensus building, commonly known as '*nemawashi*' or the '*ura*' approach (see Hook *et al.* 2002). By supplementing this information with personal interviews, it allows one to better understand the underlying dynamics of these processes, as well acquire more materials that are undisclosed. On the other hand, a problem that occurs in personal interviews is that

interviewees, even with the best of intentions, may at times make factual mistakes. This can be addressed via referencing to past and current statements of the organisation/firm.

In regard to the first source of materials utilised to investigate the chronological developments of the LDP, and the MOF and the BOJ, I mainly utilised the archival materials published online on the MOF and the BOJ's websites as well as the Prime Ministers' statements and news articles. These publicised statements are the MOF and BOJ's final policy decision, and represent their official stance on issues concerning regional financial cooperation. It is important to point out that for both organisations, I not only surveyed archival materials that are published in the English language, but also sources published in Japanese. For instance, English language materials of the MOF include: 1) fiscal policy speeches of the finance ministers; 2) statements of finance ministers; 3) published statements of bilateral meetings between finance ministers; 4) joint statements of the ASEAN+3 finance ministers' and central bank governors' meeting; 5) speeches of both the Ministers and Vice ministers of Finance for international affairs; and 6) miscellaneous statements, press releases, and study group reports. As for archival resources in Japanese, this is mainly limited to the transcripts of Sub-council meetings and Expert Group meetings that are related to regional financial cooperation. In cases where archival materials are available in both Japanese and English languages, I surveyed both to reduce the probability of misinterpretations. For instance, in the case of Mr Kuroda Haruhiko's published speeches, there is a published monograph that collected all his public speeches during his tenure as Vice Minister of Finance for International Affairs (1999-2003) in Japanese (Kuroda, 2003).

As for the case of the BOJ, I relied heavily on the following archival materials published in English: 1) speeches of the BOJ governors, Deputy Governors, and policy board members on issues related to international finance; and 2) transcripts of monetary policy meetings. Similar to how I utilise English archival materials, I also reference both Japanese and English versions of the same documents when available. For instance, the speeches of the BOJ governors and deputy governors on the policy area of international finance. As for archives in Japanese, I mainly surveyed the regular press meetings of BOJ officials with the media from 1998 to 2017.

In regard to micro-level actors, I have chosen to survey their published documents to evaluate their respective responses to Japan's engagement in Asian financial regionalism. This approach has been adopted by few scholars. For instance,

utilising published materials such as policy proposals to evaluate private sector actors' support of governmental policy was adopted by Japanese scholar Terada Takashi. In his 2006 work on the first bilateral free trade agreement (FTA) between Japan and Singapore, Terada showed how the *Keidanren* '[injected] business perspectives into Japan's foreign economic policy' via the release of its policy proposals (Terada, 2006:16). Another instance is shown in the more recent work of Gotoh (2019), where he also utilised policy proposals of the *Keidanren* and statements of the Japan Association of Corporate Executives (*Keizai Doyukai*) to demonstrate how the two businesses organisations act as rivalry ideational platforms that compete with each other on neo-liberal market reforms in Japan's corporate society.

In this thesis I have not only decided to adopt the approach of surveying published archival materials of micro-level actors, but most importantly, I also expanded the scope of these sources by investigating four industrial associations of Japan. Two of these micro-level actors are recipients of corporate finance (i.e. *Keidanren* and JFTC), whilst the remaining two are suppliers of corporate finance (i.e. JBA and JSDA). In the case of the *Keidanren*, I surveyed policy proposals from 1990 to 2016, whilst the JFTC's policy proposals are from 1996 to 2016. In the case of the JBA, I evaluated policy proposals from 2004 to 2016, whilst for the JSDA this includes policy recommendations from 2002 to 2016. For periods of time that the organisation did not put forward any policy proposals, for instance in the case of the JBA (1997-2003) and the JSDA (1997-2001), I offset this by surveying these organisations' annual reports, chairmen's statements, and press releases. In addition, I also surveyed the medium-term management plans of important financial organisations (e.g. Mitsubishi UFJ, Mizuho) to identify the highest priority goals of these entities during a designated time period (i.e. normally 1-3 years). With the exception of the *Keidanren's* publicised documents and firm-level data, the majority of these archival resources are written in the Japanese language and made accessible online on their official websites (Japanese sites).

Finally in terms of hard-copy archival resources, these materials are written in the Japanese language and consist of two types. The main archival resource is research group reports conducted by the JBA's in-house research facility, which are the Research Group on the Financial System (金融調査研究会) and the Research Group on Financial

Law (金融法務研究会). The other type of material is the JBA's organisational magazine, entitled *Finance* (金融) which was a monthly magazine put together by the JBA's research division via inviting leading scholars and retired bureaucrats to contribute to its volume. The magazine also includes the JBA's policy proposals, as well as documents important to domestic and international economic affairs. The magazine was succeeded by the *Internal and External Economics Journal* in 2016. Amongst these archives, I surveyed mainly the Financial System Research Group's research reports from 1995 to 2014.

As for personal interviews, during my one-year fieldwork in Japan, I conducted a total of 35 interviews with individuals from meso- and micro-level organisations. These individuals include current and past senior officials from the Ministry of Finance, the Bank of Japan, and the Asian Development Bank. In addition, I also interviewed senior staffs from the banking industry, general trading firms, and securities companies. After completing my fieldwork in November 2016, I revisited three interviewees in late 2017 to acquire further information.

V. Main Research Contributions

After denoting the three research sub-questions of this thesis, putting forward the central thesis argument, and elaborating on how I operationalise my research via a historical institutionalist approach, I will identify the main research contributions that this doctoral thesis make for different bodies of scholarship.

1. Reframing the Existing Debate of Asian Financial Regionalism from 'Why' to 'To What Extent'

With regard to the first contribution, the doctoral thesis contributes to the existing scholarship on Asian financial regionalism by reframing the research question from '*why*' to '*to what extent*'. As shown in previous sections, the central research theme of the doctoral thesis is whether Japan's involvement in Asian financial regionalism is a response to structural factors of power rivalry and economic interdependence. In order to investigate the central research theme, I proposed to critically assess three research sub-questions of '*to what extent*', '*why*', and '*how*' Japan has engaged in Asian financial regionalism.

The main benefit of investigating the three research questions according to the sequence of '*to what extent*', '*why*' and '*how*' is that it allows the doctoral thesis to move beyond what mainstream IR scholars struggle to agree upon when debating Asian financial regionalism. For instance, one issue that is frequently debated is whether states can move beyond the relative gain perception when they engage in Asian financial regionalism with different theoretical approaches standing their respective grounds (i.e. neo-realism: no; neo-liberal institutionalism/constructivist approaches: yes)(see Chapter 2 for this discussion). Another problem continuously identified by scholars is the problem of comparing Asian financial regionalism to the European integration experience (Breslin and Higgott, 2000; Breslin, 2010; Dieter and Higgott, 2003). This often engenders the discussion on what constitutes 'effective' cooperation or integration (see Webber, 2010).

What differentiates this thesis's investigation from mainstream IR literature on the development of Asian financial regionalism is that I consider the three agreed regional financial cooperation initiatives as evidence of regional cooperation, and revert back to critically evaluate who are the actors that were involved in the making of these policies. Hence, this adds value to the existing literature by providing detailed investigation on the state *per se* and the interactive dynamics within the state that have potential implications for these regional financial cooperation policies. By doing so, the thesis will provide a more complex narrative which demonstrates that these structural factors proposed by mainstream IR scholars are not determining variables that shape state actions. Instead, there are multiple processes at the macro-, meso-, and micro-levels within the state that determine why actors have varying levels of interests to engage in developing Asian financial regionalism, and how these different levels of dynamics interact with each other and contribute to the making of Japan's regional financial cooperation policies. This constitutes the first contribution of the thesis to the existing scholarship on Asian financial regionalism.

2. A New Approach to Studying the Development of Asian Financial Regionalism

With regard to the second contribution, the doctoral thesis contributes to the existing scholarship on Asian regionalism by applying an alternative analytical framework of historical institutionalism to investigate Japan's involvement in Asian financial regionalism. As identified, the central thesis argument is that Japan's engagement in

Asian financial regionalism is not a response to structural factors of power rivalry and economic interdependence because the state is not a power container, nor is it a cohesive entity that can fully make decisions on participating in Asian financial regionalism. Hence the thesis challenges mainstream IR approaches to Asian financial regionalism.

I achieve this by adopting a historical institutionalist approach and the theoretical framework of gradual institutional change theory (see Chapter 2). One of the benefits of utilising historical institutionalism is the approach's treatment of history as 'processes over time' rather than 'instances in the past' (i.e. neo-realist and neo-liberal institutionalist theories). Hence, it enables the assessment of the consistency of Japan's engagement in Asian financial regionalism. For instance, it allows one to identify whether certain foreign policies put forward by meso-level actors in Japan may be merely an anomaly due to factors of insufficient coordination or leadership. This is evident in the case of Japan's AMF proposal under Dr Sakakibara Eisuke (see this discussion in Chapter 4). It also enables the assessment of what is the consistent variable that shapes the actions of micro-level actors. In addition to its treatment of history, the gradual institutional change theory put forward by Mahoney and Thelen (2010) also provides the analytical framework to assess the interactive dynamics encompassing: 1) macro-; 2) meso-; 3) micro- ; and 4) meso-micro levels (see Chapter 2). For instance, the theory identifies the types of agents of change (e.g. insurrectionists, subversives, opportunists), the strategies they are most likely to adopt to achieve change (e.g. displacement, layering), and how these agents interact via coalition alignment/formation to increase the probability of inducing change.

As I will show in Chapters 4 to 7, by adopting a historical institutionalist approach this thesis unveils these interactive dynamics within the state that have shaped the way actors in Japan have engaged in the development of Asian financial regionalism. These dynamics cannot be identified by adopting mainstream IR approaches to investigate the central research theme. Hence this constitutes the second contribution of this doctoral thesis to the existing scholarship.

3. New Primary Data Collection

With regard to the third contribution, the doctoral thesis contributes to the existing literature by incorporating new archival resources and conducting interviews with both

meso- and micro-level actors in Japan that have not been previously identified. As mentioned above, the investigation of this doctoral thesis is aimed at problematising the state as a power container by adopting a historical institutionalist approach. This entails an investigation into how different actors in Japan have engaged/disengaged in the development of Asian financial regionalism.

It is important to point out that the majority of research on Japan's involvement in Asian financial regionalism merely consider the role of the MOF in these processes, and leave out the discussion on the BOJ (e.g. Katada, 2002a, 2002b, 2008; Grimes, 2009; 2011; 2015; Terada, 2010; Lee, 2006; Hook *et al*. 2012). Accordingly, with the incorporation of the BOJ in the investigation, the thesis makes a distinctive contribution to the scholarship on Asian regionalism by comprehensively utilising new primary data from the BOJ.

In addition, I mentioned in the methodology section that I have conducted an extensive survey on the policy proposals, chairmen's statements, and annual reports released by the four industrial associations under investigation in this thesis. It is noteworthy that these types of materials have also not been previously utilised to investigate how private sector actors have responded to the developments of Asian financial regionalism. Thus, this contributes to the originality of the thesis's investigation. Furthermore, some of these resources are only accessible in person. For instance, the research group reports produced by the JBA's Research Group on the Financial System and the JBA's organisational magazine *Finance* are held in the organisation's library, which I visited for three months during my fieldwork in Japan from 2015 to 2016. Since April 2016, it has been shut down for a scheduled five-year period of renovation.

Moreover, I have also surveyed archival resources beyond the published documents of the four industrial associations. For instance, when assessing the micro-level dynamics of the JBA, I also incorporate firm-level archival resources of the three financial holding groups in Japan (i.e. medium-term management plans). This has allowed my research to accurately identify the interests and preferences of the three mega banks when evaluating their responses to the government's endeavours in developing Asian financial regionalism.

In addition to incorporating new archival materials into the investigation, I have also acquired new primary data through conducting a total of 35 personal interviews.

These include interviews with senior officials of both the MOF and the BOJ, as well as interviews with staff from the banking and securities industries, and general trading firms. Therefore, this thesis's contribution to the existing scholarship on Asian financial regionalism via acquiring new primary data is not only distinctive, but the extent of the primary data collected either in the form of archival resources or personal interviews is also unprecedented.

4. Disconfirmatory Empirical Investigation

With regard to the fourth contribution, the doctoral thesis also make a contribution to the existing scholarship by providing disconfirmatory empirical evidence that challenges existing mainstream IR theories. As mentioned above, I achieved this by addressing the first research question: *to what extent* has Japan engaged in developing Asian financial regionalism? Incorporating important stakeholders into the discussion of the making of Japan's regional financial cooperation policies, this has allowed the critical evaluation of numerous propositions put forward by scholars working in the theoretical background of neo-realism and neo-liberal institutionalism (see Chapter 2 for these key propositions).

For instance, by unveiling the inconsistency of how micro-level actors have responded to the developments of the CMI/CMIM, and the ABMI (see Table 1.1), it exposes the limitations of realist political economy that the state can effectively conduct economic/financial statecraft via mobilising the support of private sector actors when engaging in Asian financial regionalism. Another empirical finding that exposes the limitations of neo-liberal institutionalist theories is that the JBA has passively responded to the MOF's active engagement in fostering the CMI/CMIM from 1997 to 2017 (see Table 1.1). This contradicts the functionalist logic which denotes that the factor of economic interdependence will prompt stakeholders (i.e. JBA) to pressure the government to supply the necessary policies to avoid economic risks.

As I will demonstrate in Chapters 4 and 6, I specifically focus on variables of power rivalry and economic interdependence. I compare these structural factors to the aspect of domestic institutional settings to demonstrate that the latter factor is the most prominent variable that shapes actors' behaviours when engaging in Asian financial regionalism.

5. Moving Beyond Disciplinary Boundaries

With regard to the fifth and final contribution, given how the doctoral thesis adopts a historical institutionalist approach to investigate Japan's involvement in Asian financial regionalism, I engage in not only the scholarship on Asian regionalism, but also in the research areas of Japan's foreign policy and Japan's political economy. As noted above, the doctoral thesis investigates four interactive dynamics with different levels of emphasis (see Figure 1.1). For the investigation of Interactions B and C, I draw upon the literature on Japanese political economy in the area of the capitalist developmental state model and the broader literature on varieties of capitalism. I rely on these two bodies of scholarship to gain insight into the state-market relationship in Japan, as well as into the country's corporate governance and finance from a historical perspective. For instance in the case of the capitalist developmental state model of Japan, Johnson (1982) depicts a cooperative working relationship between the Japanese government and private sector actors in allocating credit to strategic industries and implementing industrial policies to achieve economic growth (see also Wade, 1990). Notably, after the Asian financial crisis, scholars have identified how the developmental state of Japan has changed/transformed (Woo-Cumings, 1999; Weiss, 2000; Stubbs, 2009; Rethel and Sinclair, 2014). I utilise this literature to assist in the investigation of how the changed state-market relationship bears implications for the making of Japan's regional financial cooperation policies.

In terms of the broader literature on varieties of capitalism, I engage in this discipline to investigate Interaction D (see Figure 1.1). The literature provides insight into how the long-term working relationship between corporations and commercial banks under the *keiretsu*/main-bank system was formulated, as well as how these relationships have changed or remained consistent in face of capital account liberalisation (Vogel, 1996, 2006, 2018; Hall and Soskice, 2001; Gotoh, 2019). For instance, the investigation identified how the collapse of Japan's financial segmentation system has allowed manufacturing corporations (i.e. *Keidanren*) to form coalitions with the JSDA in policy areas of yen's internationalisation and bond market developments in Asia. This demonstrates that the change in domestic institutional setting at the micro-level has changed the cooperative relationship between manufacturing corporations and their main-banks (see Chapters 5 and 7). Once again, I rely on this literature to unveil

the interactive dynamics of micro-level actors and how these domestic developments have affected and shaped private sector actors' interests in Asian financial regionalism.

Finally, with regard to the research field of Japanese foreign policy, I engage with this literature in order to evaluate '*how*' Japan has involved in Asian financial regionalism (i.e. Interaction A). For instance, I discuss Japan's conventional foreign policy approach under the Yoshida Doctrine and the Fukuda Doctrine to assess the consistency of Japan's engagement in developing the short-term liquidity support mechanism and fostering bond market developments. This thesis also uses insight gained from Japan's foreign policy to investigate how the MOF has put forward these policies in practice, as well as the domestic consensus-building processes of these policies. I believe by gaining insight from the aforementioned research fields, it will enrich the existing literature and create a provisional template for researchers to adopt in future case studies.

VI. Organisation of Thesis

In the final section of this Chapter, I would like to provide an overview of how I have organised the thesis and reached the central thesis argument that the state is not a power container.

In Chapter 2, I begin the thesis's critical analysis by first conducting a literature review of existing scholarship on Asian financial regionalism. The purpose of this chapter is to review how mainstream politics scholars have conducted their analyses on state behaviours/actions when they engage in regional financial cooperation initiatives of the CMI/CMIM, the ABMI, and the ABFs. Upon this evaluation, I would identify the limitations of existing approaches that have been adopted to conceptualise Asian financial regionalism. I argue in this chapter that adopting a historical institutionalist approach will enable the thesis to contribute to the existing scholarship insofar as unveiling a series of interactive dynamics that have been previously overlooked. This is due to gradual institutional change theory, which provides an analytical framework to evaluate the relationship between institutional arrangement and actors' behaviours in explaining change and continuity. In this chapter, I will present the analytical framework of gradual institutional change developed by James Mahoney and Kathleen Thelen. I will focus on explaining the types of actors of change, the different actions

they can adopt, the goals they attempt to achieve, and concepts of unintended consequences and coalition alignment.

In Chapter 3, I apply the analytical framework to investigate the underlying reasons that contributed to the change of relationships at meso- and micro-levels. Chapter 3 is set up to achieve two objectives. The first purpose is to provide the historical context of Japan's financial policymaking arrangements as well as the institutional setting of the *keiretsu*/main-bank system. This discussion is expected to introduce the stakeholders of regional financial cooperation and depict their relationships. The second purpose is to apply the analytical framework to explain why institutional settings were created, sustained, and eventually challenged prior to the eruption of the Asian financial crisis. By the end of the discussion, it will present the outcome of the changed institutional arrangements to set stage for the debates in the subsequent empirical chapters.

In Chapter 4, I will start by analysing on how Japan has been involved in developing the CMI/CMIM. There are two main objectives for this critical analysis. The first is that the evaluation would make apparent that institutional arrangement has shaped how the MOF and the BOJ have engaged in policy initiatives that enhance regional financial stability. This will allow readers to understand why the idea that the state is a power container should be problematised. The second objective is that the assessment of how the two state actors have engaged in these processes (i.e. active or passive) will also become the yardstick for evaluating the interactive dynamics between state and private sector actors (i.e. Interaction C) in Chapter 5. The main argument put forward is that the Japanese government has been actively engaged in fostering the CMI/CMIM because the socio-economic and political context allows it to take an active role in exchange rate risk management. In this process, the collective actions of the MOF and the BOJ seem to be cohesive and persistent. Yet, these state actions should not be taken for granted. Instead, it is due to the respective mandates assigned to the two organisations after the change of institutional arrangement (i.e. 1998 Bank of Japan Act) that enabled the two meso-level actors to forge a close working relationship when engaging in the development of the CMI/CMIM. This is evidently shown in the varying approaches the two organisations have adopted to promote regional financial stability. This affirms the central thesis argument that the state is not a power container and that policy outcomes are outgrowths of constant political contestations.

Following the discussion in Chapter 4, in Chapter 5 I investigate how private sector actors have responded to the government's active engagements in fostering the CMI/CMIM. This chapter is an important segment of the thesis because by means of critically analysing the responses of private sector actors to these state endeavours, it allows one to examine the effectiveness of state action in mobilising support (i.e. Interaction C). As will be shown in the assessments in this chapter, I posit that the Japanese government's ability to mobilise and shape private sector actions is doubtful. Instead, the main factor that influences the behaviours of private sector actors is whether they consider supporting the policy initiative as economically rewarding. Hence, this explains why the mobilisation of the MOF's two policy goals of internationalising the yen and developing the CMI/CMIM experienced varying degrees of success.

In Chapter 6, I evaluate the Japanese government's involvement in fostering Asian bond markets under the ASEAN+3 framework (i.e. ABMI) and the EMEAP framework (i.e. ABFs). Similar to Chapter 4, this chapter also serves two purposeS for the thesis. The first is to evaluate whether the institutional arrangement has also shaped the behaviours of the Ministry and the Bank when partaking in bond market developments in Asia. This debate will enable the assessment of whether the state is a power container insofar as being a coherent actor. The second objective is to identify how state actors have participated in these developments in order to provide a point of reference for evaluating how private sector actors have responded to the government's action in Chapter 7. The main argument put forward in this chapter is that although the actions of meso-level actors are similar (i.e. active engagements) and have been consistent, the Ministry's approach to developing bond markets is not in harmony with the BOJ's. The nuanced divergence between the Ministry's 'active' participation and the Bank's 'active yet reticent' involvement demonstrate how institutional arrangement shapes political behaviour. In addition, although there have been an increasing number of non-state actors included in the Ministry's advisory body, it is unclear to what extent these actors influence the policymaking process.

In Chapter 7, I will return to debating how private sector actors have responded to the two meso-level actors' active promotion of fostering Asian bond markets. In addition to the *Keidanren*, the JBA, and the JSDA, I also include an assessment of the JFTC in this chapter. Similar to Chapter 5, the critical assessment in this chapter serves

two purposes for the thesis. The first is to examine whether the state is a power container which can conduct effective economic statecraft. The second is to unveil the interactive dynamics of the four micro-level actors concerning bond markets developments.

The main proposition put forward is that the state's ability to mobilise support from micro-level actors is questionable. This is underpinned by demonstrating the consistency of the four actors when pursuing economic gains. Hence, although there may be periods of time when three private sector actors have responded positively in tandem with the government's active promotion of bond market developments (i.e. post-2009), one cannot consider this as evidence in support of effective economic statecraft. Moreover, the positive responses of the *Keidanren*, the JFTC, and the JSDA also show that the *keiretsu* system has changed. The new institutional arrangement has allowed these actors to pursue their respective economic interests and form alliances against the JBA.

Finally in Chapter 8, I arrange the concluding chapter into three sections. In section one, I will provide a review of how adopting a historical institutionalist approach has allowed me to assess the three research questions, and formulated the central thesis argument. In section two, I will identify the important research findings discovered throughout the investigation and how these findings contribute to the existing scholarship on Asian financial regionalism, Japanese political economy, Japan's foreign policy, and the broader literature on varieties of capitalism. For instance, the conceptual finding that cohesiveness and continuity do not indicate a state of inertia, the empirical contributions of the BOJ's approach to Asian financial regionalism and the four industrial association's respond to regional financial cooperation initiatives, as well as confirming the false dichotomy between state and markets. In the final section, I identify the limitations of the doctoral thesis, and indicate some directions for future studies.

Chapter Two. Conducting Unit-level Analysis via a Historical Institutionalist Approach

I. Introduction

In this chapter, I explain why I have chosen to adopt a historical institutionalist approach to investigate Japan's involvement in Asian financial regionalism. The main objective of this chapter is to explain why this is the pertinent approach for this thesis. My proposition is that there are three aspects that make the historical institutionalist approach a pertinent analytical framework for this study. The first aspect is that not only is history an indispensable variable that needs to be considered, but also the specific historical context of a given country. The second is that historical institutionalist approaches enable the investigation of how different actors interact in different institutional arrangements, and subsequently contribute to varying policy outcomes. Finally, historical institutionalism provides analytical frameworks to investigate the interactive dynamics at both meso- and micro-levels. Notably this is achieved by means of considering both calculus and normative aspects that shape actors' behaviours (Hall and Taylor, 1996, Hall, 2000). I follow the broader definition of Jack Knight (1992: 2-3) and consider '[institutions as] a set of rules that structure social interactions in particular ways' and the that 'organisations are collective actors who might be subject to institutional constraints'.

The ongoing dynamics of Asian financial regionalism has attracted significant interests within the academic community in the wake of the 1997/98 Asian financial crisis. A significant factor that contributed to this development is that the region has witnessed a substantial increase in regional/bilateral interstate agreements such as the currency swap arrangements under the Chiang Mai Initiative (CMI), the Asian Bond Markets Initiative (ABMI), and their subsequent developments. This is broadly regarded as a departure from the pre-crisis era in which economic regionalisation was driven by private sector actors with the characteristic of forming 'production alliances' across the region without the aid of formal inter-governmental arrangements (Ravenhill, 1995: 179), or less institutionalised 'open' or 'soft' regionalism (i.e. Asia-Pacific Economic Cooperation)(Katada, 2002b: 87). Given the departure is exemplified in the change of driving forces from private sector (i.e. bottom-up process,

regionalisation) to regional governments (i.e. top-down process, regionalism) (see Breslin and Higgott, 2000), this has contributed to approaching Asian financial regionalism from a structural perspective. Three theoretical frameworks were widely adopted to investigate why Asian governments were driven to engage in these regional/ bilateral arrangements: 1) neo-realist; 2) neo-liberal institutionalist; 3) constructivist approaches.

In their own rights, each of these approaches provided the foundations of studying regional financial cooperation in Asia. For instance, neo-realist theories provide significant explanatory power insofar as underscoring the variable of power struggles in spurring and hindering regional financial cooperation. Borrowing concepts from realist political economy such as Johnathan Kirshner's (1995, 2005) monetary dependence, currency manipulation, and systemic disruption, neo-realist theorists view regional financial cooperation initiatives as financial statecrafts to hedge, leverage, and insulate against the US's dollar power and managing the structural change of the rise of China (Grimes, 2003; 2008). Sharing the statist view of neo-realist theory, neo-liberal institutionalism focuses on how embarking on regional financial cooperation can benefit states and strengthen the power of political leaders of governments (Mattli, 1999; Mattli and Woods, 2009). Finally, constructivist approaches, which maintain that the interests of actors are not fixed or predetermined also represent another important theoretical framework adopted to study Asian financial regionalism. The emphasis of these approaches can vary from focusing on shared identity, shared experiences and/or social interactions that create the foundation for building a regional regime.

Yet, these theories also leave important questions unanswered. For instance, why do states agree to foster regional financial cooperation when they have different ongoing dynamics in their domestic domains? Why have states responded similarly (i.e. supported regional financial cooperation), when they experienced different levels of effects during the Asian financial crisis? Why have these supports been consistent for the past two decades? These questions can only be addressed if one problematises the perception that the state is a cohesive entity, and conduct unit-level analyses (i.e. focus on country case studies) on the institutional arrangements that may have potentially shaped actors' behaviours and policy outcomes. This is the intent and reason why I consider historical institutionalism as the pertinent analytical angle for investigating the central research theme of this thesis.

The chapter is arranged into two sections. The first section provides an overview of how mainstream International Relations (IR) theories have debated on the development of Asia financial regionalism. In the second section, I will debate on why the thesis has adopted a historical institutionalist approach to conduct unit-level analysis on the case study of Japan. This will be achieved by putting forward three advantages of espousing a historical institutionalist approach

II. An Overview of Existing Theoretical Frameworks in Mainstream International Relations Scholarship

To reiterate, the three research sub-questions deriving from the central research question are '*to what extent*', '*why*', and '*how*' Japan has engaged in Asian financial regionalism. In regard to responding to the *why* question, mainstream International Relations (IR) scholarship have provided considerable strength in conceptualising these ongoing developments in the region. There are three dominant theoretical frameworks that have been broadly adopted to study Asian financial regionalism: 1) neo-realist; 2) neo-liberal institutionalist; 3) constructivist approaches. Beginning with the discussion on neo-realist and neo-liberal institutionalist theories, it is noteworthy that the two theories are very similar but place different emphases on why states embark on regional cooperation (Breslin, 2010). In fact, some scholarship on East Asian regionalism categorise both neo-realist and neo-liberal institutionalist in the same thread of theory (i.e. realism) (see Acharya, 1999). As denoted by Walter (1996), both theories share the same ontological perspective that the international system is a confrontational regime, where states are rational egoists acting according to the aggregated interests of their domestic societies. The disagreement between neo-realist and neo-liberal institutionalist theories are on their perceptions on the benefits of cooperation (i.e. relative gain and absolute gain of cooperation).

1. Neo-realist Theory: The Variable of Power Struggles

With regard to neo-realist theorists, regional cooperation or grouping schemes can be perceived as the tactic adopted by states to either ensure their survival or project their own preferences based on their relative power positions in the international system (Waltz, 1979; Mearsheimer, 1995, 2001). Power struggles, whether in the form of maintaining influence to halt the declining power status of existing hegemon or

enhancing power for an ascending state in becoming the hegemon, is the main concern of neo-realists (see Mearsheimer, 2001; Grimes, 2009). Hence neo-realists often conceptualise regional cooperation as foreign policy choices of states in the form of hard/soft balancing, accommodating, bandwagoning, and hedging (Chen and Yang, 2013). For instance, the idea of the East Asian Economic Grouping (EAEG) proposed under the first serving term of Malaysian Prime Minister Mahathir during the early 1990s was to act as a political balance against the US and Japan in the Asia-Pacific Economic Cooperation (APEC), an economic balance against China and Japan in Asia, and a counter to the emerging economic blocs in the West (Katzenstein, 1997: 20). In the financial context, these foreign policy tools include: 1) currency manipulation; 2) systemic disruption; and 3) monetary dependence (see Kirshner, 2005; Grimes, 2009: 24-25). For instance Japan's attempt to internationalise the yen currency in the late 1990s has been regarded as a policy response of the Ministry of Finance (MOF) to the economic turmoils of the Asian financial crisis and the establishment of the Euro (see Grimes, 2003: 181). Regional financial cooperation in forms of the promotion of yen as the international currency for the region's exchange rate regime and the launching of the Chiang Mai Initiative (CMI) are therefore 'defensive' mechanisms adopted by Japanese state actors to insulate their economies from the volatilities of capital mobility (Grimes, 2009: 27). Moreover, these policy initiatives are regarded as Japan's attempts to hedge against the US dollar to avoid being 'entrapped' by the US government and the IMF as lenders of last resort (see Grimes, 2009: 23-29). On the aspect of the Japanese government's engagements in short-term liquidity mechanism in regional financial cooperation will be discussed in more detail in Chapter 4.

Given the central components that concern neo-realists in their debates on regional grouping projects are relative gains and power distributions, they also predict that changes (or/and the perception of change) in power configurations in the international system (i.e. multipolar, unipolar, bipolar) will also lead to different regional arrangements. For instance when debating on Japan's response to the 2008 global financial crisis, Terada and Ong (2011) argues that Japan's aggressive policy initiatives of pushing for the signing of Economic Partnership Agreements with regional countries (e.g. India), promoting the Trans-Pacific Partnership (TPP) under the APEC framework, and increase of official development assistance (ODA) to the Asian region, all demonstrate the country perceives that the power shift from the US to China

on both ideational and material aspects is unfolding. When debating on Japan's active promotion of the East Asian Summit (EAS) grouping[4] with additional members of Australia, New Zealand, and India to the existing ASEAN+3 framework, Terada (2010: 89) argued '[it was the] consideration of a countermeasure to the rise of China [which] led Japan's Ministries, …to propose and advocate the EAS' (see also Terada, 2014). These accounts implicitly denote that regional regimes (e.g. EAS, ASEAN+3, TPP under APEC) or bilateral interstate agreements (e.g. free trade agreements) are merely embodiments of the continuous power struggles of participating states in the region (for similar account see Ravenhill, 2010).

2. Neo-liberal Institutionalist Theory: The Variable of Economic Interdependence

With regard to neo-liberal institutionalist theory, the factor of economic interdependence is integral to the theory's conceptualisation of regional cooperation (Hurrell, 1995; Solingen, 2008). In disagreement with neo-realist theorists, neo-liberal institutionalist theorists perceive engaging in regional cooperation beneficial for all participating members in absolute terms. Cooperation is argued to enable the reduction of transaction costs and solve common problems/threats (Solingen, 2008). In other words, the underlying rationale for state leaders to take up regional consolidation projects is due to they serve 'functional' purposes. Yet although the theory is inspired by early functionalist theories, such as those proposed by Ernst Haas (1961, 1968) which drew inspirations from the European integration project, neo-liberal institutionalist theorists do not share the same perspective that these regional grouping projects will lead to the eventual creation of a supranational regime that takes over substantial mandates of states (Mattli, 1999). Instead, neo-liberal institutionalism argues that via engaging in regional cooperation/integration, it will reinforce the capacities of states and the power of respective political leaders (Hurrell, 1995; Mattli, 1999). Hence, neo-liberal institutionalist focuses on how to solve collective action problems and curtail the negative distributional effects entailed in regional grouping projects (Grimes, 2009: 31).

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[4] ASEAN+6 is also referred to as the East Asia Summit. The regime was formed in 2005 which initially included existing Plus 3 dialogue partners, and Australia, New Zealand, India. The dialogue framework has now increased to include the United States and Russia.

Subsequently, 'conditions' that will enable successful cooperation amongst states and create effective regional regimes are closely associated with how neo-liberal institutionalist theorists approach and assess the dynamics of regional grouping projects. For instance, Walter Mattli (1999: 8-15) proposed that successful regional integration will only take place when both supply and demand side factors are fulfilled. This process initiates from market actors demanding state actions to ensure that they are shielded from unfavourable externalities (e.g. political instability, non-tariff barriers). On the other hand, political leaders must be willing to concede certain aspects of sovereignty to a regional regime in face of these demands (see similar account in Ravenhill, 1995: 190). Even after both demand and supply side factors are satisfied, interstate cooperation may not succeed if they failed to find solutions for coordination game and prisoners dilemma. As consequence, this leads to the final conclusion that an undisputed leader is also imperative for the success for integration, given the state will act as the focal point (Mattli, 1999: 15; Mattli and Woods, 2009). Once again, at the very core of this proposition is that states will need to be incentivised to engage in interstate cooperation.

Putting this theoretical approach into conceptualising the regional cooperation policies embarked upon by Asian governments, it provides considerable explanatory power due to corresponding conditions. For one, the economic interdependent relations amongst East Asian countries is well studied by political theorists (Breslin and Higgott, 2000; Pempel, 2008, 2010; Grimes, 2009; Ravenhill, 2010). The scholarship on Asian regionalism/regionalisation is largely in consensus that the economic interdependent relationships amongst regional governments were first induced by Japan's outward foreign direct investments (FDI) in the 1970s, and further enhanced after the appreciated exchange rate value of the Japanese yen after the 1985 Plaza Accord (Hatch, 2001). This has created a multilateral production network and an economic zone within the region (see Pempel, 2006, 2010; Ravenhill, 1995, 2010). The aspect of economic interdependence was an important aspect amongst regional countries, especially leading up to the Asian financial crisis. According to International Monetary Fund (IMF) statistics, intra-subregional trade share amongst ASEAN nations increased from 17.9% in 1980 to 24.0% in 1995, whilst intra-subregional trade shares amongst ASEAN+3 countries also grew from 30.2% to 37.6% in 1995 (quoted in Kawai and Wignaraja, 2008: 24). In the case of FDI, intra-regional FDI within ASEAN peaked in

1996 which accounted for 16.4% of the total FDI inflows (ASEAN, 2011b: 8), and continued to project an upward trajectory between 2002-2016 (2016: account for almost 25% of total FDI flows) (ASEAN, 2017b: 23).

The occurrence of the Asian financial crisis as well as the launching of various region-wide policy initiatives (i.e. CMI, ABMI) suggest that ASEAN+3 governments have come together to articulate cooperative policies in order to solve common problems. The Asian crisis exposed certain problems of how Asian governments have managed their economies. These include a quasi-fixed exchange rate regime to the US dollar, and how private enterprises raise and utilised their corporate finance. Notably although the latter aspect marks the difference between the Asian crisis (i.e. private sector indebtedness) and the Latin American crisis in the 1980s (i.e. public indebtedness), many observers have attributed one of the underlying causes of the Asian crisis to the mismanagement of capital market deregulation (see Higgott, 1998: 334-335). These actions gave rise to the currency and maturity 'double mis-match' (Katada, 2001). Evidently in the case of the Asian crisis, regional governments have recognised that the negativities of international capital mobility as their 'common threat'. What about the supply side factor of this equation? Given there is clearly a 'problem' to be solved (i.e. demand-side factor), Asian governments have also responded by articulating policies to solve the issue of currency mismatch with short-term liquidity support mechanism (the aspect of CMI will be discussed in detail in Chapter 4), as well as the maturity mismatch problem with the ABMI proposal (this will be discussed more in Chapter 6).

Returning to the original point, although there seems to be some disagreements between neo-realist and neo-liberal institutionalist theorists on why states cooperate, one should not inflate their divergence. In fact, most neo-liberal institutionalist theorists acknowledge that power rivalry between Japan and China is one of the hurdles to overcome for regional integration to advance (see Katada, 2002b: 87; 2008: 400; 2014; Beeson and Yoshimatsu, 2007). Others have also recognised that the competition between the two regional governments have advanced regional integration insofar as making ASEAN the main actor stirring the process (Ravenhill, 2010: 200; Emmers and Ravenhill, 2011: 145-146).

3. Constructivist Theories: Identity and Intersubjectivity

Constructivist approaches to regional cooperation and integration is at their very core different from neo-liberal institutionalist and neo-realist theories. Unlike both neo-realist and neo-liberal institutionalist theories, constructivist theories do not share the same ontological perception that state actors are rational egoists with the fixed preference of maximising their own utilities (Acharya, 1999). On the contrary, they argue that the interests of actors are formed and changed intersubjectively (Acharya, 1999). In other words, the interests of actors are formed endogenously rather than exogenously to interactions (Wendt, 1994).

How do constructivist theories approach the question of why states cooperate? Notably there are various constructivists approaches working on this enquiry. Here I focus on the work of Alexander Wendt given it maintains a middle ground perception on state interest and actions (i.e. does not exclude rationality) compared to those working in the post-modernest tradition (see Dunn, 2009). For Wendt (1994), collective interest and self-interest of actors are generated based upon the 'identification' of actors *per se*. From his perspective, the boundaries of self-interest may encompass the interests of other, when the actor views or identifies others as an extension of 'self' (Wendt, 1994: 386). Hence under such 'positive identification', actors will view the welfare of others as an extension of their own. This can be material matters but also beyond it (e.g. a sense of loyalty, solidarity and community). By the same token, there is also 'negative identification' in which actors view others as anathema to themselves, making them behave as rational egoist and view welfare in relative manners (i.e. neo-realist). Based on the factors mentioned, Wendt's concept of "identification" is a continuum with positive identification on one extreme, and negative identification on the other. Accordingly, just as it is likely to induce cooperative international systems, it is equally possible to create conflictual international system (Wendt, 1995). In fact this is an aspect that can be appreciated by neo-realist theorists (see Grimes, 2009).

Applying Wendt's identification continuum into the investigation of Asian regional integration, there are arguably two main threads of constructivists approaches. The first thread of constructivists approach will be indicated as 'identity-driven' constructivism. The second thread of constructivist approach is referred to here as 'socialisation-driven' constructivism.

i. Identity-driven Constructivism in Asia

For the identity-driven argument, I focus on the works of Amitav Acharya. Acharya espouses Wendt's conceptualisation on forming a common identity, and how this forms the foundation for states to engage in regional cooperation. Yet, Acharya's arguments differ from Wendt's insofar as he lays more emphasis on the institutional context (i.e. boundary) rather than social interactions.

Similar to the account of Wendt on the rhetorical practices in iterated interactions, Acharya illustrates how varying ideas about Asia and Asian identity have been proposed, challenged, and remain to be contested in the current era. The five main contested ideas that has shaped the Asian regional integration process proposed by Acharya (2010) include *imperialist Asia* (i.e. hegemon purpose of great powers mirrored in the actions of the West and Japan), *universalist Asia* (i.e. society-driven with the belief of common bond of spiritualism), *nationalist Asia* (i.e. common colonial historical experience and aimed at state-building), *regionalist Asia* (i.e. regional projects based on the idea of interdependence), and *exceptionalist Asia* (i.e. common experience of economic growth and ideas of economic management).

Each of these ideas have their respective problems in becoming the collective institutional context of Asian regional integration. For instance, if Asian countries were to commit to the idea of *nationalist Asia*, this creates two challenges for formidable regional integration projects. The first challenge is associated with the idea *per se.* Given the idea prioritise national sovereignty, this makes it difficult for any form of legalised supranational institutional framework. As for the second challenge, if Asian countries were to rely on the basis of shared experience and understanding, this will inevitably leave Japan and Thailand out of the regional integration project due to both countries having no experience of Western colonialism. Moreover, the historical legacy of Imperial Japan in Asia creates another hurdle for Japan to be included in this integration project (see also Beeson and Yoshimatsu, 2007). Another instance is if Asian countries were to form a collective identity based on a common belief (i.e. *universalists Asia*), this begs the question on which country's religion or cultural traits should be followed. As a matter of fact, even the very idea of Pan-Asianism has different variants such as in India (e.g. Rabindranath Tagore), China (e.g. Sun Yat-sen,

Liang Qi-chao), and Japan (e.g. Odera Kenkichi)(see Milner and Johnson, 1997; Dura, 2001; He, 2004: 108-109).

Focusing on the case of ASEAN, Acharya demonstrates how Southeast Asian countries created a shared identity through the process of a 'collective social imagination' which allowed states to move beyond the idea of *nationalists Asia* to accepting the concept of *regionalist Asia* (see 2000, 2004a, 2006, 2010). Notably, the shared understanding that formed the basis for the collective identity is based on respecting 'diversity' rather than sharing 'commonality' (Acharya, 2006). In addition, Acharya also demonstrates how ASEAN has developed and evolved. In his 2004 work, he expands on how the institutional norm of consensus decision-making and the aspect of non-interference (i.e. ASEAN way) has also adapted to the influence of external/ international via 'norm diffusion' (Acharya, 2004b). This process depicts how regional leaders 'localise' international norms (e.g. common security) by embedding it into existing local beliefs or principles to serve their own state interests (Acharya, 2004b). Consequently the process has sustained and enhanced the function of the ASEAN framework (for a contrary view see Aggarwal and Chow, 2010; Ravenhill, 2010).

Once again, for identity-driven constructivism the boundaries of regional groupings are crucial to the forming of a common identity because they define the institutional context. Hence the significance of the Asian crisis in fostering Asian financial regionalism is that it created a political space which altered the path dependance of ASEAN as an enclosed regional organisation limited to Southeast Asian countries. Notably, it allowed Northeast Asian countries (i.e. Japan, China, and South Korea) to be included in the ASEAN framework (see Calder and Ye, 2010).

ii. Socialisation-driven Constructivism in Asia

For socialisation-driven constructivists, they share the same emphasis as Wendt and argue that the reason why states arrive at the decision to engage in regional cooperation is because iterated interactions amongst these actors enabled 'positive identification' (see also Rajah, 1999). Unlike identity-driven constructivism (e.g. Acharya, 2006), socialisation-driven constructivism argue that Asian regional integration will remain 'open' due to the existing security arrangements and Japan's 'global scope interdependence' (See Katzenstein, 2000: 365). For instance, numerous

works on Asia's integration process have demonstrated how the US government's diverging foreign policies toward Europe (i.e. multilateralism) and Asia (i.e. bilateralism) after the Second World War have shaped the trajectory of the two regions (Hemmer and Katzenstein, 2002; He, 2004; Beeson, 2005b). Different from realist theories that approach this diverging strategies from a geopolitical standpoint, the work of Hemmer and Katzenstein (2002) demonstrates that it was the diverging perceptions of US policymakers toward their European (i.e. equal status with similar values) and Southeast Asian counterparts (i.e. alien, inferior) that contributed to the policy decision. Combining this historical context which provided Asian countries with no experience of multilateral cooperation with the heterogeneity amongst Asian states (e.g. culture, language, ethnic, religion, economic disparity), this has inhibited the formation of a collective Asian identity (Katzenstein, 1997; Hemmer and Katzenstein, 2002: 599).

Hence scholars working in this thread of thought have focused on how the increased exchanges amongst state and non-state actors have shaped the Asian regional integration developments. For instance, the work of David Capie (2010) assesses the engagement of academics, journalists, civilians, and officials in 'track-two' diplomacy at regional platforms, such as think thanks (e.g. ASEAN-Institutes of Strategic and International Studies) and study groups, have influenced the development of Asian regionalism. Peter Katzenstein (1996) and Glenn Hook (1996a) both identified the role of the Pacific Economic Cooperation Council (PECC) in providing the avenue for different interest groups to exchange opinions and eventually contributed to the creation of APEC.

In addition to investigating how myriads of state and non-state actors have contributed to the formation of regional regimes for routined governmental exchanges via different channels, some scholars have also focused on how increased economic interdependence amongst non-state actors, as well as different regional platforms have shaped the Asian region. For instance with regard to the exchanges of non-state actors, Katzenstein (1997) has illustrated how Japanese FDIs in East and Southeast Asia have shaped the corporate identity and business practices of their local subsidiaries (see also Donner, 1997), whilst Chinese FDIs and overseas Chinese community have fostered a diverging type of corporate culture. With regard to the endeavours of actors from different array of regional platforms to Asia regional integration, it is demonstrated by Yoshikuni Shinichi (2011: 7) that the idea to create an Asian Bond Fund (ABF) to

supplement the ABMI was first proposed and discussed between the Hong Kong Monetary Affairs Office and Bank for International Settlements (BIS) Asian office before proposed to the Executives' Meeting of East Asia Pacific Central Banks (EMEAP). The proposal eventually materialised after Asian Development Bank (ADB) successfully coordinated the efforts of the ASEAN+3 and EMEAP in 2003 (see Dent, 2008). Another example is demonstrated in the work of Rethel (2014) where she illustrates how the APEC Business Advisory Council (ABAC) has promoted the development of Asian bond markets via joint conferences with second track regional organisations (e.g. PECC).

From the aforementioned, it is evident that although the two different types of constructivist theories approach regional integration with varying emphases, the two lines of constructivism both agree that interests of actors are formed intersubjectively via iterated interactions amongst different state and non-state actors in diverse settings. Subsequently, these ideas have shaped the interests of these actors and contributed to why they engage in regional cooperation.

III. The Purpose and Advantages of Conducting Unit-level Analysis via Adopting a Historical Institutionalist Approach

Robert Cox famously argued that 'theory is always for someone and for some purpose' and that 'all theories have a perspective [deriving] from a position in [specific social and political] time and space' (Cox, 1981: 128). Following this perspective, I have adopted a historical institutionalist approach to investigate Japan's engagement in Asian financial regionalism from 1997 to 2017. The decision to adopt a historical institutionalist approach and conduct unit-level analysis is because it allows one to move beyond the main research question investigated by the three previously discussed theoretical approaches (i.e. *why* states cooperate and engage in Asian financial regionalism), and tackle a different set of research enquiries by challenging the conventional perception that the state is a cohesive entity. These research enquiries include: 1) to what extent have meso- and micro-level actors in Japan engaged in Asian financial regionalism?; 2) do these actors share similar policy preferences to these regional financial cooperation policies?; 3) if meso and micro-level actors have different policy preferences, what are the factors that determine policy outcomes?; 4) is there any consistency in strategies adopted by the Japanese government?

I argue that historical institutionalism has three considerable strengths that makes it the pertinent analytical framework to investigate Japan's engagement in Asian financial regionalism. The first is the approach's treatment of history. The second strength is that the approach allows the thesis to evaluate additional domestic variables such as the interactions amongst state actors and amongst non-state actors which were previous overlooked. The final strength is that the approach takes into account both rationality and cognitive factors when explaining change and continuity.

1. Treatment of History

The first strength of historical institutionalism is directed to the approach's emphasis on historical developments that have potentially influenced the perceptions of actors, shaped their interests, and eventually engendered certain political and social outcomes. As noted by Pierson and Skocpol (2002: 698), 'historical institutionalists take history seriously' in the manner that they do not merely evaluate 'instances in the past', but the 'processes over time'. Accordingly, this entails analyses of 'multiple effects of institutions and processes rather than just one institution and/or process at a time'(Pierson and Skocpol, 2002: 696). Perceiving history as interconnected events is especially important in this case study. This is due to by evaluating history developments in a larger time continuum, it allows one to assess the longevity of certain policy stances. This is at variance with rationalist premised theories (i.e. neo-realist and neo-liberal institutionalist) in which they treat historical events as specific instances/incidents. For instance, when debating on Japan's proposal of the ASEAN+6/ EAS concept, Terada (2010) demonstrated how the different preferences of the Ministry of Economy, Trade, and Industry (METI) and the Ministry of Foreign Affairs (MOFA) toward regional integration projects (i.e. ASEAN+3 and ASEAN+6) converged in face of the structural change of the rise of China (see also Terada and Ong, 2011).

Nevertheless if one were to consider the longevity of the Japanese government's approach to Asian regionalism, it provides another narrative that has been overlooked. For instance, if one evaluates Japan's attempt for regional cooperation from a historical perspective, regional regimes (e.g. Pacific Basin Economic Council (1967), Pacific Trade and Development Conference (1968), PECC (1980), APEC (1989)), or ideas Pacific Free Trade Area (1967), all included countries such as Australia, New Zealand,

and the US (see Katzenstein, 1997; 2000). In addition, influential opinions leaders in Japan such as Funabashi Yoichi has also proposed similar perceptions that correspond to the idea of 'open regionalism' which does not exclude the participation of the US (Funabashi, 1993). This opens up the debate on whether the deviation of Japan's policy should be directed to the ASEAN+3 framework rather than the ASEAN+6/EAS framework. Other instances of assessing 'instances in the past' rather than 'processes over time' include the effects of the Asian financial crisis and 2008 Lehman Shock (e.g. Higgott, 1998; Acharya, 1999; Hughes, 1999; Breslin and Higgott, 2000; Dieter, 2000; Noble and Ravenhill, 2000; Katada, 2002b; Dieter and Higgott, 2003; Lipscy, 2003; Katada, 2008; Grimes, 2009; Pempel, 2010; Grimes, 2011; Terada, 2014) and more recently the comparison of the outcomes of the two crises (e.g. Emmers and Ravenhill, 2011; Pempel, 2014).

2. Unveiling the Meso-level Interactions of State Actors and Micro-level Dynamics of Non-state Actors

The second strength of adopting a historical institutionalist approach to conduct this research is it entails the investigation of meso- and micro-level dynamics. This enables the research to contribute to existing academic scholarship on Asian financial regionalism by means of unveiling domestic narratives that enable better assessment of the variables and assumptions put forward by existing systemic theoretical frameworks.

For instance, one of the most recent and comprehensive work on Japan's engagement in Asian financial regionalism following the neo-realist rationale is William Grimes's 2009 monograph (*Currency and Contest in East Asia*). In his investigation, Grimes puts forward the central argument that power rivalry amongst the US, Japan and China shapes, and will continue to shape, how financial regionalism progress in the region. On the basis of this, Grimes puts forward the following propositions concerning state behaviours and why Japan has been a keen promoter of Asian financial regionalism:

(1) Actions of great powers (governments) of financial regionalism is best understood as hedging, leverage, and commitment;

(2) Japan's promotion of the CMI is considered as hedging against the US dollar in avoiding its monetary dependence on the US government and the IMF as lender of last resort (see also Grimes, 2003);
(3) one aspect of Japan's interest in developing bond markets (and other financial market developments) in Asia is aimed at forcing China's commitment to liberal financial order (in face of China's rise);
(4) the other aspect of Japan's interest in developing Asian bond market is to position its financial firms in an advantageous position for new investment opportunities and position Tokyo as the major financial centre.

In addition to the work of Grimes (2009), other scholars working in the realist tradition also identified a number of arguments. As follows:

(5) the prospects of the ASEAN+3 cooperation heavily hinges on the either Japan or China can provide undisputed and effective regional leadership (Webber, 2001: 365);
(6) the CMI as a case of multilateral regional cooperation is an anomaly (especially with regard to the Sino-Japanese rivalry relation), and its relevance it questionable given its ineffectiveness in size compared to the aggregated foreign exchange reserves of respective countries (Webber, 2010; Grimes, 2009);
(7) Japan's change of foreign policy orientation from bilateral-based cooperation to multilateral-based cooperation is a respond to the structural change of China's rise after 2009. This is mirrored in the competition between the two countries in their financial contribution to the CMIM (i.e. US$ 38.4 billion), and the yen-renminbi currency competition in trade settlements via bilateral swap agreements (Terada, 2014; Grimes, 2015).

One can identify the common assumptions and rationale from their conceptualisations of Japan's active promotion of regional financial regionalism, which are: 1) the Japanese government is a unitary actor thus is able to effectively conduct economic/financial statecraft for the purpose of survival; and 2) Japan's foreign policy choices (behaviours) in regional financial cooperation policy is relational and hinged upon the actions of other actors (i.e. China and the US) or change in power status

amongst them. These arguments have contributed to our understanding of Asian financial regionalism insofar as the interaction between states (i.e. macro-level dynamics). Nevertheless they do not take into consideration of the meso and micro-level dynamics that may have potentially affected the ability of the state to act as a unitary actor and subsequently shape its foreign policy decisions in Asian financial regionalism.

Referring to the case of Japan, it is important to point out that state actors that are engaged in regional financial cooperation policymaking include both the MOF and the Bank of Japan (BOJ). The fact that the making of Japan's regional financial cooperation policies involves more than one actor begs the question which organisation's policies eventually become Japan's official policy stance. This is particularly important because shortly prior to the occurrence of the Asian financial crisis, Japan's newly incumbent Prime Minister Hashimoto Ryutaro[5] initiated a series of political reforms at the meso-level. The most important reform that the doctoral thesis is concerned of is the BOJ obtaining its *de jure* central bank independence status in 1998 (a detailed discussion of this meso-level dynamics will be presented in Chapter 3) and the micro-level dynamics of 'financial big bang' (see Chapter 5). Domestic factors like the aforementioned variables are important factors that shape state behaviours, but the ontological belief of neo-realists that states are main actors in the international system limits the consideration of these factors. For this reason, adopting a historical institutionalist approach will contribute to the existing literature on Asian financial regionalism in unveiling the meso-level dynamics with the case study of Japan.

Sharing the same statist approach to conceptualising the development of Asian financial regionalism (Breslin, 2010), scholars working in neo-liberal institutionalist tradition also leave out important discussions at both meso- and micro-levels. Neo-liberal scholars conducting systemic analysis on Asian financial regionalism tend to focus on sequencing the integration process. For instance, after the Asian crisis, the works of Dieter (2000), Dieter and Higgott (2003) put forward four varying stages which East Asian financial integration could progress: 1) regional liquidity fund; 2) regional monetary system; 3) economic and monetary union; 4) political union. In the

[5] Prime Minister Hashimoto Ryutaro took office in 11 January 1996.

similar vein, these stages often require certain conditions to be fulfilled. For instance for successful establishment of regional liquidity fund will require participating countries to have sufficient foreign exchange reserves, whilst proceeding to a regional monetary system will require intensification of cooperation amongst monetary authorities (see Dieter, 2000: 16-17). The aim of these works is to demonstrate that the East Asian region is approaching a different path of regional economic integration (i.e. monetary first) opposed to the EU experience (i.e. trade first) (Dieter, 2000; Dieter and Higgott, 2003). Yet by means of conceptualising Asian financial regionalism via this method, it inevitably entails the discussion on sequencing and what constitutes as regional integration[6].

Although neo-liberal institutionalist theorists that conduct unit-level analysis do elaborate on factors at the domestic level, they are concerned with policies that evoke unequal distributional effects (Grime, 2009: 31). Hence, this thread of theorists tend to focus on incidents (e.g. points) rather than the process leading to the incident (e.g. line). For instance when debating on why the Asian Monetary Fund (AMF) concept failed to materialised, Katada pointed out that there were strong domestic oppositions from different corporations (i.e. manufacturing sector and trading companies) (Katada, 2001; Katada, 2002b: 95). In addition, the recent work of Katada and Solís (2010) provided two additional variables to describe why foreign economic policies exhibit certain sectoral interests. According to their work (Katada and Solís, 2010) in order for governments to supply the necessary policies, two components must be in place: loss avoidance and demand coherence. Based on this analysis the AMF proposal failed not only because of domestic opposition, but also due the unsuccessful lobbying of the banking sector after the lost of their coordinator (i.e. Bank of Tokyo). The strength of these analyses is that they reveal the domestic dynamics (i.e. identify different sectoral interests) that may impose influences in the policymaking process. Yet, they do not shed light on the meso- and micro-level dynamics that contributed to the relative power positions of these different sectoral actors. Notably in addition to the change of institutional arrangement between the MOF and the BOJ at the meso-level, Prime Minister Hashimoto's 'financial big bang' reform was part of the capital account deregulation process that had already started in the early 1970s. The altered working

[6] Many scholars have identified problems of comparing the EU integration process with the development of Asian monetary regionalism (see Katzenstein, 1997; Acharya, 2009, Breslin, 2010).

and cooperative relations amongst *keiretsu* group members in this micro-level process have political implications for the perception of micro- level actors toward regional financial cooperation initiatives (this will be discussed in Chapter 5).

This is by no means refuting the significance of these debates either from neo-realist or neo-liberal institutionalist perspectives. Instead, my proposition is that adopting the historical institutionalist approach with the case study of Japan will allow me to assess how these meso- and micro-level dynamics have shaped policy outcomes. Hence, this will allow the thesis to investigate the three research questions proposed in Chapter 1.

3. The Analytical Framework of Historical Institutionalism in Explaining Change and Continuity

The final advantage of adopting a historical institutionalist approach in this research is that it provides the analytical framework to explain the interactions amongst different actors within Japan at the meso and micro-levels — the central component of this thesis. Moreover the analytical framework of explaining 'change' and 'continuity' is achieved without falling into the dichotomy between positivism and constructivism (Hall and Taylor, 1996). Notably there are two lines of historical institutionalism (i.e. old and new) and they each offer their respective analytical framework for explaining change and continuity. In this thesis, I adopt the so-called 'new' historical institutionalist approach to study the institutional arrangements that have shaped the policy decisions for Japan's active engagement in Asian financial regionalism. Nevertheless, it is essential to discuss the differences between the two approaches.

i. The 'Old' Historical Institutionalism

What distinguishes the 'old' historical institutionalism and the 'new' historical institutional approach is how change occurs. The first type of historical institutionalism expects change to occur from exogenous shocks. As noted by Krasner (1984), these shocks are considered as founding moments that 'punctured' the equilibrium amongst different agents within the institutional arrangement. In these important 'critical junctures', agents within institutional arrangements are exposed to uneven distributional of power in which power-privilege actors obtain the veto power to oppose any potential change initiated by other actors in the same institutional setting (Knight,

1992). It is difficult to depart from the 'path dependence' trajectory due to two reasons. The first reason is the costs entailed in changing the institutional arrangement. As North pointed out in his works (1990; 1994b), institutional arrangements shape the political behaviour and interactions of their agents insofar as their structures determines how actors calculate their optimal solution in these given institutional settings (e.g. prisoners dilemma). For instance, if a given institutional setting privileges 'piracy, then [actors] will invest in knowledge and skills that will make them better pirates' rather than change the institutional setting *per se* (North, 1994b: 4). Differing from rational choice institutionalism in which assign a functionalist logic (i.e. reduction of transaction costs) to explain why actors support certain institutional settings, the rationality of why actors maintain the existing institution rather than choose to displace it is due to the entailed costs to do so. As North (1994b) pointed out, change only occurs when the actor calculates that the costs derived from re-contracting within the existing institutional framework is higher, compared to the costs to altering the institutional framework (similar view by Krasner, 1984).

The second reason is that the uneven distribution of power in an institutional arrangement tends to be magnified through time (Thelen, 1999). The disparity in power amongst different actors within a given institution bestows greater mobilisation capacity to power-privilege actors vis-à-vis power-deficit actors (Ikenberry, 1994: 20; Immergut, 1998:20). Furthermore, power-privileged actors can enhance their veto status by a process of 'positive feedback/increasing return'. This process depicts how power-privileged actors are able to respond to the feedback through the process of policy-learning (Campbell, 2004: 26; Pierson, 1993; 2000). Notably, through the feedback mechanism this will allow power-privilege actors to make continuous adjustments and foster their authorities. Subsequently, this reinforces the power asymmetry relations via changing the existing rule to increase leverage or block changes of rules that attempt to deprive them of their powers (Pierson, 2000: 259).

Positive feedback explains the continuity and stability of a given institutional arrangement in which long period of stasis is only disrupted by exogenous shock (i.e. normally crisis) (Krasner, 1984)[7]. Hence it is a fair account of Stephen Bell (2011) that this type of 'older-line' historical institutionalism focuses on conceptualising the 'stickiness' of 'path dependence' rather than on why institutional change takes place.

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[7] Whilst the article of Krasner (1984) maintains the importance of crisis to depart existing path dependence trajectories, North (1994b) and Pierson (1993; 2000) acknowledges that these founding moments can seem erupt and radical, but are evolutional in nature (see also Campbell (2004: 26) for this account).

ii. The 'New' historical Institutionalism

In contention with the old historical institutional approach the new historical institutional approach further identifies different types of changes that are triggered by agents, whilst external shock is merely one possibility (Thelen and Steinmo, 1992)[8].

A pertinent way to consider this divergence is how the factor of ideas is incorporated in the debate. For old historical institutionalism, the factor of ideas are either downplayed or considered as an additional variable that constrains actors. For instance, the work of North (1994a) argues that the underlying determinant of path dependence is not merely the self-reinforcing and reproduction of the institutional structure, but also the factor of the belief system. This belief system forms the informal constraints that define institutional frameworks and were passed down as customs, taboos, myths which provided cultural continuity (North, 1994a). These 'mental models' of actors produce ideologies that 'rationalise' the existing institutional matrix (North, 1994b: 7). Hence, change takes place when actors perceive that the belief system is inconsistent with the outcomes predicted by the belief system (North, 1994a: 386-386). Again, this is normally in exogenous crisis situation.

The limitation of this older-line of historical institutionalism is that although some scholars do attempt to incorporate the aspect of ideas in their analyses, they are less attentive to how the change of socio-economic and political context might allow ideas to reshape the power configuration and enable power-deficit actors to initiate change. The work of Hall (1992; 1993) on Britain's shift of policy paradigm from Keynesianism to monetarism during the 1970s to early 1980s provided a different analytical angle to view change. As demonstrated by Hall (1992), against the backdrop of the rising unemployment and inflation during 1971-72 as well as the first oil crisis in 1973, both the Heath cabinet (1970-1974) and the Wilson government's (1974-1976) expansionist fiscal and monetary policies to counteract economic recession were gradually challenged by a number of outside institutions, amongst all the City. With the support of the City backed by economists at several university and mass media, this altered the power disparity between the Treasury and the Thatcher government and allowed the latter to change the predominant Keynesianism upheld by the Treasury (Hall, 1992; 1993).

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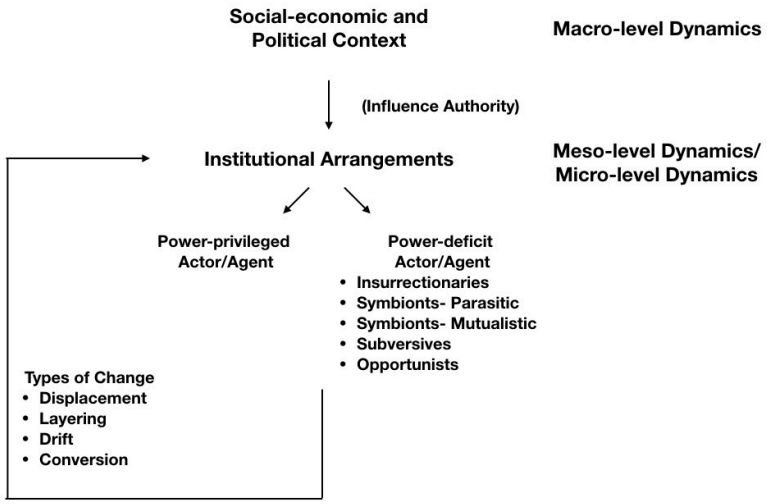
[8] The work of Bell (2011) is also sceptical about old historical insitutionalism's stance on exogenous structural changes, but also agrees that exogenous and endogenous changes are both possible.

What makes Hall's work prominent is that he demonstrated how power-deficit agents are able to mobilise outside institutions/actors to initiate change, by shifting the authority and legitimacy of a given policy against the backdrop of the broader socio-economic and political context (Béland, 2009). Similar to Hall, the work of Bell (2002) investigates how the broader socio-economic and political context of Australia's poor performance on controlling inflation in the 1970s to the 1980s allowed the idea of central bank independence and policy priority of low inflation to formulate. This eventually enabled the Reserve Bank of Australia to gain substantial monetary policymaking power in the 1990s. On the basis of this, it is evident that socio-economic and political context is important in investigating the interactions amongst agents within a given institutional arrangement (Thelen and Steinmo, 1992; Bell, 2011).

iii. The Gradual Institutional Change Theory

The final point I will discuss in this section is the analytical framework that depicts different types of interactions amongst agents in a given institutional arrangement with the consideration of the wider socio-economic and political context. The recent edited work of James Mahoney and Kathleen Thelen in 2010 posits a theory of gradual institutional change in which incorporates the four important elements of institutional change: 1) socio-economic and political context; 2) institutional context; 3) power status of agents and strategies; and finally 4) the types of change. As illustrated in Figure 2.1, socio-economic and political context will open up the political space for the authority of a given institutional arrangement to be challenged. The mediating power of institution arrangements come into play as the enabling and constraining effects will affect the type of strategies (i.e. displacement; layering, drift, and conversion) espoused by agents of change.

Figure 2.1. Process of Institutional Change



Source: Author articulated based on Mahoney and Thelen (2010)

According to Mahoney and Thelen (2010), there are four types of agents of change: 1) insurrectionaries; 2) symbionts-parasitic; 3) subversives; and 4) opportunists. What distinguishes these four variants of change-agents is the type of institutional change they pursue. For *insurrectionaries*, they pursue complete *displacement* of existing institutional arrangement. In the case of *symbionts*, there are notably two variants: parasitic and mutualistic. For both types of symbionts, they seek to preserve the institution rather than change it, albeit for different reasons. *Parasitic-symbionts* seek to preserve the institution arrangement because it allows these actors to exploit it for their own private gains. By contrast, *mutualistic-symbionts* become supporters of the existing institutional arrangement, and will mobilise support to enhance the robustness of the arrangement. Therefore although this variant of symbionts does exist, they are normally not associated with change. As for *subversives,* these types of agents also seek to *displace* existing institutional arrangements. Yet different from *insurrectionaries* that are vocal about their desire for change, *subversives* appear as supporters of the institutional setting only to wait for the moment to actively pursue their goals. Lastly, *opportunists* are actors that do not seek to preserve or displace institutional arrangements. Rather, their decisions hinge upon whether existing institutional arrangements are rewarding for them or vice versa. Hence *opportunists* differ from *mutualistic-symbionts* when supporting a given institutional setting insofar

as the former is based on calculus considerations, whereas the latter is based on actors' agreeing to the spirit of the institutional setting.

However, one must also consider the mediating effects of existing institutional arrangement. This includes two aspects. The first is the existence of power-privilege actors that hold veto power to block change. The second is the ambiguity of the institutional arrangement *per se*. The type of change and strategy adopted by change-agents will differ when confronting the varying types of institutional context. This is an important aspect to consider because if the institutional arrangement has many ambiguities, change can be manifested in different ways. For instance, *drift* is more likely to occur when there is strong veto-players underpinned by authority that support the existing institutional arrangement, yet high ambiguity in enforcement and rules for power-deficit players to manoeuvre. Under this circumstance, power-deficit players will not outright challenge power-privileged actors (i.e. *parasitic-symbionts*; *subversives*) but instead seek to preserve the institutional arrangement whilst changing the purpose of the institutional arrangement via intentional inaction.

On the other hand, *displacement* is more likely to take place when power-privileged players hold weak veto power (i.e unable to obtain authority) and there are less ambiguous rules for power-deficit agents (i.e. insurrectionaries) to manoeuvre. In this case, actions for change are more likely to surface rather than be submerged. Although the gradual institutional change theory is mainly applied to the dynamics of reforms at the state level (i.e. meso-level), the analytical framework can also be applied to investigate micro-level dynamics. For instance, if the socio-economic and political context enables the surge of neo-liberal ideologies of market economy, this may affect the type of policy paradigm governments' adopt, but also affect the authority of existing power-privilege actors at the micro-level to veto against power-deficit agents in triggering change (see Gotoh, 2019).

In addition to the interplay between socio-economic and political context, institutional arrangements, and agents contributing to institutional change, there are two concepts that are crucial to point out. The first is the 'unintended consequences' of institutional change. The second is 'coalition alignment'. With regard to unintended consequences, this indicates that the struggle for institutional change in one specific policy area may result in the losers of the competition becoming winners in another policy area (see Ikenberry, 1994; Mahoney and Thelen, 2010: 23). This may derive from the change of socio-economic and political context in which previously latent

institutions or policy areas suddenly become salient (Thelen and Steinmo, 1992: 16). Once again, this is an important concept and will be further discussed in the next chapter.

Finally with regard to coalition alignment, this depicts the strategy adopted by change-agents to increase their odds of inducing change. Notably different types of agents have varying availabilities to form coalitions with other actors. For instance, according to Mahoney and Thelen (2010: 29-31) *insurrectionaries* and *subversives* are not likely to form alliances with agents that defend the status quo (i.e. symbionts and opportunists), whereas *opportunist* can have cooperative relations with both institutional supporters and institutional challenges. In addition, although both *subversives* and *insurrectionaries* are challengers of existing institutional arrangements, the former is also unlikely to form coalitions with institutional supporters because they are not outspoken about their intentions to induce change. What is crucial to point out is that one should not misinterpret the collective actions of these agents of change to be for the same purposes. As identified by Mahoney and Thelen (2010: 30), the decision to support or challenge existing institutional arrangements for *opportunists* is normally predicated on which is more beneficial for them.

IV. Conclusion

The main purpose of this chapter is to demonstrate the advantages of conducting unit-level analysis via a historical institutionalist approach when investigating Japan's engagement in Asian financial regionalism. It was argued that there are three main reasons that underpin the proposition. The first reason is that conducting unit-level analysis allows one to take into account the specific political and economic dynamics that apply to the case of Japan. The second reason is that when conducting unit-level analysis, it allows one to consider the historical context unique to Japan. On the basis of this, one can evaluate how the change of institutional settings at both state and non-state levels may have potentially affected the rationality and ideas of actors/institutional settings, and influenced actors' behaviours (e.g. active or passive engagement in regional financial initiatives).

In the first section, I provided an overview of how three existing systemic theories (i.e. neo-realist, neo-liberal institutionalist, constructivist approaches) have conceptualised Asian financial regionalism via responding to two questions. The first

question is why states engage in regional cooperation. The second question is how they perceive the role of regimes. It was demonstrated that neo-realist theorists perceive regional cooperation as a tactic adopted by states for political survival under the international anarchy. Given states view cooperation from a relative gains perspective, power struggles is the most important variable that shapes states' actions. In the case of neo-liberal institutionalist, although the theory shares the same ontological perspective with neo-realists, the two theories differ in their perspective on how actors perceive the benefits of cooperation. Regimes are sustainable and allow cooperation to take place when these arrangements enable the reduction of costs for states via solving common problems. Consequently, neo-liberal institutionalist theorists that investigate Asian financial regionalism focus on conditions that allow states to cooperate, as well as how to ensure states are better off by solving collective action problems.

Finally, in the case of constructivist approaches, they argue that iterated interactions between states encourage more cooperation. This is because interactions allow states to develop common interest and identity. Two different types of constructivists approaches were discussed: identity-driven and socialisation-driven constructivisms. The two approaches differ in their respective emphases on institutional context. Whilst identity-driven constructivism focuses on the institutional context that allows the formation of common identity, and how this can sustain regional cooperation, socialisation-driven constructivism underscores how iterated interactions can change perceptions and foster cooperation through building mutual trust. Both of these constructivist approaches assign a positive role to regional regimes in facilitating cooperation.

In the second section, the discussion turns to the advantages of adopting a historical institutionalist approach to investigate Japan's engagement in Asian financial regionalism, and how this will allow the thesis to contribute to the existing scholarship. I identified three strengths of historical institutionalism. The first strength is the treatment of history. For historical institutionalist approaches, history is treated to be a series of inter-connected events. This differs from existing theoretical frameworks which treat history as separated and singular instances. The benefit of adopting a historical institutionalist approach is it allows the assessment of the longevity of policies when analysing the dynamics of Asian financial regionalism. The second strength of historical institutionalism is the approach's emphasis on interactive

dynamics in shaping policy outcomes. This enables one to unveil the meso-level dynamics amongst different state actors, and micro-level dynamics amongst varying non-state actors in the investigation. This is especially important considering the numerous changes in institutional arrangements in Japan leading up to the Asian crisis such as the meso-level dynamic of the BOJ gaining its central bank independence in 1998.

Finally, the third strength of historical institutionalism is that there are existing approaches that provide the analytical framework to assess the interactive dynamics amongst actors to explain change and continuity. Through the discussion of the divergence between old and new historical institutionalism, I explained the reasons to adopt the new line of historical institutionalism is due to it allows the research to better assess meso- and micro-level dynamics by evaluating the interplay of socio-economic and political context, institutional settings, and actions/strategy of agents. I elaborated on the theory of gradual institutional change proposed by James Mahoney and Kathleen Thelen and it serves as the template for the thesis's investigation.

In the next chapter, I will discuss the evolution of Japan's financial policymaking and corporate finance and governance structure. The focus will be on introducing the main stakeholders in this policy area, and their relative power statuses leading up to the Asian financial crisis.

Chapter Three. The Evolution of Japan's Financial Policymaking and Corporate Finance and Governance Structure

I. Introduction

In this chapter, I discuss the evolution of Japan's financial policymaking and corporate finance and governance structure. The purpose of this chapter is to identify the historical processes that created the uneven power distribution relations amongst important stakeholders in Asian financial regionalism leading up to the Asian financial crisis. I approach this by evaluating the historical developments that affected the power relations amongst meso-level actors: 1) Ministry of Finance (MOF); 2) the Bank of Japan (BOJ); and 3) the Liberal Democratic Party (LDP). At the micro-level, I assess the so-called 'main-bank' system. The main-bank system depicts the business relations amongst different corporations with one commercial bank playing the substantial role of provision of bank credits for their investment needs (Patrick, 1997). The business relations between corporations and their main-banks were built upon the institutional arrangement of a compartmentalised financial system. Important micro-level actors in this discussion include: 1) commercial banks; 2) manufacturing corporations; 3) general trading firms; 4) securities firms.

The main proposition put forward in this chapter is that important changes at both meso and micro-levels unfolded from the 1970s and created an uneven distribution of power amongst these actors. These changes occurred both endogenously and exogenously. In the case of the institutional arrangement at the meso-level, the change of dyad relationship between the LDP and the MOF occurred endogenously due to the institutional constraints of the Ministry in its personnel recruitment and rotation systems. However, the confrontation between the two meso-level actors only surfaced when the MOF decided to cooperate with the Hosokawa Cabinet after LDP's one party dominance ended in 1993 (Brown, 1999; Hori, 2005). Yet given the eroding capacity of the MOF, they were not able to effectively veto against the change from bureaucracy-led to politician-led policymaking institutional arrangement. The change of relationship between the MOF and the LDP indirectly affected the MOF-BOJ dyadic relation. These meso-level dynamics created an uneven power distribution of power amongst the three

actors, which has significant implications on Japan's involvement in Asian financial regionalism.

In the case of the micro-level institutional arrangement, the main-bank system was challenged when the government began undertaking the capital account liberalisation process in the 1970s. The exogenous change made commercial/city banks lost their corporate clients, which they shared long-term working relationships. Moreover, the 1985 Plaza Accord was another exogenous shock to the existing working relationship. These exogenous shocks changed how these micro-level actors pursue their economic interests. Displacing the interdependent working relationship amongst commercial banks, general trading firms, and manufacturing firms is individualistic pursue of profit-maximising transactions.

This chapter is arranged into two sections. The first section focuses on meso-level dynamics encompassing the LDP-MOF dyadic relationship, and the MOF-BOJ dyadic relationship. This section is separated into four sub-sections: the first providing an overview of Japan's policymaking model; in turn, illustrating the institutional arrangements amongst the three state/quasi-state actors during the high growth era (1953-1973); followed with the debate on endogenous changes in the 1970s to the 1990s; and finally the political implications for regional financial cooperation policymaking. In the second section, I turn to the discussion on micro-level dynamics. I will approach this by first, illustrating the cooperative relations amongst general trading firms, manufacturing corporations, and commercial banks under the main-bank system. In turn, I discuss the exogenous changes that contributed to the change of main-bank system and the political implications of this change for regional financial cooperation initiatives.

II. The Meso-level Dynamics: The Ministry of Finance, The Bank of Japan, and The Liberal Democratic Party

In this section, the emphasis will be on the institutional arrangements amongst the three main state actors involved in Japan's financial policymaking, namely the MOF, the LDP, and the BOJ. However, before proceeding to the discussion on how institutional arrangements created the uneven power distribution amongst these meso-level actors, I provide an overview on Japan's policymaking model.

1. A Brief Overview of Japan's Policymaking Process: The Iron-triangle

It is almost a consensus that in the network relation of Japan's policymaking process, there are three main actors. These include: 1) LDP-politicians; 2) bureaucratic system; and 3) business actors (*zaikai*) (Hagström, 2000; Colignon and Usui, 2001; Sakakibara, 2003; Amyx, 2003; Dobson, 2005; Mulgan, 2013). These three actors make up the well-known 'iron-triangle' of Japan's policymaking.

The respective roles of these three actors in the policymaking process is illustrated in the work of Cargill and Sakamoto (2008). For instance, in the LDP-bureaucratic system dyadic relation the former would delegate the policymaking power to bureaucrats in exchange for favourable protection policies for their important constituencies (e.g. client industry, electoral support). For the bureaucracy, they would supply favourable policies to the LDP in exchange for policymaking power and less interference in personnel arrangements, including the assignment of retired officials to lucrative post-retirement positions, a process known as *amakudari* (Cargill and Sakamoto, 2008: 54). The work of Hori (2005) demonstrates the give-and-take between LDP politicians and MOF bureaucrats. The former would refrain from interfering in the personnel arrangements and/or challenging the budget power of the MOF in exchange for favourable allocation of excess funds from the previous fiscal year in order to distribute to its less competitive constituents (i.e. mainly agriculture sector). The latter will supply necessary information and expertise in different policy areas to LDP politicians in order to sustain its political power and the management of the economy.

As for the dyadic relation between the LDP-business actors, the cooperative relations is underpinned by organised business actors (e.g. Japan Business Federation, Japanese Bankers Association) making financial contributions to election campaigns (Hangström, 2000: 12). Finally, the cooperative relation between bureaucratic system and organised business actors is formed by the former providing guidelines to these business actors in support of their business transactions, whilst the latter providing *amakudari* positions in their companies as well as other non-governmental organisations (Colignon and Usui, 2001; Amyx, 2004). The cooperative relation is illustrated in Johnson's 1982 work on the role of the Ministry of International Trade and Industry (MITI) in guiding Japan's export industries on trade-related issues (Johnson, 1982).

Although the forgoing paragraph illustrates how the policymaking model of the iron-triangle operates, it does not detail the conditions that shape how actors interact in different time junctures and under varying socio-economic conditions. This potentially creates the misconception that the policymaking model *per se* is immune from tensions deriving from the power struggles amongst these actors. It also overlooks how changes in domestic institutional settings have shaped actors' interests and behaviours.

To avoid this, in the following sections I will focus on the MOF and the LDP's contestations over budgetary power, whilst underscore the confrontations between the MOF and the BOJ over monetary policymaking to unveil the interactive dynamics amongst these actors in policymaking processes. As will be shown, these different historical developments created 'unintended consequences' that eventually allowed the MOF to remain at the forefront of financial cooperation policymaking.

2. The Ministry of Finance at the Forefront: A Case of Exogenous Change

As discussed in the Chapter 2, there are two important components in historical institutionalism: 'critical junctures', and 'path dependence'. The two components explain why certain institutional arrangements are created (i.e. critical junctures), and why these institutional arrangements are sustained (i.e. path dependence) (Ikenberry, 1994, Hall and Taylor, 1996; Thelen, 1999; Capoccia and Kelemen, 2007: 350). Applying this analytical framework here, it is evident that the occupation period of Japan under the Supreme Command for the Allied Powers was a critical juncture that determined the institutional arrangements amongst the MOF, the BOJ and the LDP with the Ministry at the forefront in financial policymaking.

i. The Critical Juncture

As noted in the work of Mahoney (2001: 113), one of the key components that determines a critical juncture is when a particular option is adopted among many alternatives. Following this rationale, when observing the political endeavours of the General Headquarters' (GHQ), there were three important political decisions that shaped the institutional arrangements between politicians, the MOF, and the BOJ.

The first important aspect is the GHQ's modest reform imposed on the bureaucratic system, which gave rise to the uneven distribution of power relations amongst the three meso-level actors. According to Hori (2005) the entire bureaucratic

system only suffered a 0.9% reduction in personnels (see also Hartcher,, 1999: 3). This is in great contrast with the scale of the purge of 16.8% of politicians, as well as the dissolution of family conglomerate holding companies[9] (Miyashita and Russell, 1994; Ogura, 2002). Consequently, this gave the bureaucratic system as a whole an edge over politicians and private sector actors.

The second important factor is the GHQ's decision to maintain the budgetary and fiscal mandate within the Ministry (Savage, 2002). Given that budget compilation is closely linked with the spending programmes that politicians can offer to their constituencies, this made the Ministry obtain the upper-hand influence over politicians in policymaking (see Campbell, 1977; Brown, 1999; Hatcher, 1999). Yet, this decision was only finalised after the strong appeal of the Ministry, and its agreement to '[a]ccelerate and strengthen the programme of tax collection…', in the GHQ's *Nine-Point Stabilisation Programme* (see Savage, 2002: 270; Yoshioka and Kawasaki, 2016: 8). Accordingly, this made the MOF the power-privileged actor in the MOF-Politician dyadic relationship.

The MOF's power status was further enhanced when the GHQ decided to not reconfigure the BOJ's legal status. During the Second World War, the BOJ was mandated to support the Imperial government's war aggression on the basis of the *1942 Bank of Japan Act.* According to Article 1 of the *1942 Bank of Japan Act*, it stated that "the purpose of the Bank of Japan is to adequately enhance the general economic power via regulation of currency, control of finance, and maintain and fostering the credit system" (Bank of Japan, 1942). In addition, Article 2 also stated that "the Bank of Japan operates under the mission of fulfilling the nation's goal"[10] (Bank of Japan, 1942). The problem of the *1942 Bank of Japan Act* was that it did not clearly identify what constitute as 'nation's goal' (Cargil et al., 1997: 21; 2000). Consequently, the BOJ was placed entirely under the control of the MOF which created the disparity in power between the two state actors (see also Shizume, 2017).

The GHQ had the opportunity to impose more significant revisions to the *1942 Bank of Japan Act* but failed to do so. Instead, the GHQ only made marginal revisions

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[9] It is noteworthy that the GHQ's decision was based on pragmatic consideration. As argued in Sakakibara and Noguchi (1988), the minimum reorganisation of the bureaucratic system in the post-war Japan was mainly because the GHQ needed the Japanese bureaucracy to fulfil administrative mandates.

[10] Author's translation. For other translations, see Cargill *et al*., 1997: 21; 2000: 87.

to the 1942 Act in 1947, with the introduction of the Financial Law to limit the Bank's capacity to underwrite government bonds (see MOF, 2010a: 25). In 1949, the GHQ made another attempt to revise the 1942 Act by establishing the Policy Board as the decision-making body for the Bank. Yet the Policy Board did not exert any independent decision-making authority and rubber-stamped the decisions made by staffs and/or executive board of directors within the BOJ (Cargill *et al*, 2000: 89; Shizume, 2017:19). More importantly, the GHQ's 1949 attempt did not revise the infamous Articles 1 and 2 of the 1942 Act[11] (see Cargill *et al.* 1997: 22-23). These failed attempts enhanced the existing uneven power distribution between the MOF and the BOJ.

ii. Explaining Continuity: Positive Feedback

After denoting the GHQ's policy decisions which gave raise to the MOF's prominence in both budgetary power and monetary policymaking, I turn to the debate on why the arrangement sustained. I argue that the main reason for this continuity is the Ministry's successful management of the economy which granted it substantial policymaking authority. This discussion is related to the concept of 'positive feedback' or 'increasing returns' (see Chapter 2).

To reiterate, the concept of positive feedback denotes how organisations shape the interests of agents insofar as making them adapt and become supporters of the institutional arrangement (Pierson, 1993; Ikenberry, 1994; Thelen, 1999). From a rationalist point of view, this is because the cost of pursing an alternative arrangement is substantially higher than the utilities acquired in the existing arrangement. For instance, if an institutional framework deems that higher rates of return in the arrangement from technical innovation, agents and organisations will adapt to the framework by means of acquiring skills (e.g. education and curriculum design) that enable them to achieve the utmost of technical innovation (see North 1990, 1994b). As a consequence, a process of continuous institutional reproduction ensues which makes the institution's path dependency harder to reverse over time (Knight, 1992; Mahoney, 2001).

[11] The underlying reasons of why the GHQ decided to not thoroughly revise the 1942 Act is still debated. Nevertheless, the consensus amongst scholarly works such as shown in Cargill *et al*. (1997; 2000) and Savage (2000) is that the reform was not prioritised by the GHQ. Instead, the idea to separate the monetary mandate (i.e. BOJ) from the fiscal authority (i.e. MOF) was aimed at allowing the GHQ to effectively impose fiscal austerity measures via a contractional monetary policy to tackle Japan's post-war inflation (see Cargill *et al*., 1997: 23).

Yet, what is more important than the aspect of costs that creates an organisation's path dependency is the factor of authority. Thelen (1999: 385) pointed out that political disagreement and the disparities of power does not necessary make power-deficit actors within the institutional arrangement to disappear or embrace the institutional arrangement. Hence for any given institutional arrangement to sustain and exert power over its agents, it requires the arrangement to obtain authority (Pierson, 2000: 259). This is an important aspect that explains why the MOF was able to maintain its upper-hand influence in policymaking.

The policymaking authority of the Ministry largely derived from its successful management of the country's economy. Firstly, the Ministry's authority derived from its ability to maintain sound fiscal condition. For instance, from 1955 to 1975 there were only two occasions that forced the MOF to utilise deficit financing instruments (i.e. government bonds). This track record should be credited to the MOF officials, not only on their expertise in the budgetary process, but also their ability to counteract the pressure from the LDP (Brown, 1994). Secondly, the MOF's policymaking authority also derived from its substantial role in the so-called capitalist developmental state model. What is often overlooked when discussing the capitalist developmental state of Japan is the Ministry's role in allocating credits to strategic industries for economic growth and development (Wade, 1990; Johnson, 1982). Notably, these government spendings were negotiated between the MOF and other sectors of the bureaucratic system (including the MITI) in the budget compilation process, which the former had great leverage over important decision (see Campbell, 1977; Brown, 1999, Grimes, 2002; Wright, 2002).

Thirdly, the Ministry also gained authority by fulfilling its regulatory role in ensuring stable access of corporate finance for corporate borrowers (Patrick, 1997). These 'behind the scene' involvements of the MOF as the manager of national economy should not be under-stated when referring to Japan's economic success as the country sustained an average of 10.13% of real GDP growth from 1953 to 1973 (see Table 3.1). These economic achievements can all be regarded as positive feedback that fuelled the authority of the MOF, and sustained the institutional arrangement with the Ministry at the forefront.

Table 3.1. Japan's Economic Growth Rates (1953-1973)

Date	Nominal (%)	Real (%)
1953	12.6	5.7
1954	11.0	6.1
1955	10.1	9.1
1956	12.8	8.0
1957	13.9	8.0
1958	4.9	5.4
1959	12.2	9.2
1960	19.9	14.1
1961	23.4	15.6
1962	10.8	6.4
1963	15.4	10.6
1964	17.9	13.3
1965	10.5	4.6
1966	15.3	10.2
1967	18.3	13.5
1968	18.6	14.2
1969	16.7	12.1
1970	17.8	10.3
1971	11.7	6.8
1972	14.4	8.9
1973	24.1	10.5
Average	15.61	10.13

Source: MOF (2010: 211)

3. External and Internal Challenges

> "Now..its all over….We've lost our name…. They had already taken away our power. Its gone…But that they would also take away our name…"
>
> - A senior official of the Ministry of Finance (Werner, 2015: ix).

On the 1st January 2001, the Japanese name of the Ministry of Finance '*Okura-sho*' was replaced with '*Zaimu-sho*', whilst the English name remains unchanged. This change was more than merely losing its mandate on monetary policy to the newly independent Bank of Japan in 1998, and its regulatory power on banking supervision to the Financial Services Agency in 2000. Instead, it had a symbolic meaning (Werner, 2015: ix). What triggered this change during the time phase of 1970s to the 1990s? How has this affected the institutional arrangement of Japan's regional financial policymaking?

i. Explaining Change: A Case of Gradual Institutional Change

As denoted in Chapter 2, historical institutionalism identifies two types of changes: exogenous structure changes, and endogenous agent-driven changes. In this case, I argue that it was a process of endogenous agent-driven change. More importantly, the variable that contributed to this change is the factor of authority.

In terms of the dyad relation between the MOF and LDP, the actions of the LDP resembles what Mahoney and Thelen (2010) referred to as '*opportunists*'. According to their work, *opportunists* exploit existing institutional arrangements and are ambivalent toward whether to preserve or change the institutional arrangement. The decision normally rests upon whether the current arrangement allows them to achieve their goals. This indicates that for these actors, their preferences to sustain or revoke an institutional arrangement are more unstable.

The institutional arrangement with the MOF as the power-privileged actor was not as stable as many perceived. In fact, it was constantly challenged by politicians. For instance, Prime Minister Yoshida Shigeru's 1949 electoral campaign and eventual victory was based on his promise to cut sales and income taxes (Savage, 2002: 275). This was in contradiction to the fiscal and monetary policies (i.e. fiscal austerity and contractional monetary policies) proposed by the economic advisor Joseph Dodge

under the GHQ (MOF, 2010a). During this time period, the MOF was able to effectively fend off these challenges not only due to the support of Joseph Dodge, but also because it succeeded in tackling hyperinflation (see Sadahiro, 1991).

However, the turning point for the MOF-politicians dyadic relation was the formation of the LDP in 1955. The establishment of the LDP changed the balance of power between spenders (the LDP) and savers (the MOF) in two ways. The first change is the launching of the Party Affairs Research Council (PARC) which allowed different LDP factions (*zokus*) to enter the consensus-building process of the annual budget (see Campbell, 1977; Cargill and Sakamoto, 2008). This is compounded with the organisational practice of personnel rotation within the MOF, which further decreased the margin of expertise between LDP politicians and MOF bureaucrats (see Hori, 2005). Although the rotation of MOF career officials to different ministries (i.e. micro-budgeting) allowed the Ministry to seize insider information critical to the annual budgeting process (see also Grimes, 2002), the practice entails certain drawbacks (Brown, 1999). For instance, the constant and rapid rotation of career officials hinders the development of requisite expertise as each position requires entirely different sets of responsibility and knowledge (Brown, 1999). This is in stark contrast with the LDP's PARC members, which have incrementally increased their capacity on an annual basis. In addition, the MOF's prejudice against recruits that were not law graduates from Tokyo University, especially graduates from the Department of Economics[12], also decreased the influence of these individuals in the Ministry's decision-making processes (Hartcher, 1999). Both these factors contributed to the first change that allowed the LDP to enhance its influence in the budget compilation process.

The second change came from having many former MOF bureaucrats entering into politics by joining the LDP. The most distinctive example is when former Minister of Finance Ikeda Hayato became the Prime Minister in 1960. Ikeda had substantial influence over the budget compilation process. This was due to his personal charisma, and most importantly, because he had been a career stream official of the MOF and was the key figure that cooperated closely with Dodge when serving as the finance minister

[12]The investigation of Hartcher (1999) finds that economic graduates from the University of Tokyo are mostly treated secondary to law graduates in the Ministry given the diverging political ideology upheld by the two departments. The law department is considerably influenced by conservative (right-wing) ideologies, whereas the economics department has long been dominated by marxist ideologies (see Hartcher 1999).

in 1949 (see Savage, 2002). Accordingly, Ikeda was more informed about the budgetary process than other LDP politicians. This is demonstrated in his ability to initiate the 'income-doubling plan' and expand the budget by 24.4 % compared to the previous year's initial budget in 1961 (Campbell, 1977: 228). Another example is when the MOF's 'old boy', Mr. Fukuda Takeo, successfully revised the Financial Law in 1965. This became the first instance that Japan issued bonds for government deficits, and is widely regarded as a departure from the Dodge Line principle of maintaining a balanced budget (Sadahiro, 1991; Brown, 1999).

The question is why the MOF-LDP dyadic relationship sustained? Once again, *opportunists* are ambivalent toward preserving or displacing existing arrangement, and their decisions normally hinge upon whether existing arrangements are beneficial (see Chapter 2 for detailed discussion). The relationship between the MOF and the LDP gradually transformed into the iron-triangle model, which was mutually beneficial. The cooperative relation only altered after the LDP's one-party rule ended in 1993, and when the MOF's decided to cooperate with the Hosokawa cabinet in 1994. Widely seen by the LDP as the MOF's betrayal, the Party began to initiate numerous attacks on the MOF. For one, then-Vice Minister of Administrative Saito Jiro (1993-1995) was demanded to take early retirement from his position in 1995 due to his cooperation with Ozawa Ichiro and the Hosokawa government (see Hartcher,1999; Hori, 2005). Furthermore, Mr. Saito was only allocated an advisory position in the Institute of Fiscal and Monetary Policy[13] upon his early retirement, an institution managed by lower-ranking MOF bureaucrats (Brown,1999). Another example is the LDP's decision to merge the Export-Import Bank of Japan and the Overseas Economic Cooperation Fund in 1999[14] which decreased the *amakudari* positions available for ex/retired bureaucrats from the MOF (Hartcher, 1999). Most importantly after Prime Minister Hashimoto Ryutaro came into office in 1996, one of the key policy reforms was to deprive the MOF of its involvement in monetary policymaking.

In terms of the dyad relation between the MOF and the BOJ, the inaction of the BOJ since the 1970s corresponds to *insurrectionist* behaviours denoted by Mahoney

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[13] Institute of Fiscal and Monetary Policy (財政金融研究所) was established in 1985 under the MOF. The Institute changed its name to Policy Research institute (財務総合政策研究所) in 2000.

[14] EXIM Bank and Overseas Economic Cooperation Fund merged and became Japan Bank for International Cooperation in 1999 (JBIC, 2013).

and Thelen (2010). As mentioned in Chapter 2, *insurrectionists* are not content with the existing institutional arrangement and frequently seek total *displacement* of the arrangement. However given the institutional context for immediate displacement is limited, *insurrectionist* may also adjust their actions and settle for gradual displacement (Mahoney and Thelen, 2010).

As mentioned in the previous section, authority is imperative for the sustainability of a given institutional arrangement. In the case of the BOJ and its mandate in monetary policies, the Bank was able to leverage on being legally subordinated to the MOF, and shield off the criticisms on its policy failures. I refer to this as the 'uneven distribution of blame'. For instance, the work of Cargill *et al* (1997) demonstrates how reputation comes into play when attributing failures in monetary policies. The first and watershed moment was the 1973 wild inflation. As shown, after the establishment of the LDP, the MOF-LDP dyadic relation experienced a dialectical change. One notable case of this is Prime Minister Tanaka Kakuei's administrative theme to 'remodel the Japanese archipelago' which included large amounts of infrastructure programmes (i.e. high speed rail network for Shinkansen). Moreover given that Prime Minister Tanaka wanted a strong economy for fulfilling his administrative theme, this led to the insistence on a low discount rate policy to stir the economy. This was in contention with the BOJ's policy on tightening money supply (Cargill *et al.,*1997:65-66). The change of balance of power forced the MOF and the BOJ to concede and reduce the discount rate.

However with the outbreak of the first oil shock in 1973, this resulted in a substantial increase in Consumer Price Index (CPI) from 12% in 1973 to over 23% in 1974 (Cargill *et al.,* 1997: 35). The expansionary fiscal policy accompanied with the decrease in tax revenue made Japan suffered its first fiscal deficit in 1974, and thereafter began relying on deficit-financing vehicles to balance the general account deficit (Asako, et al., 1991; Brown, 1994). The policy mistake of the BOJ to concede and reduce discount rate was nevertheless mainly attributed to the LDP government's heavy hand in affecting monetary policy along with the MOF (Cargill *et al.,* 1997, 2000). Hence, the experience of the wild inflation allowed the BOJ to gain authority over maintaining price stability, albeit being legally subordinated to the MOF.

This led to the formation of the BOJ's organisational goal of 'maintaining price stability' and its 'money-focused monetary policy[15]' (see also Cargill *et al.,* 2000). The absence of inflation since 1975 and the successful response after the outbreak of the second oil crisis in 1979 (CPI 1979: 3.7%; CPI 1980: 7.7%) all increased the BOJ's authority as the inflation-fighter (Cargill *et al*., 1997, 2000). In fact, many have claimed that this created the *de facto* independence of the BOJ (Cargill *et al*., 1997, 2000; Heckel, 2014; Cargill, 2016).

The BOJ's increased authority whilst being legally subordinated to the MOF, allowed the Bank to undertake *insurrectionary* behaviours and avoided public scrutiny. For instance, it is almost a consensus that the BOJ's decision to conduct a series of reduction in the official discount rate from 5% to 4.5% on January 1986 to 2.5% on 23 February 1987 (see BOJ, n.d.b) created the asset price bubble in the late 1980s (Cargill *et al*., 1997; Grimes, 2002). However, many have also argued that the expansionary monetary policy was the outgrowth of the MOF's 'international coordination' efforts in 1985 (i.e. Plaza Accord) followed by the signing of the 1987 Louvre Accord on 22 February 1987 (see Cargill *et al*., 1997: 113-114: Grimes, 2002). Similar to the tactic used in the case of the wild inflation of 1974, the Bank was also able to leverage on this and allege that the stock market boom was caused by the wrong judgement in monetary policy and was imposed from the outside, mainly by the MOF (see Hamada and Okada, 2009: 211). Hence, this is a prominent case that demonstrates that the power asymmetry within the institutional arrangement does not always favour the power dominant/veto player.

Heckel (2014) rightfully points out the MOF was not capable to counteract with the BOJ's actions. Although the uneven power distribution promulgated in the 1942 Act allowed the Cabinet and the MOF to dismiss the BOJ Governor/Deputy Governor and its executive directors, the MOF will inevitably be heavily scrutinised by the general public for this policy (Heckel, 2014). Against the background of the BOJ's increased authority in maintaining price stability, this further deterred the MOF to undertake this strategy. The result of this uneven distribution of blames, coupled with the various

[15] The BOJ began announcing forecasts of money-supply growth (i.e. on M2 + CDs) in 1978. This was consider as a effective indicator to monitor inflation (Cargill *et al.,*1997)

scandals of the MOF[16], and its mismanagement of the *jusen* problem in 1995, all deteriorated the Ministry's authority as the manager of Japan's national economy. This readily provided the LDP the opportunity to present themselves as 'reformists' and shift the blame for Japan's poor economic performance to the MOF (see Dwyer, 2004; 2012: 181). After the Diet's approval of the totally revised Bank of Japan Act in June 1997, this ended the MOF's power privilege over the BOJ in monetary policymaking.

4. The Political Implications for Regional Financial Cooperation Policymaking

The pending question is how has these changes of institutional arrangements affected regional financial cooperation policymaking? I posit that power asymmetry within the new institutional setting alone cannot fully capture why after these historical developments, the MOF still remains at the forefront of regional financial policymaking. One must also consider the concept of 'unintended consequences' referred in Chapter 2. In brief, the aspect of 'unintended consequences' denotes that changes in a given institutional arrangement may result in changes in power distributions in another institutional setting that were not foreseen by policymakers (Ikenberry, 1994). Consequently, this may lead to a power shift in favour of previously power-deficit actors in the alternative institutional setting.

In the case of the MOF-LDP dyad, there are two reasons why the Ministry remains at the forefront of regional financial cooperation policymaking. The first reason is that although politicians have encroached the policymaking authority of the MOF, this does not indicate that the power asymmetry exists in international financial policymaking. As argued by Grimes (2001: 223), the disadvantage of politicians in macro-economic and exchange rate coordination during the 1985 Plaza Accord negotiations can be attributed to their lack of institutional ties with foreign actors vis-á-vis the MOF and the BOJ. This resulted in politicians' reliance on the bureaucratic system to formulate appropriate international financial policy responses. Moreover the margin of expertise in international finance between the two state actors may still exists if one compares the education backgrounds contemporary Vice Ministers of Finance for International Affairs and Prime Ministers. For instance, Dr Sakakibara Eisuke holds a PhD Degree in Economics from the University of Michigan and Mr Kuroda Haruhiko

[16] For instance the 1991 loss-compensation scandal, and 1995 indictment for Daiwa Bank's New York branch for unauthorised bond trading and not disclosing huge losses to American regulators.

received his Masters Degree in Economics at the University of Oxford, whereas the education backgrounds of Prime Ministers Hashimoto Ryutaro (1996-1998), Obuchi Keizo (1998-2000) and Mori Yoshiro (2000-2001) were in Japan on non-economic related subject areas. One notable instance is shown in the MOF's policy objective to internationalise the yen. As part of the Ministry's capital account deregulation policy in the late 1970s, internationalising the yen became the policy objective to manage exchange rate stability and trade friction with the US (Grimes, 2003). When the policy objective of yen's internationalisation was put forward in 1983 by the MOF (see MOF, 2010b: 111), this was not opposed by the Nakasone Cabinet. In fact yen's internationalisation became a highly prioritised policy goal under the Hashimoto Cabinet as part of the Prime Minister's attempt to transform Tokyo into an international financial centre. This policy objective later became the main policy goal of the MOF in Asian financial regionalism (this will be debated in Chapter 4)

The second reason is that drastic changes in foreign policy orientation *per se* is rare. In the case of regional financial cooperation policies with ASEAN, Japan's engagements follow the 1977 Fukuda Doctrine, which aimed at fostering 'heart-to-heart' relationships with Southeast Asian countries and develop equal partnerships (see Sudo, 1988; 2005; Gilson, 2004). Hence although there have been new foreign policy slogans put forward in the 2000s such as Koizumi's East Asian Community in 2002, Aso's 'Arc of Freedom and Prosperity' in 2006 (see Hosoya, 2011), and Hatoyam's East Asian Community, this has not deviated the country's engagement with ASEAN countries based on equal partnership (see Tang, 2013; Lam, 2013). These factors have contributed to the LDP's *inaction* on how the MOF engages in Asian financial regionalism which allowed the Ministry's prominence.

In terms of the MOF-BOJ dyadic relation, the unintended consequence pertinently captures the restrained role of the BOJ in regional financial policymaking after it gained *de jure* independence in 1998. As demonstrated previously, the legal framework of the 1942 BOJ Act places the Bank under the full control of the MOF, and allowed the Ministry to influence the Bank's decisions on monetary policies. This lead to the uneven distribution of blames with the bulk of these criticisms directed to the MOF in the aspect of monetary policy failures (e.g. fuelling the asset bubble). Hence when the totally revised BOJ Act was introduced and officially approved in June 1997, the legal framework was aimed at providing more clarity concerning the BOJ's main

mandates. For instance, Article 2 of the 1998 BOJ Act clearly states that the purpose of "the Bank of Japan shall be aimed at price stability, contributing to the sound development of the national economy" (BOJ, 1998). The Bank's goal of maintaining price stability is more defined and concrete compared to Article 2 of the 1942 Act which states 'the Bank of Japan operates under the mission of fulfilling the nation's goal'[17] (BOJ, 1942).

Although the 1998 Act clarified the BOJ's mandate on monetary policy, and made the Bank the power-privileged actor in this institutional arrangement[18], it also reduced its role in actively engaging in regional financial cooperation. For instance, according to Article 40, the Bank will have to "conduct the buying and selling [of foreign exchange] for the purpose which the Minister of Finance specifies as constituting cooperation in the field of international finance" (BOJ, 1998: 262). Moreover, Article 42 further stipulates that "the Bank of Japan may conduct the [transactions of substituting loan claims against foreign central banks held by the Bank for International Settlements and providing credit to foreign central banks or international institutions], including the provision of international financial assistance, at the request, or upon the approval, of the Minister of Finance" (BOJ, 1998: 263). These stipulated laws evidently discriminates the role of the BOJ in international financial cooperation. As will be shown in Chapters 4 and 6, this has shaped the Bank's 'active yet reticent' approach to Asian financial regionalism.

III. The Micro-level Dynamics: The Changes in Japan's Corporate Finance and Governance Structure

In this section, I turn to the discussion on the changes of Japan's corporate finance and governance structure. The significance of this debate is it allows readers to understand how perceptions of actors are shaped, and subsequently influenced their interests in the development of Asian financial regionalism.

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[17] For similar account and detailed comparison between the *1942 Bank of Japan Act* and *1998 Bank of Japan Act* see Cargill *et al.,* 2000: 98-100.

[18] Given the scope of this research is on the policy area of regional financial cooperation policies, I will not assess whether the institutional arrangement have bestowed the BOJ with greater autonomy in formulating monetary policies. For more debates on the relation between central bank independence and monetary policymaking of Japan, see Cargill et al., 2000; Heckel, 2014; Cargill, 2016.

1. The *Keiretsu* System in Postwar Japan

Main-bank system, or *keiretsu*, depicts a system which commercial(city) bank acts as the nexus of coordinating cross-industry businesses via provision of information, finance, and monitoring firm performances (Vogel, 2006). The formation of the *keiretsu* system can be attributed to two factors. The first factor is the macro-level dynamics that provided the conditions for *keiretsu* groups to foster. The second is the MOF's ability to leverage on the these macro-level conditions and design the institutional setting aimed at post-war recovery and economic growth.

First, it is important to take notice that the post-war epoch was predominantly an insulated international economy. On the monetary front, the Bretton Woods system prevented currency and reversal risks with the dollar fixed-exchange regime and the control on short-term capital investments (Frieden, 2006). Under Joseph Dodge, yen and dollar exchange rate was fixed at 360:1 in April 1949 and remained until the 1971 Nixon Shock. On the trade front, Japan was able to join the General Agreement on Tariffs and Trade in 1955 and gain full most favoured nations treatment with the support of the US (Walter, 1996).

Second, suppressing the development of stock and bond markets was the MOF's political decision. This allowed the MOF to effectively allocate credit, and channel them into strategic industries via commercial banks (Johnson, 1982; Okimoto and Rohlen, 1988). Against the backdrop of an insulated global economy, the Ministry did not have to concern the potential effects of cross-border capital transactions when making adjustments to interest rates. This was achieved with the *Temporary Money Rates Adjustment Law* which allowed the MOF to hold down the discount rate, and hence made it cheaper for the government to allocate financial resources to priority industries (see Sakakibara and Noguchi , 1988).

In addition to the MOF's preference for an indirect financial structure, the Ministry also established the institutional setting that segmented the financial system based on different business transactions. As summarised in Suzuki (1987), the MOF effectively segmented the financial system according to: 1) short-term and long-term financing (i.e. commercial banks, trust banks, and long-term credit banks); 2) financial vehicles (i.e. deposits for commercial banks, debentures for long-term credit banks, loan-trusts for trust banks, insurance for life/casualty insurance firms, and investment

trusts for securities firms)[19]. Accordingly, this allowed the MOF to foster a stable domestic economy, where competition is still encouraged but limited to the same industry (Brown, 1999). Evidently, the institutional design was based on exogenous forces of the state rather than a spontaneous development process.

How does the main-bank system function? More importantly, how did this institutional setting affect the relationships amongst different micro-level actors in the economy? I argue that the main-bank system created an interdependent and cooperative relationship amongst manufacturing firms, general trading companies, and commercial banks. On the other hand, securities firms were excluded and significantly suppressed in this institutional setting.

i. Close Working and Cooperative Relationships: Commercial Banks, Manufacturing Firms, and General Trading Firms

To begin with, according to Hoshi and Kashyap (2001), there were six main *keiretsu* groups in Japan prior to 1997, and they were set up around the six largest commercial banks in Japan: 1) Mitsui Bank; 2) Mitsubishi Bank; 3) Sumitomo Bank; 4) Fuji Bank; 5) Dai-Ichi Kangyo Bank; 6) Sanwa Bank. In most cases, a *keiretsu* group comprise manufacturing corporations, general trading firms, life/casualty insurance firms, and trust banks (see Table 3.2).

Table 3.2. *Keiretsu* Groups in 1994

	Mitsubishi	**Mitsui**	**Sumitomo**	**Fuyo**	**Dai-Ichi Kangyo**	**Sanwa**
Commercial (City) Banks	Mitsubishi Bank	Sakura Bank (merger of Mitsui Bank and Taiyo Kobe Bank in 1992)	Sumitomo Bank	Fuji Bank	Dai-Ichi Kangyo Bank	Sanwa Bank
General Trading Firms (Sogo Shosha)	Mitsubishi Corporation	Mitsui & Co.	Sumitomo Corporation	Marubeni Corporation	Itochu Corporation	Nissho-Iwai Corporation
Large Manufacturing firms	1. Mitsubishi Heavy Industries 2. Nikkon 3. Mitsubishi Motors 4. Mitsubishi Electronics	1. Toshiba 2. Toyota 3. Ishikawajima-Harima Heavy Industires (IHI Industires)	1. NEC 2. Sumitomo Heavy Industries	1. Cannon 2. Nissan Motors 3. Yokogawa Electric 4. Oki Electric	1. Isuzu Motors 2. Fujitsu 3. Kawasaki Heavy Industry 4. Fuji Electric	1. Hitachi 2. Sharp 3. Iwatsu Electric

[19] The legal framework for the compartmented financial system include the *1948 Securities and Exchange Law, 1952 Long-term Credit Bank Law* (Adams and Hoshii, 1972; Hoshi and Kashyap, 2001).

	Mitsubishi	Mitsui	Sumitomo	Fuyo	Dai-Ichi Kangyo	Sanwa
Life/ Casualty Insurance Firms	1. Tokio Marine & Fire Insurance 2. Meiji Mutual Life Insurance	1. Mitsui Marine & Fire Insurance 2. Mitsui Mutual Life Insurance	1. Sumitomo Marine& Fire Insurance 2. Sumitomo Life Insurance	1. Yasuda Fire& Life Insurance 2. Yasuda Mutual Life Insurance	1. Fukoku Mutual Life Insurance 2. Nissan Fire & Marine Insurance 3. Taisei Fire & Marine Insurance 4. Asahi Mutual Life Insurance	-
Trust Banks	Mitsubishi Trust & Banking	Mitsui Trust & Banking	Sumitomo Trust & Banking	Yasuda Trust & Banking	-	Toyo Trust & Banking
Presidential Council	Kinyo-kai (金曜会)	Nimoku-kai (二木会)	Hakusui-Kai (白水会)	Fuyo-kai (芙蓉会)	Sankin-kai (三金会)	Sansui-kai (三水会)

Source: Miyashita and Russell (1994)

To illustrate the functioning of the main-bank system, I first begin with explaining how these micro-level actors work together. To begin with, what makes a commercial bank the 'main-bank' of a corporation is its role as a leading creditor of the affiliated firm. Members firms of a *keiretsu* group also frequently held stocks of other group members, creating the phenomenon of 'cross-shareholding'[20] (Vogel, 2006). As argued by Lincoln (1988), cross-shareholding limited the amount of stock available in the market. This was also why the equity market was underdeveloped. In addition, despite there were issuance of government bonds, bond transactions were mainly between commercial banks and the BOJ and not public auctioned (Lincoln, 1988). Consequently, corporations relied on commercial banks to acquire corporate finances for their investment and business transactions. Given their provision of loans, commercial banks were able to fulfil the function of corporate governance by monitoring their investment risks (Higgins, 2004; Vogel, 2006).

The effectiveness of commercial banks' corporate governance derives from their ability to collect information concerning the performance and management of their affiliated firms by deploying bank staff to the boards of their member firms (Higgins, 2004). In the work of Miyashita and Russell (1994), these groups also host the so-called *shyacho kai* (社長会), meaning presidential council, which core firms would be

[20] Miyashita and Russell (1994) identified that the average cross-shareholding of the six *keiretsu* groups were 35% in Mitsubishi Group, 27% in Sumitomo Group, 19% in Mitsui Group, 15% in Fuyo Group (led by Fuji Bank), 16.5% in Sanwa Group, and 12% in Dai-Ichi Kangyo Group.

invited to participate in a forum to discuss/exchange information on a regular basis, and at times, collaborate group actions (see Ogura 2002). As the above shown, the cooperative working relationship between corporations and banks are mutually beneficial. Therefore the aspect of positive feedback can explain why the system sustained (see Chapter 2).

Yet, the cooperative working relationship is more than just actors following economic rationales. Rather, the *keiretsu* system is fostered on the basis of mutual trust and interest, and is a long-term working relationship. For instance, Flaherty and Hiroyuki (1988) investigates the relationship with the case study of the semiconductor industry. They found that even when corporations had no real investment needs, they would still borrow from their main-banks to cultivate and maintain their cooperative relationships. Corporations benefit from their main-banks by obtaining their commitment that they will have accessibility to bank loans and credits even when economic conditions are adverse. In addition, the investigation of Ogura (2002) found that main-banks are also willing to act as the lender of last resort and save their financial troubled affiliated-firms (see also Higgins, 2004). One example is when electronic firm Toshiba faced liquidity crisis in 1948, Mitsui bank (then Teikoku bank[21]) served a leading role to rescue the firm (see Hoshi and Kashyap, 2001). On the basis of this discussion, it is evident that a close working relationship exists between banks and corporations within the main-bank system.

The cooperative working relationship within *keiretsu* groups is not limited to commercial banks and manufacturing corporations, but also between general trading firms and manufacturing companies. In regard to the working relations between the two corporations, the most prominent function of general trading firms is their role as intermediaries within the supply chain. The significant role of general trading firms in Japan's economy is directed to its dominance in the country's foreign transactions in this time phase when the government was heavily involved in the allocation of foreign exchange reserves (Manson, 1999). Large general trading firms benefited from the allocation of foreign exchange reserves, as only a handful of firms (i.e. Mitsui & Co.; Mitsubishi Corporation) had permits to resurrect their overseas activities (Yoshihara,

[21] In 1943, Mitsui Bank (三井銀行) merged with Dai-Ichi Bank (第一銀行) to become Teikoku Bank (帝国銀行). However Dai-Ichi Bank became independent from Teikoku Bank in 1948, and in 1954 Teikoku Bank regained its name as Mitsui Bank (see Mitsui Bank, 1976).

1982). Building upon their past experience on foreign trade since the Meiji era, general trading firms were able to facilitate and reduce transaction costs for manufacturing corporations by means of efficiently arranging upstream and downstream distribution networks. To illustrate this relationship, general trading firms would import raw materials (later on intermediate goods) for Japanese manufacturing firms (i.e. upstream), and handle the export and distribution of final products internationally and domestically (i.e. downstream). This enables manufacturing firms to invest all of their capital in production and innovation, and mandate general trading firms to handle their marketing and sales businesses.

In addition to serving as intermediaries for manufacturing corporations, general trading firms also cooperate with manufacturing firms via their provision of trade finance. This type of financial engagements is depicted in Mitsui & Co. (1977: 56) where it states that in order to secure their dominance in the market, the company would provide loans (i.e. advance credits) to local manufacturing firms in exchange of becoming their exclusive agent for obtaining raw materials and exporting their final products. Their role as suppliers of corporate finance is particularly crucial to small and medium enterprises (SMEs) which accounted for approximately 68% of employment and 50% of output in Japan's manufacturing industry in 1970 (Yoshihara, 1982).

ii. An Outcast of the Keiretsu system: Securities Firms

In terms of the relationship between *keiretsu* groups and securities firms, it was distant. As noted, after Second World War the equity market was suppressed by the government (Lincoln, 1980). The aim of securities firms was survival, which in most cases relied heavily on their connections with politicians and bureaucrats. For instance, The work of Alletzhauser (1990) shows how the personal relationship of President of Nomura Securities Okumura Tsunao (1948-1959) and Ikeda Hayato enabled the abolishment of capital gains tax and the revision of the investment trust laws in 1951. The political connection not only saved the lifeline of securities businesses, but also enabled the industry to flourish under the government's licensing power and strict entry restrictions[22] (only 4 securities finance firms until the 1980s) (Hoshi and Kashyap, 2001; Amyx, 2004a). Regardless of the strength of these political connections,

[22] Article 65 of the *1948 Securities and Exchange Law* prohibited commercial banks from engaging in securities businesses. (FSA, n.d.)

corporate finance derived predominantly from commercial banks due to the general distrust of the stock market and brokerage firms before the 1980s (Hoshi and Kashyap, 2001), and the government's political consideration of controlling corporate finance (Johnson, 1982; Aoki *et al*. 1994). This made securities industry the power-deficit actor within this institutional arrangement.

2. Facing Challenges: Exogenous Changes and their Unintended Consequences

The changes in macro-economic conditions (e.g. Nixon Shock, two oil crises) and the aforementioned meso-level dynamics from the 1970s increased pressure on the MOF. In response to the triple challenges of inflation, recession, and balance of payment deficit (Suzuki, 1987), adjustments to the compartmentalised financial system was inevitable. What is particularly significant of these changes is that the policy responses of the government toward these dynamics became factors that shaped the behaviours of private sector actors. This is demonstrated in the capital account deregulation process, and the signing of the 1985 Plaza Accord.

i. Capital Account Liberalisation and its Effects on the Main-Bank System

The macro-level dynamics of the Nixon Shock and the two oils crises negatively affected the main-bank system at both meso and micro-levels. At the meso-level, commercial banks were negatively affected by the fiscal conditions of the country due to its potential effects on the repurchase agreement between commercial banks and the BOJ during the high growth era. In the case of purchase and sales of government bonds, large commercial banks and the BOJ had a repurchase agreement, which the former would form syndicates to purchase significant government bonds with interest rates lower than the actual market value, whilst the latter would repurchase the bonds after a one-year holding period (Brown,1994: 77). Amongst all financial institutions, commercial banks were the largest government bond purchasers (i.e. 40.5%), followed by securities firms (i.e. 12.4%), local banks (i.e. 19.9%), long-term credit banks (i.e. 9.7%), and in turn evenly spread across trust banks, mutual banks, life insurance firms (i.e. 3.5%) in fiscal year of 1966 (Adam and Hoshii, 1972: 299). The repurchase agreement sustained from 1965 to 1974, as the BOJ honoured the agreement by purchasing back approximately 95% of government bonds. Yet with the deteriorated

fiscal position the BOJ had reduced its repurchases to 34% in 1978 (Mabuchi, 1994: 327 quoted in Hoshi and Kashyap, 2001).

At the micro-level, these external shocks affected corporations (i.e. mainly export-orientated manufacturing firms) as they began to experience problems on their balance of payments. Consequently, this gave rise to their collective endeavour to undertake asset restructuring (Sakakibara, 2003; Ryan, 2013). When referencing the total fund-raising of domestic corporations to nominal GNP, the ratio reduced from its peak of 34% in 1972 to 23% in 1974, and averaged around 20% in the first half of the 1980s (Suzuki, 1987: 14). The reduction of borrowing activities indicate that commercial banks were not only losing interest payments from large profitable manufacturing corporations, but also paying interests for their corporate deposits. Furthermore, restrained growth for corporations eventually induced the quest for more competitive sources of corporate finance as well as higher interest returns on their deposits (Brown, 1994).

The government responded to these challenges by initiating the capital account liberalisation process in the late 1970s, which included the *Three Bureaus Agreement* in 1975 and the revision of the *1949 Foreign Exchange and Foreign Trade Control Law* in 1980. Yet, there were two unintended consequences after the change of this institutional setting. The first consequence is it further deteriorated the banks-corporations interdependent working relationship and transformed these actors into individualistic profit-pursuing entities. The second consequence is it changed the distribution of power between commercial banks and securities firms.

In regard to the first, after the passage of the 1980 *Foreign Exchange and Foreign Trade Control Law,* firms were no longer legally demanded to acquire the permission of the MOF to issue bonds on overseas markets (Hoshi *et al.,*1990). Accordingly, corporate finance via bank borrowing went down from averaging of 80% during 1976-1980 to 57% during 1981-1985, whereas bond financing raised from averaging merely 2% during the former period to 22% in the latter period. After credit rating agencies (e.g. Japan Bond Research Institute, Nippon Investors' Service, and Japan Credit Rating Agency) were introduced in 1985, the number of corporations that could issue both unsecured straight bonds (i.e. 180 firms) and domestic convertible bonds (i.e. 330 firms) substantially increased (see Hoshi *et al*, 1990). This is in strong contrast with the year 1979, when only Toyota Motors and Matsushita Electronics were

allowed to issue bonds. As of the year 2000, the manufacturing sector's share of receiving bank loans decreased from 48% in 1965 to 15% (Sakakibara, 2003: 80). The result of these changes is that corporations no longer shared an interdependent relationship with commercial banks. The method of raising corporate finance was now determined by which type of method is most cost-effective for corporations.

In regard to second, under the segmentation policy, commercial banks were significantly discriminated in the public debt and securities market as the right to underwrite or sell bonds were still monopolised by securities firms. For instance due to commercial banks being the largest purchasers of government bonds, they were trapped in the dilemma of either continue their holdings on these frozen assets or selling these bonds with significant capital losses (Hoshi and Kashyap, 2001). To make matters worst, if they were to arrive at the decision to sell their bond holdings, the compartment system stipulates them to sell these bonds via securities firms (see Brown, 1994). In addition, the monopoly of underwriting and selling securities/bonds meant that commercial banks were restricted from utilising these investment vehicles abroad to compensate the lost of their traditional clients (i.e. large manufacturing corporations) (Brown, 1994).

The so-called *Three Bureaus Agreement* in 1975 did not offset the deteriorating competitive edge against securities firms. The agreement discriminated the engagement of commercial banks in Eurobonds insofar as securities firms were mandated to manage the offerings, and were to have high positions in the syndicate (Brown, 1994; 1999). A similar effect is also shown in the 1980 Law. Under this legal framework, cross-border transactions of foreign exchange currencies and derivative were required to be achieved either through foreign exchange banks or designated securities firms (MOF, 1997). Based on the aforementioned, it is evident that the power asymmetrical relation between the dyad of commercial banks and securities firms have began to change. This opened the political space for securities firms to challenge the country's bank-based financial structure. The full manifestation of this and how it has affected the interest of securities firms in the developments of regional financial cooperation initiatives will be debated in Chapter 5.

ii. The Plaza Accord and its Unintended Consequences

The signing of the 1985 Plaza Accord was an outgrowth of the continuous trade frictions between the US government and Japan from the 1980s (Grimes, 2002). Yet, the unintended consequence of the Plaza Accord is that the appreciation of the yen and the BOJ's loose monetary policy after 1985 transformed the business activities of manufacturing corporations, general trading firms, and commercial banks and made them individualistic profit-pursuing market entities.

In regard to manufacturing corporations, the increase of production costs after the yen appreciation contributed to their significant outward foreign direct investments (FDI) to the East Asian region. Originally Japanese manufacturing corporations relied on the business strategy of 'lean production' practice, which entails suppressing their Japanese sub-contractors to cut down production costs for achieving export-competitiveness (see Miyashita and Russell, 1994; Womack *et al*, 2007). However with the yen witnessing a 37% exchange rate appreciation between 1985-1988, this enhanced the outward FDIs of Japanese manufacturing corporation with a concentration in East Asia. This is especially evident in four manufacturing industries, namely general machinery, electronic machinery including consumer electronics, automobile, and precision instruments (Urata, 1999).

The outward FDI business strategy was broadly adopted by Japanese manufacturing corporations and the direct consequence of this is the creation of a regional production network in East Asia. To demonstrate the extent of Japanese outward FDIs in the 1990s, the net private capital flows to emerging markets increased seven-fold from 1990 (i.e. US$ 30 billion) to 1996 (i.e. US$ 240 billion), which Asia accounted for approximately 50% of the total amount (Ito, 1999: 4). As illustrated by Hatch (2001), the Japanese production network depicts a strategy adopted by manufacturing firms (e.g. consumer electronics firms) which creates 'a vertically layered intra-firm or intra-network supply chains that use technology-intensive production from Japan, capital-intensive production from the Asian [newly industrialising economies], and labour-intensive production from China and the ASEAN-4' (Hatch, 2001: 9).

In regard to general trading firms, their working relationships with manufacturing corporations also underwent drastic changes after the signing of the 1985 Plaza accord. This is manifested in two ways. Firstly, as noted in the study of

Yoshino (1976: 111), manufacturing companies and general trading firms cooperated though joint venture projects to penetrate foreign markets with the latter providing important sources of information, for instance, experiences with host governments, local contacts, marketing know-how, settlement of financial claims and more (see also Yoshihara, 1982). This is especially evident in the case of outward FDI flows to Asian countries in light manufacturing industries (e.g. textiles in Southeast Asia) as well as consumer electronics and automobile industries (i.e. Thailand, South Korea, and China) from the 1970s onwards (Manson, 1999). These functions were persistently crucial to manufacturing industries throughout the 1980, but faced challenges in the wake of the 1985 Plaza Accord. As depicted in the study of Tachiki (1999), the increased manufacturing FDIs to Asia gradually eroded the necessity to utilise the logistical functions of general trading firms. Consequently, the walk away of large manufacturing corporations in the 1980s was dubbed as the 'winter of the *sogo shosho*' (Ryan, 2013).

Secondly, the yen's appreciation after the Plaza Accord provided the opportunity for general trading firms to offset the change via increasing their investment transactions (Ryan, 2013). One can distinguish their investments into two different categories. The first type of investment is aimed at enhancing their trade-related transactions via increasing their equity shares in upstream and downstream sectors in the value chain. The second type of investment is in non-trade related business transactions. For instance the two business segments (i.e. Consumer Service Business Unit, Innovation & Corporate Development Unit) of Mitsui & Co. have been in charge of business transactions related to the service industry.

Finally in regard to commercial banks, the reduction of corporate finance via bank-financing of manufacturing corporations from the 1970s engendered two sequent developments. First, the sectoral change in loan provision from large corporations in the manufacturing sector to SMEs and individuals in the service sector. In 2000 the service sector accounted for 82% of total loan provision from commercial banks, which amongst all include industries of real estate, financial services, insurances, and construction (Sakakibara, 2003: 80). The loose monetary policy of the BOJ in the wake of the Plaza Accord enhanced the investment of commercial banks in the asset market (Cargill *et al.* 1997). The underlying problem of this change is that main-banks were no longer able to fulfil their provision of corporate governance with these short-termed relationships (Sakakibara, 2003). Without sufficient information to evaluate and

monitor the investment risks of service industries, this contributed to the bubble economy of the late 1980s and subsequently high levels of accumulated non-performing loans (NPLs) in banks in the early 1990s (Ahmadjian, 2006).

As shown, after the collapse of the micro-level institutional setting of a compartmentalised financial system, members of the main-bank system began pursing their individualistic economic profits. This altered their cooperative working relationships within the main-bank system. These micro-level dynamics have significant political implications for how they perceive regional financial cooperation policies, and how they interact. For instance, the pursue of individualistic profit-maximisation indicates that cooperation will take place when different actors' economic interests are aligned. As will be shown in Chapter 5, this enabled the manufacturing industry to cooperate with the securities industry on yen's internationalisation. Additionally, this also implies that the states ability to influence market actors' behaviour (e.g. economic statecraft) may also be restrained. The manifestation of these changes will be debated in-depth in Chapters 5 and 7.

IV. Conclusion

The main focus of this chapter is on the evolution of Japan's financial policymaking and corporate finance and governance structure. This entailed identifying the various stakeholders in regional financial cooperation policies and their relationships. For instance, the LDP, the MOF, the BOJ at the meso-level, as well as *keiretsu* group members at the micro-level.

In the first section, the discussion was on the meso-level dynamics that affected Japan's policymaking structure. I began by providing an overview of how Japan's iron-triangle decision-making model operates. In order to illustrate the dialectical change in power relations between politicians and the MOF, I choose to evaluate the most prominent source of power of the MOF: budget compilation mandate. Applying a historical institutionalist approach to analyse the dyad relation, I provided three analyses. The first analyses is on how the asymmetrical power relations came into existence. As shown, the GHQ's three policy decisions was the critical juncture that shaped the policymaking structure with the MOF at the pinnacle. These policy decisions include: 1) the modest reorganisation of the bureaucratic system; 2) the decision to not deprive the MOF of the budgetary power; 3) limited revisions on the

1942 Bank of Japan Act. As shown, the institutional arrangement was sustained due to positive feedback and the factor of policymaking authority.

Nevertheless the institutional arrangement began to face challenges in the 1970s. Interestingly, the type of change from the 1970s to 1990s was an agent-driven endogenous change. The result was transforming to a politician-led institutional arrangement, and the transfer of monetary policy power from the MOF to the BOJ. Yet, the concept of unintended consequences describe why the MOF still remain at the forefront of regional financial cooperation policymaking. As for how these unintended consequence are fully manifested, this will be debated in Chapters 4 and 6.

In the second section, I turn to the discussion on the micro-level dynamics in Japan from 1945 to 1990s. Unlike the change of meso-level dynamics, these changes were both driven by exogenous dynamics. The institutional setting of the main-bank system was formed under the conscious political contemplation of the MOF. This allowed the Ministry to effectively allocate credit to strategic industries. Under the main-bank system, a cooperative working relationship centred around commercial banks was formed amongst commercial banks, manufacturing corporations, and general trading firms. These long-term working relations shaped the interest of these actors. For instance, the commitment of commercial banks to provide affiliated member companies uninterrupted access to loans and credit under economic turmoils, and acting as their lender of last resort. In reciprocal, corporations continued to raise corporate finance from commercial banks even when they have no investment needs.

The main-bank system began to encounter challenges in the early 1970s. These exogenous shocks were due to change of macro-economic conditions and the government's decision to begin the process of capital account deregulation and the signing of the 1985 Plaza Accord. The unintended consequence is demonstrated in the transformation from a cooperative working relationship to the pursue of individualistic economic interests. There are two implications of these developments for regional financial cooperation policies. First, if these private sector actors pursue their respective economic interests, this indicates that they will only support these regional financial initiatives collectively if their economic interests are aligned. Second, the individualistic profit-pursuing of private sector actors may impede the state's ability to influence their preferences. The manifestation of this will be critical analysed and debated Chapters 5 and 7.

Chapter Four. The Diverging Approaches of the Ministry of Finance and the Bank of Japan in Fostering Regional Financial Stability via Short-term Liquidity Support Mechanism

I. Introduction

Upon identifying how the uneven power distribution relations amongst the Ministry of Finance (MOF), the Bank of Japan (BOJ), and the ruling party (i.e. Liberal Democratic Party) in financial policymaking was created leading up to the occurrence of the Asian financial crisis, in this chapter I begin with a critical analysis of the underlying reasons for Japan to partake in fostering the Chiang Mai Initiative (CMI) and its subsequent multi-lateralised framework (CMIM). The assessment is important for two reasons. First and most importantly, it demonstrates to readers how meso-level institutional arrangement has shaped the way state actors in Japan have participated in the developments of the short-term liquidity support mechanism. Secondly, through evaluating the government's actions, the assessment than becomes the reference point for the discussion in Chapter 5 on whether the state has the ability to shape private sector actors' interests and actions. In order to accomplish this, I approach this by responding to two key research questions. The first question is the assessment on whether Japan's policy stance (i.e. either active promotion or passive engagements) has been consistent. The second question is whether actions of the MOF and the BOJ are coherent.

I posit that Japan's active promotion of the developments of the CMI/CMIM has been consistent and this results from the institutional arrangement of the *1998 Bank of Japan Act*. Firstly the MOF has been the spearhead of developing the short-term liquidity support mechanism. Nevertheless, the main reason for upholding the policy stance is due to its close association with the Ministry's policy goal of internationalising the yen. This is shown in the medium-to-long term financial support agreements under the New Miyazawa Initiative which were yen-denominated facilities, as well as its 'quiet diplomacy' via its proxy institution under the ASEAN+3 Research Group studies. Applying the analytical framework provided in Chapter 2, the MOF's actions resemble *subversives* in the LDP-MOF dyad relation. Secondly, the BOJ has also been consistent in fostering the CMI/CMIM via signing short-term liquidity swap

facilities with regional countries, and promoting the Ministry's policy initiative of internationalising the yen. In the case of the BOJ, its actions resemble *mutualistic-symbionts* insofar as they support policies via leveraging on the ambiguities of the existing institutional arrangement to enhance its purpose (see Mahoney and Thelen, 2010).

To demonstrate that institutional arrangement has been the main factor that perpetuated Japan's engagements in developing the regional short-term liquidity support mechanism, I argue against the realist's account that power rivalry is the main variable that explains Japan's active engagement after the Asian financial crisis. Therefore although financial regionalism did witness substantial developments in the wake of the 2008 global financial crisis, this was not directed to the emergence/or intensification of power rivalry relations amongst the United States (US), Japan, and the People's Republic of China (hereafter China).

This chapter is arranged into two sections. In the first section, the chapter provides an overview of the developments of the CMI since its endorsement in May 2000. This is followed by an assessment of whether and how the Japanese government has contributed to developing the initiative. In the next section, I critically analyse the respective engagements of the MOF and the BOJ in developing the CMI/CMIM. In the first sub-section, the analysis focuses on the MOF's actions. The focus will be revealing why the Ministry has been actively developing the CMI/CMIM and how its engagements have shown consistency via different channels of influences. In the second sub-section, the emphasis will be on the BOJ's involvements in these processes. The main aim of this sub-section is to demonstrate why and how the BOJ has engaged in these processes, and how institutional goal established from the new MOF-BOJ institutional arrangement has made the Bank adopt an alternative approach to these policy initiatives.

II. Progressions of the CMI/CMIM and Japan's Involvements

In this section, I will provide an overview on how the CMI/CMIM has developed since its endorsement in 2000. This is to assist one's evaluation on how Japan has engaged in these developments in the subsequent sections.

1. A Brief Overview of Development of the CMI/CMIM

The CMI is a short-term liquidity support mechanism endorsed by ASEAN+3 finance minsters in Chiang Mai, Thailand in May 2000 (MOF, 2000b). The CMI constitutes as one of the two main pillars of the ASEAN+3 finance ministers' process for regional financial cooperation, the other being the Asian Bond Markets Initiative which will be discussed in Chapter 6. The financial cooperation initiative is a direct response to the so-called 'herding' movements in the financial market, which result in sudden reversal of short-term financial capital. As shown in the case of the 1997 Asian financial crisis, the net outflow of the five crisis-hit countries amounted to approximately US$105 billion in 1997 in oppose to the net inflow of roughly US$ 93 billion in 1996 (i.e. roughly US$198 billion margin)(IIFI, 1998; IMF, 1998: 12).

Based on the consensus reached amongst deputy finance ministers and deputy central bank governors that 'rapid movement of short-term capital flows is one of the causes of the financial crisis' and that they should 'work together to monitor movement of capital flows to prevent future crisis' (ASEAN, 1999a), 'enhancing self-help and support mechanism' became one of the prominent goals for regional financial cooperation stated in the *Joint Statement on East Asia Cooperation*[23] in the 1999 Manila ASEAN+3 Summit (ASEAN, 1999b:2). Since the launching of the CMI, the initiative has steadily developed into a regional safety net for counter-acting volatilities of short-term capital movements. Notably one can distinguish the development of the CMI into two phases: 1) the first phase encompasses the years between 2000 to 2009; 2) the second phase covers the period from 2010 to 2017.

In the first time phase, the CMI is comprised of two separate components: the existing ASEAN Swap Agreement (CMI-ASEAN Swap), and a series of bilateral currency swap facilities (CMI-BSAs). The developments of the CMI in this time phase can be evaluated by the amount of agreements concluded and the total foreign exchange reserves combined in these agreements (see Table 4.1). In regard to the CMI-ASEAN Swap, the facility not only enlarged from the total capital of US$ 200 million to US$1 billion, but also expanded its contractual countries from five member states (i.e. Indonesia, Malaysia, Philippines, Singapore, and Thailand) to all 10 ASEAN member states (MOF, 2000b; 2001). The second progression of the CMIM-ASEAN

[23] *The Joint Statement on East Asia Cooperation* in 1999 is the foundation of the ASEAN+3 cooperation.

Swap agreement was agreed by ASEAN+3 finance ministers in May 2005 which increased the total foreign exchange reserves capital to US$2 billion (MOF, 2005). In regard to the CMI-BSAs, the number of agreements and total foreign exchange reserves capital have both increased. For instance, it is shown in Table 4.1 that the total number increased from 3 to 16 CMI-BSAs, whilst the total foreign exchange reserves also enlarged to US$80 billion in 2007. Subsequently, finance ministers agreed upon the initial foreign exchange reserves to be pooled into the multi-lateralised CMI as well as the contribution ratio between ASEAN and Plus 3 members (i.e. 20: 80) in 2008, and finalised the main components of the CMIM including a country's contribution, borrowing accessibility, and surveillance mechanism in 2009 (MOF, 2009).

In the second time phase, the developments of the CMIM is less associated with the increase of total foreign exchange reserves, but instead more on the substance that will enhance the effectiveness of the short-term liquidity support mechanism (see Table 4.1). For instance, the 2010 CMIM agreement set the maturity period at 90 days after the date of drawing liquidity support, and this can be rolled over 7 times (roughly 2 years) (MOF, 2010). In the 2012 agreement (i.e. *Key Points for Strengthening the CMIM*) the maturity period was separated into two different categories (i.e. IMF linked portion and IMF de-linked portion) and further extended in both categories (i.e. IMF linked portion: from 90 days to 1 year; IMF de-linked portion: from 90 days to 6 months) (MOF, 2012: 6). In the same agreement, ministers agreed to enhance the CMIM insofar as distinguishing it into two respective components. One component is the 'CMIM Stability Facility' (CMIM-SF) and the other component is the 'CMIM Precautionary Line' (CMIM-PL). The difference between the two facilities is that the CMIM-PL was launched to obtain less stringent criteria and conditionality to ensure contracting countries have easier access to the necessary liquidity in order to mitigate potential sudden capital outflows deriving from panic sentiments in the global financial market.

Another significant development of the CMIM is the establishment of the ASEAN+3 Macroeconomic Research Office (AMRO) in 2010, and its transformation into an international organisation on 9 February 2016 (MOF, 2010; 2016). One of the strongest criticisms of the International Monetary Fund (IMF) and the US on Japan's 1997 Asian Monetary Fund (AMF) proposal was the potential occurrence of moral hazards in circumstances when government intervenes in market failures (Hayashi,

2006). Hence the underlying rationale for an 'IMF-link' to be included in the establishment of the CMI is to ensure that any contracting countries that attempt to utilise beyond the set amount of liquidity (i.e. 10%) are drawn without such concerns. With the AMRO fulfilling the mandate of economic surveillance, monitoring regional economies, and also assisting the CMIM's Executive Level Decision-making Body in approving CMIM lending, this is expected to bestow governments with more leverage to bypass IMF conditionality in times of crisis (Pitakdumrongkit, 2015).

These mentioned developments of the CMI/CMIM in both time phases exhibit the commitments of ASEAN+3 finance ministers to avoid another similar experience of the Asian crisis.

Table 4.1. The Developments of the CMI/CMIM (2000-2017)

	Time Phase 1 (2000-2009)	**Time Phase 2 (2010-2017)**
CMI-ASEAN Swap Agreement	**2000** • Agreement to include all members • Total capital increase to US$1 billion **2005** • Total capital increase to US$2 billion	**2015** • Renewal of ASEAN Swap Agreement for 2 years from November 2015 **2017** • Renewal of ASEAN Swap Agreement for 2 years from November 2017
CMI-BSAs	**2000** • CMI Launched **2001** • 3 CMI-BSAs signed **2002** • 6 CMI-BSAs signed • Total capital US$17 billion **2003** • 12 CMI-BSAs signed • Total capital of US$31.5 billion **2004** • 16 CMI-BSAs signed • Total capital of US$36.5 billion **2006** • Revision of 9 existing CMI-BSAs • Total capital of US$75 billion **2007** • 16 CMI-BSAs • Total capital of US$80 billion	—

	Time Phase 1 (2000-2009)	Time Phase 2 (2010-2017)
CMIM	**2008** • Agreed to CMIM total initial capital US$80 billion **2009** • Agreed to increase total capital increase to US$120 billion • Hong Kong to participate in CMIM	**2010** • Came into effect 24 May 2010 • AMRO established, included in CMIM • IMF de-link portion 20% **2011** • Endorsed *Operational Guidelines for Enhancing Effectiveness of CMIM* **2012** • Total capital of US$240 billion • IMF de-linked portion 30% • Maturity period increased for IMF linked and de-linked portion • CMIM-PL introduced **2013** • Agreed transform AMRO to international organisation **2014** • Agreed upon Amended Operational Guidelines to CMIM and came into force 17 July 2014. **2015** • Signing of *Agreement to Establishing AMRO* in October **2016** • AMRO obtained international organisation status 9 February
CMIM	—	**2017** • Revision of CMIM Operational Guidelines on the activation process of the IMF de-linked portion • Ministers encourage signing of BSAs alongside existing CMIM • *AMRO Strategic Direction and Medium-term implementation Plan* finalised and approved • AMRO signs MOU with ADB, working on signing MOF with IMF • *Guidance Note for AMRO Country Surveillance Consultation* • *Yokohama Vision*

Source: ASEAN (2017a), BSP (2015), MOF(2000b-2013, 2014a, 2015a, 2016, 2017)

2. Japan's Contribution to Fostering the CMI/CMIM

Has the Japanese government actively engaged in the development of the CMI/CMIM? Yes. In fact, Japan is one of the most active countries that involved in developing the CMI/CMIM. The country's contribution to the maintenance of regional financial

stability in this process has been prominent and persistent (see Table 4.2). These include both tangible and intangible contributions.

Japan's tangible regional endeavour in the ASEAN+3 framework include being the first country to conclude BSAs with regional countries such as South Korea, Malaysia, Thailand, and the Philippines under the CMI framework in 2001 (MOF, n.d., 2001). Japan's financial contribution accounted for more than 50% of total financial capital in the CMI in almost every year[24] prior to the multi-lateralisation of the CMI in 2010 (ASEAN, 2009b). More importantly, prior to the 2005 ASEAN+3 finance ministers' meeting, the majority of Japan's BSAs were one-way agreements. This indicates that if regional countries were to encounter with another financial crisis, Japan's BSA contracting parties are able to access the foreign exchange reserves of the Japanese government without further reciprocations. Even when ASEAN+3 finance ministers decided to enhance the CMI via launching two-way swap agreements after 2005, Japan's BSAs were still mostly favourable to its counterparts. As shown in Table 4.2, one instance is the 2005 Japan and Singapore two-way BSA in which allows the Monetary Authority of Singapore (MAS) to have access to US$3 billion of Japan's foreign exchange reserves, whilst the same agreement only enables the MOF to have access to US$1 billion of the MAS's foreign exchange reserves. (see also BOJ, 2005d: 1). In addition to ASEAN countries, Japan's two-way BSAs also benefited Plus 3 countries such as the 2006 Japan-Korea BSA which Japan committed US$10 billion, whilst Korea committed US$5 billion (BOJ, 2006a: 1). Japan's contribution to the CMI was only reduced to below 40 % upon the initiative's expansion to the CMIM in 2009.

As for intangible engagements, these include providing technical assistance via arranging training and seminars for regional financial officials, as well as dispatching experts to regional countries to meet urgent needs for improving their fiscal and monetary policies (MOF, 2001: 2). This is routinely conducted through both the MOF's Policy Research Institute (e.g. annual seminar of economic policies and technical cooperation projects), International Bureau (e.g. mainly on development of Asian bond markets with ASEAN countries), National Tax Agency (see MOF, 2015b), as well as

[24] Japan did not account for more than 50% of total foreign exchange reserves under the CMI in 2003 and 2004 (see Table 4.1).

the BOJ's International Department (i.e. Centre for Monetary Cooperation in Asia[25]) (BOJ, 2007b).

Table 4.2. Japan's Bilateral Swap Agreements with Regional Countries Under the CMI/ CMIM

Year	Contracting Countries	Content of Agreement	CMI Size *	Japan's CMI Contribution*
2001	- Korea - Malaysia - Thailand - The Philippines	- Japan-Korea Agreement: One-way (USD-Won up to US$2 billion) - Japan-Malaysia Agreement: One-way (USD- Ringgit up to US$1 billion) - Japan- Thailand Agreement: One-way (USD-Thai Baht up to US$3 billion) - Japan-the Philippines Agreement: One-way (USD- Peso up to 3 billion USD)	- ASEAN Swap: 1 Billion - BSA: 9 billion - Total: 10 Billion	US$9 billion (90 %)
2002	- Korea - Malaysia - Thailand - The Philippines - China	- Japan-China Agreement: Two-way (**Yen-Renminbi** equivalent to US$3 billion)	- ASEAN Swap: 1 Billion - BSA: US$17 billion - Total: US$18 billion	US$12 billion (66 %)
2003	- Korea - Malaysia - Thailand - The Philippines - China - Indonesia - Singapore	- Japan- Indonesia Agreement: One-way (USD- Rupiah up to 3 billion USD) - Japan- Singapore Agreement: One-way (USD- Singapore Dollar up to US$1 billion)	- ASEAN Swap: US$1 billion - BSA: US$31.5 billion (May) - Total: US$32. 5 billion	US$16 billion (49.2%)
2004	- Korea - Malaysia - Thailand - The Philippines - China - Indonesia - Singapore		- ASEAN Swap: US$1 billion - BSA: US$36.5 billion (May) - Total: US$37.5 billion	US$16 billion (42.6%)

[25] The BOJ International Department's Centre for Monetary Cooperation in Asia (CEMCOA) was established in November 2005 to promote international cooperation among central banks in Asia (BOJ, 2007a). The Centre was reorganised into the International Coordination Division in June 2014 (BOJ, n.d.a).

Year	Contracting Countries	Content of Agreement	CMI Size *	Japan's CMI Contribution*
2005	- Korea (2) - Malaysia - Thailand (2) - The Philippines - China - Indonesia - Singapore	- Japan-Korea Agreement: New two-way agreement (**Yen-Won** equivalent to US$3 billion) - Japan-Thailand Agreement: New two- way agreement (USD-Baht: 3 billion; USD-Yen up to US$3 billion USD) - Japan-Singapore Agreement: Replaced previous agreement of 2003 to two-way BSA (USD-Singapore Dollars: US$3 billion; USD-Yen: US$1 billion) - Japan- Indonesia: Replaced previous agreement in 2003 with new one-way BSA (USD-Rupiah up to US$6 billion)	- ASEAN Swap: US$2 billion - BSA: US$56.5 billion - Total: US$58.5 billion	US$27 billion (46.1%)
2006	- Korea (2) - Malaysia - Thailand (2) - The Philippines(2) - China - Indonesia - Singapore	- Japan-Korea agreement: Replaced previous agreement of 2001 with two- way BSA (USD-Won: 10 billion USD; USD-Yen: 5 billion USD) - Japan-the Philippines agreement: New two-way agreement (USD-Peso: 6 billion; USD-Yen: 500 million USD)	- ASEAN Swap: US$2 billion - BSA: US$75 billion (May) - Total: US$77 billion	US$42 billion (54.5%)
2007	- Korea (2) - Malaysia - Thailand (3) - The Philippines(2) - China - Indonesia - Singapore	- Japan-Thailand Agreement: New two- way agreement (USD-Baht: US$6 billion; USD-Yen: US$3 billion) - Japan- Korea Agreement: Extension of 2005 bilateral agreement (**Yen-Won**) for another 3 years until 3 July 2010	- ASEAN Swap: US$2 billion - BSA: US$78 billion - Total: US$80 billion (May)	US$48 billion (60%)
2008	- Korea (2) - Malaysia - Thailand (3) - The Philippines(2) - China - Indonesia - Singapore	- Japan-Korea Agreement: Increased two- way agreement of 2006 to April 2009 (**Yen-Won** equivalent to US$20 billion)	- ASEAN Swap: US$2 billion - BSA: US$78 billion - Total: US$80 billion (May)	US$58 billion (72%)
2009	- Korea (2) - Malaysia - Thailand (3) - The Philippines(2) - China - Indonesia - Singapore	- Japan-Korea Agreement: Extended two- way agreement of 2008 until October 2009 (**Yen-Won**) - Japan-Indonesia Agreement: Expand previous one-way agreement of 2005 (US$12 billion)	- ASEAN Swap: US$2 billion - BSA: US$90 billion - Total: US$92 billion (Apr.)	US$62 billion (67.3%)

Year	Contracting Countries	Content of Agreement	CMI Size *	Japan's CMI Contribution*
2010	ASEAN+3 members	- Contracting members can swap their local currencies with USD for the amount up to its contribution multiplied by its purchasing multiplier - Japan-Korea Agreement: Further extension on the extended two-way agreement of 2009 (**Yen-Won**) until 30 April 2010 - Japan-Korea Agreement: Further Extension of bilateral two-way agreement of 2007 (**Yen-Won**) for another 3 years until 3 July 2013.	US$120 billion	US$38.4 Billion (32 %)
2011	ASEAN+3 Members - BSA: Korea	- Japan-Korea Agreement: Increase in the Size of the **Yen-Won** Swap Arrangement of 2005 from US$3 billion to US$30 billion (effective until October 2012)		
2013	ASEAN+3 Members - BSA: Indonesia	- Japan-Indonesia: increase 2005 one-way agreement from US$12 billion to US$22.76 billion		
2014	ASEAN+3 members - BSA: Philippines	- Introduced CMIM Precautionary Line - Increase IMF de-link to 30% - Japan-the Philippines agreement: Expansion of two-way swap agreement of 2006. Size of swap for the Philippines increased from US$6 billion to US$12 billion. Size of swap for Japan remains (USD-Yen: US$500 million)	US$240 billion	US$76.8 billion (32 %)
2015	ASEAN+3 Members - BSA: Singapore	- Japan-Singapore Swap Agreement: Continuation of two-way BSA of 2005 (USD- Singapore Dollars: US$3 billion; USD-Yen:US$1 billion)	-	-
2017	ASEAN+3 Members -BSA: Thailand -BSA: Philippines	- Japan- Thailand Swap Arrangement: Two-way swap agreement with total size of US$3 billion - Japan-Philippines Swap Arrangement: Enhance of 2014 agreement to include one-way local currency swap (**Yen-Peso**) (Yen-Peso and/or USD-Peso: US$12 billion; USD-Yen: US$500 million)	-	-

* Unit : US Dollars

Sources: MOF (2001-2013, 2014a, 2015a, 2016, 2017), BOJ (2006a-c, 2010a, 2010c, 2011b, 2013b, 2014b, 2015a, 2017a, 2017c)

III. Japan's Active Promotion of Regional 'Self-Help' Mechanism for Achieving Regional Financial Stability

After evaluating to what extent Japan has engaged in developing the CMI/CMIM (i.e. active and persistent), I turn the debate to the underlying reasons that explain Japan's active involvements. It is noteworthy that this discussion entails the analysis of the cohesiveness of the government's actions. This is due to the signing of CMI-BSAs involves two meso-level actors: the MOF, and the BOJ. As discussed in Chapter 3, the new institutional arrangement after the *1998 Bank of Japan Act* stipulated the Bank's secondary role as an agent for the government in exchange rate management vis-à-vis the Ministry[26]. This suggests that the MOF's emphasis on regional financial cooperation will be on affairs related to exchange rate risk management.

On the basis of this, although the MOF and the BOJ have closely collaborated as principal (i.e. MOF) and agent (i.e. BOJ) in developing the CMIM/CMI, the BOJ remains relatively passive when involved in these processes and have adopted alternative approaches to foster regional financial stability. I begin with the discussion on the MOF's policy objective of yen's internationalisation and its connection with the CMI.

1. The MOF's Approach to Internationalising the Yen

In the case of the MOF's actions, I argue that these endeavours were linked with the finance ministry's policy objective to transform the yen into an international currency. As for the underlying reasons for the MOF to pursue this policy objective, I will address this by first debating on why internationalising the yen became a policy objective. In turn, I will analyse how the policy objective was linked to the AMF concept, and how the failure of the AMF made the MOF more attentive in its subsequent engagements in regional financial cooperation. What would become evident through this analysis is how the MOF's mandate of exchange rate risk management remains constant, whilst the means to attaint it has taken up different forms. Hence the discussion will demonstrate the longevity issue that realist political economy have overlooked in their arguments.

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[26] According to paragraph 2 of Article 40 of the 1998 *Bank of Japan Act,* it stipulates that 'The Bank of Japan shall buy and sell foreign exchange as an agent handling national government affairs…when the purpose of the buying and selling is to stabilise exchange rate of Japanese currency' (BOJ, 1998).

i. Internationalisation of Yen as a Policy Objective

With regard to why internationalising the yen became a prioritised policy objective for the Ministry, there are two important factors. The first factor is the outcome of interactions between meso-level actors on the issue of domestic political reform, namely politicians and the MOF. The second factor is associated with the eruption of the Asian financial crisis and the MOF's response to the crisis. In both cases, these macro-level dynamics had substantial influences on the formation of the policy.

In terms of the first factor, applying the analytical framework proposed in Chapter 2 into this discussion, it is evident that internationalising the yen became a prioritised goal due to the political commitment of then Prime Minister Hashimoto Ryutaro (1996-1998). Various works of Grimes (2001, 2003, 2009) have denoted that the Ministry's endeavours to internationalise the yen is its attempt to conduct financial statecraft of 'monetary insulation' against the US dollar (see also Shirai, 2009). This has its origins from the significant foreign pressure imposed on Japan to re-evaluate the yen's exchange rate value due to existing trade imbalances between the two countries (Grimes, 2002). Hence Grimes (2009) considers Japan's endeavours to develop the CMI as the country's *reactive* policy to the US dollar's dominance in capital transactions and trade settlements. Such an account suggests that the promotion of yen's internationalisation and subsequent regional engagements were mainly triggered by foreign pressure or structural factors. Whilst I agree with Grimes in the aspect of the MOF's increase interest in managing yen's exchange rate, I disagree that this was a response to structural factors. Instead, it was the socio-economic and political context that affected the perceptions of the MOF and Hashimoto towards yen's internationalisation.

Socio-economic and political context is crucial in understanding how internationalising the yen became a policy objective supported by the MOF. As discussed in Chapter 3, the LDP's encroachment of the MOF's authority already began in the early 1970s. Although the encroachment of the MOF's authority did not always materialise, politicians were gradually willing to challenge the Ministry when they deemed necessary. This is particularly evident in the case of yen's internationalisation. As noted in the work of Brown (1994), foreign pressure (*gai-atsu*) to internationalise the yen already existed in the early 1980s and was part of policy agenda imposed by the

US Treasury on the MOF during the Yen-Dollar Committee negotiations from 1983 to 1984. From the US's point of view, liberalising Tokyo's financial market as well as internationalising the yen will benefit both US financial firms and the government insofar as it will allow readily access to Japan's capital market, and result in the appreciation of the exchange rate over the medium-term and 'correct' the existing current account imbalances (Brown, 1994, 105-108; Grimes, 2002; Takagi, 2011:77). The Ministry was reluctant to promote yen's internationalisation in the wake of the Yen-Dollar Committee. Some factors that contributed to the MOF's reluctance include: 1) the Ministry did not want to simultaneously liberalise Japan's domestic market and internationalise the yen; 2) the MOF also did not want to exert the public impression of its failure to persuade the US in the negotiations (Takagi, 2011). Hence, this resulted in the simultaneous release of the Yen-Dollar Committee Report as well as the MOF report (i.e. *Current Status and Prospects for Financial Liberalisation and the Internationalisation of the Yen)* (Takagi, 2011: 78). The concession made by the MOF's part, however, is shown in including concrete steps to internationalising the yen in the agreement (Brown, 1994).

Did this concession of the MOF led the organisation to immediately uphold yen's internationalisation as a policy objective? The short answer is no. As illustrated in the work of Brown (1994), the so-called 'success' of the US negotiating team led by undersecretary of the US Treasury Beryl Sprinkel was due to his ability to impose pressure on then Prime Minister Nakasone Yasuhiro (1982-1987) and subsequently the Vice Minister of Finance for International Affairs Oba Tomomitsu through the US Treasury Secretary Donald Regan. With the ongoing dialectical change of power distribution between the LDP and the MOF shown in Chapter 3, this allowed the LDP to influence the MOF and shape the outcome of the organisation's reserve policy stance to capital account deregulation. Yet the socio-economic and political context did not open the policy space to challenge the Ministry's hands-on policy in managing the economy in which its authority was cemented on. As a result, although the MOF was forced to concede in the Yen/Dollar Accord, this was not enough to change domestic financial institutions' tendency to follow the MOF's administrative guidance going into the 1990s (see Brown 1994). In other words, foreign pressure had limited success in influencing the Ministry's policy stance.

The socio-economic and political context changed in the 1990s. This gave the LDP the opportunity to realise the policy objective. Firstly, the MOF's authority vis-à-vis politicians was in decline due to the numerous mismanagements of Japan's political economy (e.g. compensation scandal of big four securities firms in 1991, bubble economy that resulted in the Nikkei falling below 15,000 in 1992, depositor run on Kizu Credit Union,..etc). These incidents challenged the MOF's authority and the conventional perception that the Ministry's hands-on management of the economy is optimal for achieving economic growth (Gotoh, 2019). Secondly as discussed in Chapter 3, the MOF's decision to cooperate with the Hosokawa Cabinet after the LDP's 1993 defeat also affected the Party's calculus decision to deprive the MOF's authority for its *opportunistic behaviours* in this process. Against this backdrop, the 1996 financial big bang was proposed by Prime Minister Hashimoto which included the goal of promoting Tokyo as an international financial centre and fostering the capital's competitive edge against London and New York (Shirai, 2009: 133). Internationalisation of the yen was a central component of the financial reform. The rationale of this is that by increasing the usability of Japan's currency in outward investments in Asia, this could potentially place Japan in a prominent position to develop regional foreign exchange and capital markets with direct exchange rate transactions in yen with other Asian currencies (Shirai 2009: 134).

In terms of the second factor, the socio-economic and political context leading up to the eruption of the Asian crisis also provided the rationale for the MOF to uphold the policy objective for yen's internationalisation, as well as adopt a pro-active stance in its involvement in regional financial cooperation. For instance, in the aspect of internationalising the yen, the public reception in Japan for managing exchange rate risks were high in the late 1990s. This is shown in the various ideas put forward by private sector actors such as the idea of a 'yen bloc'(e.g. Kwan 2001[27]), and 'APEC common currency unit'(see Kondo, 2000). This was also a perception shared amongst many retired MOF officials. One notable example is the writings of former MOF's Vice Minster of International Affairs Mr. Gyohten (1986-1989) on Nikkei on 21 August 1996:

[27] Kwan's (2001) work is perhaps the earliest systemic monograph about the feasibility of a yen bloc for East Asian economies aimed at advancing regional monetary integration. Kwan was a senior economist for Nomura Research Institute from 1987 to 2001 and has been as senior fellow at the Nomura Institute of Capital Markets Research since 2004.

"..the time has come to turn our thoughts to Asia's monetary system. In 1999 an integrated European currency, the Euro, will take its place alongside the U.S. dollar, but Asia's currencies remain unintegrated. Is there not a need for a key currency in the Asian region to accompany [Asia's] economic development?." (Gyohten, 1996 quoted in *Kondo, 2000:1)*

As these ideas predate the occurrence of the Asian crisis, it is evident that macro-level dynamics have already created the political space for the MOF to take an active stance on putting forward the policy objective. The outburst of the Asian financial crisis further increased the socio-economic and political context for the Ministry to actively engage in the management of exchange rate risk embedded in international capital mobility. In addition, it also became a leverage point for pushing for its policy agenda.

Applying the analytical framework proposed in Chapter 2, the MOF's decision to uphold Prime Minster Hashimoto's policy objective to internationalise the yen resembles the actions of *subversives* denoted in the work of Mahoney and Thelen (2010). On the surface, it seems that the MOF and the LDP worked together in promoting the policy objective, but their purposes were different. For the Hashimoto Cabinet, yen's internationalisation bears the offensive rationale of regionalism, which aims at making Japan's financial institutions competitive through the process of capital account liberalisation (see MOF, 2000a). On the other hand, for the MOF the policy objective is upheld based on a defensive rationale of regionalism. Hence, what is evident in this process is that the MOF was able to *layer* the policy objective in which departed from its original intent, and align it with what the socio-economic and political context was demanding the Ministry to achieve (i.e. exchange rate risk management). In practice, this was putting forward the AMF proposal and eventually linking it with the policy objective of yen's internationalisation given both policies were expected to deter the speculative attacks manifested in the Asian crisis (Shimizutani, 2009: 26-27).

ii. The Asian Monetary Fund and the MOF's Exchange Rate Risk Management

The process of putting forward the AMF proposal and its eventual failure had a lasting impact on how the MOF packaged its policy objective of yen's internationalisation in the organisation's subsequent engagements in regional financial cooperation. The AMF concept envisaged mobilising regional foreign exchange reserves and providing emergency liquidity to countries when they encounter financial crises (Hayashi, 2006). It is noteworthy that different from the credit facilities of the IMF, the AMF credit lines were expected to not impose the same level of conditionality (Kirshner, 2003: 279). Yet contrary to the common perception that Japan's AMF proposal was a direct response to the occurrence of the Asian crisis, the idea was already informally discussed amongst deputy level officials such as then Director of International Finance Bureau Mr. Kuroda Haruhiko prior to the crisis (Amyx, 2002:17; Hayashi, 2006).

Given that the AMF proposal was not a direct response to the Asian crisis, this puts neo-liberal institutionalist theory's 'functionalist logic' into question. Yet, does this affirm neo-realists' conceptualisation of Japan's AMF proposal? On the one hand, a personal interview with Mr. Gyohten provides insights that tentatively corresponds to neo-realist's argument. In the interview, Mr Gyohten indicated that Japan's pro-active stance in the wake of the financial crisis was to address the imbalanced influence/power of the country in the existing international financial system (Gyohten, 2016). This is especially directed to the IMF's quota distribution of Special Drawing Rights (SDR). In addition, if one regards the failure of the AMF proposal was due to the opposition of IMF and US officials (see Hughes, 1999; Krapohl, 2015: 167), it makes neo-realist arguments more plausible.

Yet on the other hand, scholars such as Jennifer Amyx (2002) and Hayashi Shigeko (2006) both pointed out that the main problem that contributed to the AMF's failure was due to insufficient internal coordination within the Ministry. Personal interview with a senior official of the MOF denoted that although the crisis did provide the opportunity for Japan to enhance its influence in the international financial system[28] and prioritises yen's internationalisation as a policy goal, the failure of the AMF was in fact due to insufficient internal coordination within the Ministry (personal interview[29],

[28] Similar account also in personal interview (2016e)

[29] Interviewee is senior official from the MOF which had personal experience in the Ministry's engagements in the wake of the Asian financial crisis.

2016g). In the same interview, the senior official conveyed that the Ministry had no desire to challenge the existing international financial system, but instead endeavoured to reform it (personal interview, 2016g). In a recent interview with *Nikkei*, Dr Sakakibara pointed out that the reason for China's reluctance to support the AMF proposal was because 'Japan failed to lay the groundwork with China' and that they 'lacked contacts with top Beijing officials' (Sakakibara, 2017).

Upon careful evaluation, what is evident from the personal interviews of Mr. Gyohten and the senior MOF official is that *displacing* the existing international financial system with the AMF was not what the Ministry intended. The proposition is underpinned by the subsequent actions of the MOF. On surveying the subsequent publicised statements by the Ministry, the organisation did not mention the AMF idea in ensuing statements related to regional financial cooperation or reforms on international financial system (MOF,1999b, 1999c, 1999f, 1999i). Instead, the Ministry was committed to the Manila Framework (members included the US and the IMF), and supported the IMF to eliminate speculative bubbles and restore good financial management in the region (see Hughes, 1999).

In hope of delivering the correct message when it came to the Ministry's policy initiative to internationalise the yen, this was achieved via reframing the pledge to 'increasing financial stability' via the implementation of 'a currency basket comprised of yen, euro, and US dollars for developing/emerging countries' (MOF, 1999c). For instance, in Finance Minister Miyazawa's New Year's statement, he stated that 'we acknowledge the importance of the internationalisation of yen in light of global economic and financial developments such as the Asian financial crisis'(Miyazawa, 1999:1). In addition, the MOF's institutional goal of supplementing rather than challenging the existing international finance system is exemplified in Dr Sakakibara's speeches during the last phase of his tenure as Vice Minister of Finance for International Affairs in Melbourne (i.e. 26 March) and Kyoto (i.e. 25 June) (1999a; 1999b). For instance, in Sakakibara's speech in Melbourne, on the one hand he refrained from overly criticising the IMF's engagements in Indonesia, on the other hand he also stated that 'appropriate exchange rate regime must be adopted by emerging countries' as one of the four lessons that '[regional countries] need to learn from [the] common experience with the 1997/98 crisis' (Sakakibara, 1999a: 3). Although yen as an appropriate currency for pegging was not directly stated in Sakakibara's statement, it

is evident that the suggestion that 'it might be generally appropriate for [emerging countries] to peg their currencies to a basket of currencies of the developed countries with which they have the closest trade and investment dependence' indicates the yen as a favourable option (Sakakibara, 1999a: 4).

These examples suggest that Japan's AMF proposal was a mishap after the Ministry began to respond to the changes of socio-economic and political context and take up a more active role in exchange rate risk management. Nevertheless, this was merely the first iteration of the Ministry's policy attempt to fulfil its mandate of managing exchange rate risks via regional financial cooperation. However, the failed attempt of the AMF did not change the MOF's policy objective to internationalise the yen. Instead, this was achieved through the promotion of the CMI framework, which is described as a 'functional equivalent' to the original AMF idea by MOF officials (Amyx, 2002:2).

iii. The MOF's Endeavours in Supporting the Development of CMI/CMIM

With regard to why the MOF has been actively promoting the development of the CMI, I argue that the unintended consequence of the new institutional arrangement (i.e. independence of the BOJ) is crucial when assessing the MOF's actions. From a historical institutionalist perspective, when viewing the MOF's involvements in a broader time span, two aspects are evident. Firstly, it is evident that contrary to what realist political economy predicts that Japan's actions are relational to the change of structural factors (see Chapter 2), the MOF's persistent engagements in promoting the developments of the CMI/CMIM is fulfilling its mandate of exchange rate risk management. As discussed in Chapter 3, this is the unintended consequence of redefining the respective mandates of the MOF (i.e. international cooperation; management of foreign exchange transactions) and the BOJ (i.e. price stability) in the 1998 *Bank of Japan Act*. Secondly, the policy objective to internationalise the yen is embedded in the MOF's engagement in developing the CMI. This is clearly exemplified in Japan's New Miyazawa Initiative as well as embedding yen's internationalisation in its subsequent support for developing the CMI.

The Longevity Issue

To reiterate the main arguments of realist political economy identified in Chapter 2, when conceptualising Japan's regional endeavours in the CMI/CMIM, these scholars often identify that power rivalry as the main variable (i.e. China and the US) and argue that the actions of these countries are responses to their counterparts' actions and status (i.e. relational). For instance, when debating on Japan's engagement in the CMI/CMIM, Grimes denotes it as a 'hedging' mechanism against the US' abandonment as well as 'leveraging' on the future actions of the IMF if the region were to suffer another financial crisis (Grimes, 2011: 208). Another instance is shown in the work of Terada and Ong (2011: 221) where they denote power rivalry as the main variable that spurred Japan and China to sign local currency BSAs in the wake of China's intention to internationalise the renminbi in late 2008.

As much as realist propositions provide insight into the issue, the first common problem exhibited in their propositions is overlooking the longevity of Japan's policy endeavours. For instance, the work of Terada and Ong (2011) is persuasive insofar as China has indeed been actively signing renminbi-denominated BSAs since late 2008 and has reached 24 agreements in 2013 (see Liao and McDowell, 2015) and 35 agreements in 2017 (see Eichengreen *et al*., 2018: 16). Meanwhile, Japan has also offered to arrange yen-denominated BSAs with ASEAN members beyond the CMIM framework in a similar timeframe (Terada and Ong, 2011: 221). As for Grimes (2011), his analyses encompass both the dynamics of US-Japan relations and Japan-China relations. Arguably the two central components of these observations are directed to an interactive policy responses (i.e. active or responsive action to sign BSAs) between countries, as well as the matter of currency (i.e. yen versus renminbi; yen versus dollar). However if one were to observe the policy endeavours in a greater time continuum (e.g. 1997-2017), it is evident that neither the actions of China nor the US were the main factors that spurred Japan to engage in the region.

In the aspect of time, one needs to take into account the MOF's endeavours under the New Miyazawa Initiative and the CMI framework. On 3rd October 1998, the Ministry announced the *New Initiative to Overcome the Asian Currency Crisis* (hereafter New Miyazawa Initiative). The New Miyazawa Initiative included two segments, one comprised of the total amount of US$15 billion of short-term financial capital aimed at assisting regional countries when undergoing economic reforms, whilst

the other is comprised of the equivalent amount of capital but were medium-to-long-term financial support for regional countries aimed at assisting their economic recovery (MOF, 1998b). The Initiative supported Malaysia in three instances (MOF, 1999g; 1999h; 1999j), the Philippines on two occasions (MOF, 1999a; 1999e), as well as once for Thailand (MOF, 1998f) and South Korea (MOF, 1999d). Amongst the seven cases in which the New Miyazawa Initiative was utilised, there was only one instance (i.e. Malaysia in June 1999) which Japan's assistance was provided via the dollar-denominated facility (MOF, 1999j). By contrast, the other six cases were medium-to-long-term facilities either in the form of guarantees or yen-denominated loans (e.g. two-step loans, ODA yen loans, project loans) (see MOF, 1999a, 1999e 1999d, 1999g; 1999h; 1999j). The fact that half of the available financial support facilities of the New Miyazawa Initiative were denominated in yen, and that there were more cases which the government agreed to provide medium-to-long-term facilities to regional countries, the political implications for these actions show that the Ministry's preference and tendency in utilising the yen rather than US dollars for regional financial cooperation (see similar account in Amyx, 2002: 10).

As for the case of the CMI framework, as shown in Table 4.2 the first local currency BSA was the two-way agreement signed between Japan and China in 2002 (ASEAN, 2002). In addition, Japan and Korea also reached the agreement to arrange a two-way credit line in their respective currencies equivalent to US$3 billion in November 2005 (BOJ, 2005a). Given the two BSAs were both signed prior to the 2008 global financial crisis, it demonstrates that Japan's pursue of local currency BSAs post-2008 were not relational responses to China's intention to internationalise the renminbi. Instead this corresponds to the MOF's response to fulfil its institutional mandate of managing exchange rate risk via the policy objective of yen's internationalisation.

In the aspect of currency, the question here is why most of Japan's BSAs under the CMI framework agreements use the dollar as a designated monetary unit rather than the yen? Firstly as mentioned in the previous section, the Ministry had no intention to challenge the existing international financial system by means of promoting yen's internationalisation. In fact, the Ministry even withdrew the nomination of Dr Sakakibara as Japan's candidate for the post of IMF's Managing Director in 2000, 'in

view of contributing to forming international consensus about [the position]' (Kuroda, 2000a: 2).

Secondly, signing dollar credit lines with regional countries benefit large Japanese manufacturing foreign direct investments (FDI) in the region and aligns with the foreign exchange rate management mandate designated to the MOF after the 1998 *Bank of Japan Act* (see Chapter 3). As will be demonstrated in Chapter 5, with the increased complexity to manage exchange rate risks after regional countries forfeit their *de facto* peg to the US dollar in the wake of the Asian financial crisis, large Japanese parent companies increased their invoicing currency in dollars when engaging in intra-firm trades with their wholly-owned overseas subsidiaries to assume exchange rate risks. Hence, financial stability in these countries implies less exchange rate volatility for these FDIs.

The signing of the 2002 yen-renminbi BSA as well as an increase of local currency BSAs in recent years can be attributed to the change from large Japanese FDIs (first wave of Japanese FDIs) to small and medium enterprises' (SMEs) FDIs in the region. For instance, the study of Ando (2010) on FDIs of Japanese SMEs found that similar to the first wave of outward FDIs, the majority of these Japanese SMEs (i.e. second wave) are also from the manufacturing sector and have large presences in Asia. However, what differs the second wave of outward Japanese FDIs to the first wave is that their manufactured products have different export destination. According to Ando (2010: 470), close to 70% of exports of Japanese SMEs go to Asian country, whereas only 40% of exports of large firms end up within the region. Probing into local production networks, Ando (2010: 472) found that not only do one-third of Japan's SMEs supply their intermediary products to firms in their downstream, but their major partners are also local manufactures (42%) as well as local SME wholesalers (30%), followed by Japanese manufactures (26%). Hence signing local currency swap arrangements would reduce the currency risks of Japanese SMEs as well as promote further investments of SMEs by means of reducing borrowing costs.

It is evident from the aforementioned examples that the MOF's various endeavours was due to the change of socio-economic and political context. This influenced the MOF's pro-active stance when engaging in regional financial cooperation, in which the emphasis on yen's internationalisation was the policy objective upheld by the Ministry as a means to reduce sudden capital reversal.

The MOF's Subtle and Persistent Endeavours to Develop the CMIM/CMI: 'Quiet Diplomacy' via the IIMA

It has come to somewhat of an agreement amongst academics that the MOF's attempt of internationalising the yen eventually met its demise in the early 2000s when ideas such as the Kobe Research Group's Asian Monetary Union proposal in 2002 and the Asian Development Bank's (ADB) Asian Currency Unit idea were both poorly received by the market (more discussion on this aspect in Chapter 6) and amongst ASEAN+3 governments (Katada, 2002; 2008: 407; Shimizutani, 2009: 27). However, I argue that the MOF has continued to 'test the waters' via its conventional subtle foreign policy approach.

I argue that the MOF's continuous effort to realise its organisational goal adheres to its conventional 'low-profile and incremental foreign policy model' of economic diplomacy (see Chapter 3). The work of Hook *et al*. (2002:) uses the case studies of the MOF's AMF and CMI proposals to demonstrate how differing foreign policy approaches have resulted in the diverging results of the two policy initiatives. One important segment denoted in this low-profile incremental foreign policy model is how Japan realises its policy goals via 'formal, informal, and proxy channels' (Hook *et al*. 2002). Yet instead of the conventional multi-lateral level proxies such as through the ADB (Katada, 2008), these proxies can also be found through domestic institutions (see Hook *et al.* 2002). In the case of the Ministry's persistent support of fostering the CMI/ CMIM and its linkage with exchange rate regime, this is demonstrated in the involvement of the Institute of International Monetary Affairs (IIMA).

The role of the ASEAN+3 Research Group Studies in regional financial cooperation is often overlooked. In fact, the importance of these studies is exemplified in the joint ministerial statements of the ASEAN+3 finance ministers' process from 2004 to 2015. In these statements, one of the three main policy themes under constant review is the studies conducted by the ASEAN+3 Research Group (the other two being CMI and ABMI) (see MOF, 2003-2009, 2010–2013, 2014a, 2015a). In addition, the purpose of the Research Group was identified and its substantial contribution was acknowledged in the 2011 *Joint Ministerial Statement of Finance Ministers' Meeting.* In the 2011 statement it states that 'the Research Group has played an important role in identifying and exploring subjects for possible regional financial cooperation from mid- and long-term point of views by mobilising knowledge and expertise of private

researchers and research institutions' (MOF, 2011). This implies that the studies conducted by the Research Group may act as an agenda-setting process for regional financial cooperation.

During the ten-year time period from 2004 to 2013, IIMA has engaged in the ASEAN+3 Research Group Studies for eight years (see Table 4.3). As shown in Table 4.3, IIMA has been one of the main private organisations that has undertaken commissioned work by the ASEAN Secretariat under the ASEAN+3 Research Group Studies. In regard to the issue regarding exchange rate regime and currency arrangements the IIMA has consistently conducted research on related topics in 2007 (i.e. *Toward Greater Financial Stability in the Asian Region: Exploring Steps to Create Regional Monetary Units*), 2008 (i.e. *Toward Greater Financial Stability in the Asian Region: Measures for Possible Use of Regional Monetary Units for Surveillance and Transaction*), 2010 (i.e. *Ways to Promote Foreign Trade Settlements Denominated in Local Currencies in East Asia*), and 2011 (i.e. *Possible Use of Regional Monetary Units - Identification of Issues for Practical use*). As demonstrated, the IIMA has indeed investigated on sensitive topics that may exert implications for the status of the international financial architecture. However, how can one argue that the IIMA acts as a proxy for the MOF?

There are two reasons. The first is associated with the special relationship between the MOF and the IIMA, whilst the second reason is due to the agenda-setting and sponsoring of these research themes. In regard to the former, it is noteworthy that the IIMA was founded and headed by President Gyohten Toyoo for more than 20 years (1995-2016). President Gyohten who formally served as the MOF's Vice Minister of International Affairs, is perceived as an important figure who belongs to the inner cycle of the Ministry. Consequently, there is a strong sense of trust and respect between President Gyohten and his successors. One instance is demonstrated during the 2013 International Symposium held by the IIMA, when the then Vice Minister of International Affairs Mr. Nakao Takehiko paid homage to President Gyohten by stating in his speech that '[he] feels very much at home here because Mr. Gyohten was my boss when I joined the Ministry of Finance in 1978' (IIMA, 2013: 68). The close relationship between IIMA and the MOF is also exemplified in President Gyohten's successor, Mr. Watanabe Hiroshi. Similar to President Gyohten, Mr. Watanabe also

served as the MOF's Vice Minister of Finance for International Affairs in 2004 and held positions such as the Director of the MOF's International Bureau.

In regard to the latter, this is associated with how the ASEAN+3 Research Group Studies are commissioned. Officially, MOF officials have claimed that the Ministry has arms-length relationship with the IIMA. This is largely due to the main financial contribution of the IIMA comes from the Bank of Tokyo-Mitsubishi UFJ (personal interview[30], 2016d). Nevertheless, in practice the close relationship between the two organisations is evident when evaluating how ASEAN+3 Research Group Studies are commissioned. First, the process begins with countries acting as sponsors for proposing certain research themes. Subsequently, the ASEAN secretariat will provide the details of these research themes in its invitations and circulate these to member countries (see ASEAN, 2011a). Given the IIMA acted as the leading organisation of half of the 26 research themes proposed/sponsored by the Japanese government during the time period from 2004 to 2013, it is evident that the MOF and IIMA have a close relationship and collaborate on issues of common interest (see Table 4.3). In fact the close collaboration between the IIMA and the MOF is not unprecedented. According to Hook *et al*. (2002: 9) authors identified the significant role of President Gyohten in arranging meetings with central bankers of the region which lead to the conclusion of bilateral agreements with Hong Kong, Singapore, Indonesia, Malaysia, Thailand, the Philippines and Australia that allowed Japanese intervention in their currency markets up to the amount of US$1 billion prior to the 1997 Asian financial crisis. This is not to claim that the Ministry has ownership over the IIMA or vice versa, but rather to indicate that the two organisations have a substantial level of mutual trust and understanding.

Table 4.3. ASEAN+3 Research Group Studies (2004-2013)

Year	Research Topics/Proposing Country/Institution	
2004	I. Towards a Regional Financial Architecture for East Asia **(Proposed by Japan)** - Institute for International Monetary Affairs	II. An Exchange Rate Arrangement for East Asia **(Proposed by Japan)** - Japan Centre for International Finance

[30] Interviewee is a senior official of the MOF.

Year	Research Topics/Proposing Country/Institution			
2005	I. Economic Surveillance and Policy Dialogue in East Asia **(Proposed by Japan)** - Institute for International Monetary Affairs (Lead Researcher)	II. Trade, Investment and Financial Integration in East Asia **(Proposed by Japan)** - Daiwa Institute of Research Japan (Lead Researcher)	III. Exploring Ways to Enhance the Functions of the CMI in the Medium Term (Proposed by China) - Institute for International Monetary Affairs (Crafted Summary report and Participated)	IV. The Role of Private Sector Development in Regional Economic Growth and Financial Integration (Proposed by China)
2006	I. Regional Coordination of Policy Measures Forward: Financial Market Liberalization and Capital Market Development **(Proposed by Japan)** - Institute for International Monetary Affairs (Lead Institute)	II. Liberalization of Cross-Border Capital Flows and Effectiveness of Institutional Arrangements against Crisis in East Asia **(Proposed by Japan)** - Daiwa Institue of Research (Lead Institute)	III. Fostering the Asset Management Industry for the Development of Capital Markets in the Region (Proposed by Korea) - Daiwa Institute of Research (* Lead Institute)	
2007	I. Toward Greater Financial Stability in the Asian Region: Exploring Steps to Create Regional Monetary Units - Institute for International Monetary Affairs (Lead Institute)		II. Financial Conglomeration in the East Asian Region: Recent Trends and Implications for Regional Financial Market Development - Daiwa Institute of Research (Lead Institute and Sole Institute)	
2008	I. Toward Greater Financial Stability in the Asian Region: Measures for Possible Use of Regional Monetary Units for Surveillance and Transaction - Institute for International Monetary Affairs (Lead Institute)	II. Development of On Corporate Credit Information	III. Developing the Capital Markets to Widen and Diversify SME Financing: The Korean Experience	
2009	I. Development of Corporate Credit Information Database and Credit Guarantee System	II. The Trend of Trade, Foreign Direct Investment and Monetary Flows in East Asia, and its Policy Implication - Nomura Research Institute (Lead Institute)	III. New Financial Products and Their Impacts on the Asian Financial Markets	
2010	I. Ways to Promote Foreign Trade Settlements Denominated in Local Currencies in East Asia - Institute for International Monetary Affairs (Lead Institute)		II. Regulation and Supervision for Sound Liquidity Risk Management for Banks	

Year	Research Topics/Proposing Country/Institution		
2011	I. Possible Use of Regional Monetary Units - Identification of Issues for Practical use - Institute for International Monetary Affairs (*Lead Institute)	II. Lessons from Asia's Experiences with Sudden Capital Flows	III. Fiscal and Financial Impacts of the Climate Change and Policy Challenge in East Asia
2012	I. Dealing with Commodity Price Volatility in East Asia	II. Roles and Functions of the Banking Sector in the Financial System of the ASEAN+3 Region - Japan Research Institute (Lead Institute)	III. The Role of Regional Financial Safety Nets in Global Architecture
2013	I. The International Discussions on the Credit Rating Agencies and Enhancing Infrastructure to Strengthen the Regional Credit Rating Capacity - Institute for International Monetary Affairs		

Source: MOF (2003-2013)

In brief, the Ministry has proposed numerous regional financial cooperation initiatives throughout the investigated time phase. These include the AMF, the New Miyazawa Plan, fostering the CMI/CMIM via suggesting a currency basket exchange rate regime as well as attempting to shape the agendas of the ASEAN+3 finance ministers' process through the IIMA's engagements in the ASEAN Research Group studies. Although theses policy initiatives seem disarrayed at first sight, what is consistent in these proposals is that they all exemplify the Ministry's active engagement in fulfilling its mandate to manage exchange rate risks. This is the direct result of the new institutional arrangement that was put in place after the *1998 Bank of Japan Act.*

2. The BOJ's Low-Profile Approach to Fostering Regional Financial Stability

In this section, I turn to debate on the BOJ's engagements in developing short-term liquidity support mechanism. This is achieved via two separate debates. The first debate is a critical analysis on whether the realist account of a competing relation between Japan and China is the main underlying reason that the region has witnessed a proliferation of local currency BSAs. In turn, I will provide an assessment of the BOJ's approach to the Ministry's policy to internationalise the yen. I begin with the BOJ's engagements in developing the CMI/CMIM.

i. The BOJ's External Relations and Interactions with Regional Countries: Conflict or Cooperation?

I argue in this section that contrary to realist predictions, the BOJ's endeavours to maintain financial stability with regional countries did not exert any geopolitical considerations. As mentioned, there are two main authorities that are involved in developing the CMI/CMIM as well as signing BSAs. The first actor is the MOF which, as noted in Chapter 3, has the mandate over utilising the country's foreign exchange reserves (e.g. US dollars). The other being the BOJ which has the mandate to utilise yen assets. If realist scholars posit that Japan and China's increase signing of local currency swap agreements with regional countries are evidence that power rivalry is the underlying reason for the developments of Asia financial regionalism, then one must not leave out assessing the BOJ's engagements in these processes.

As mentioned in the previous section and Chapter 2, realist accounts of the power rivalry relations amongst Japan, China, and the US often identify the 2008 global financial crisis as the turning point due to the seemingly dialectical power status change between China and the US. One example of these altercations amongst the three countries is depicted in the aftermath of the global financial crisis concerning the role of the IMF. On the one hand, Japan's US$100 billion Borrowing Agreement with the IMF was considered as the country's proactive stance to appeal for the continuation of the dollar standard and support of the US government (Kamikubo, 2012). On the other hand, the then Governor of the People's Bank of China (PBC) Mr. Zhou Xio-chuan's (2009) statement suggesting the possibility of replacing the current dollar standard system with the IMF's SDR in March 2009 was considered by many as China's assertive foreign policy (Jiang, 2010, Kamikubo, 2012). These macro-level dynamics seemed to fulfil the predictions of realist political economy concerning the relational political actions of the three governments. Yet if one sheds light on the dynamics between the BOJ and the PBC, other evidence suggest that the two organisations have a cooperative rather than contentious relation.

To begin with, one must first point out that the identified altercation between Japan and China concerning the mandate of the IMF was not a direct interaction between the two central banks. In fact, Japan's decision to support the IMF was the political decision of then Prime Minister Aso Taro rather than the BOJ (see IMF, 2009).

On China's part, it has been identified in the work of Jiang (2010: 615-619) that after Governor Zhou made the remarks, the Chinese government later denied in July that Zhou's statement represented the Chinese government's official policy stance concerning the outlook of an exchange rate regime. These examples demonstrate that the altercation between the two countries after the global financial crisis may have been overstated.

In addition, a more co-operative instead of contentious relation between the two countries is exemplified when the central bank governors of the Plus 3 countries decided to transform the informal dialogues amongst the BOJ, the PBC, and the Bank of Korea (BOK) into a regularised and formal Governors' meeting aimed to 'contribute to monetary and financial stability in the region' in December 2008 (BOJ, 2008b). The Tripartite Governors' Meeting has been taking place on an annual basis from 2009 to 2017, and the host institution also acts as the chair for the meeting on a rotation basis (China, Japan, to Korea) (see Table 4.4). What is interesting in these meetings is that the three central banks governors' not only exchanged views on the economic and financial developments of the three countries, but in meetings from 2009 to 2012 their discussions also included 'regional monetary cooperation' (see also Table 4.4.). Hence beyond the ASEAN+ 3 financial ministers' process, the consistent co-operative dialogues amongst the three Plus 3 countries act as further evidence that realists' conceptualisation of Japan's regional financial cooperation may not be an accurate depiction of their interactions.

Table 4.4. Tripartite Governors' Meeting Amongst the Bank of Japan, the People's Bank of China, and the Bank of Korea (2009-2017)

Time	Location	Host Institution and Chair	Themes
2009 (23 July)	Shenzhen, China	People's Bank of China	- Reviewed recent economic and financial developments in China, Japan and Korea - Exchanged views on macro-prudence, financial stability, regional monetary cooperation and others
2010 (3 August)	Tokyo, Japan	Bank of Japan	- Reviewed recent economic and financial developments in the three countries - Exchanged views on macro- prudence, financial stability, regional cooperation and other issues of common interest

Time	Location	Host Institution and Chair	Themes
2011 (29 July)	Jeju, Korea	Bank of Korea	- Reviewed recent economic and financial developments in the three countries - Exchanged views on macro- prudence, financial stability, regional cooperation and other issues of common interest
2012 (1 August)	Dalian, China	People's Bank of China	- Reviewed recent economic and financial developments in the three countries - Exchanged views on macro- prudence, financial stability, regional cooperation and other issues of common interest
2013 (24 June)	Basel, Switzerland	Bank of Japan	- Exchanged views on recent economic and financial developments in the three countries
2014 (29 June)	Basel, Switzerland	Bank of Korea	- Exchanged views on recent economic and financial developments in the three countries - Discussed BOK's presentation on population ageing and its policy implication
2015 (4 September)	Ankara, Turkey	People's Bank of China	- Exchanged views on recent economic and financial developments in the three countries
2016 (11 October)	Tokyo, Japan	Bank of Japan	- Exchanged views on recent economic and financial developments in the three countries
2017 (13 September)	Incheon, Korea	Bank of Korea	- Exchanged views on recent economic and financial developments in the three countries

Source: BOJ (2011a, 2013a, 2014c, 2015, 2016a, 2017b), PBC (2010, 2012), BOK (2009)

The second example that the BOJ's engagements did not exert geopolitical considerations is demonstrated in the BOJ's own BSAs. With closer observation on the signing of BSAs between the BOJ and other countries when the Bank acts as the principal, it is evident that these arrangements are not confined to the Asian region. For instance, although the BOJ did conclude currency swap agreements with Asia countries such as the MAS in November 2016 (BOJ, 2016b), the Bank also signed currency swap agreements with the Federal Reserve Bank of New York (FED-NY), the European Central Bank (ECB), Swiss National Bank (SNB), the Bank of Canada (BOC), and the Bank of England (BOE) to enhance the financial stability of the concerned markets (BOJ, 2010b; 2011c; 2011d, 2011e, 2011f). Moreover, the BOJ Governor Kuroda Haruhiko accommodated the PBC Governor Yi Gang (successor of Governor Zhou Xio-chuan) on 10 May 2018 to discuss further cooperation between the two central

banks. One of the main discussions between the two governors was on the theme of signing bilateral local currency swap arrangement between the two central banks which the two sides have at this stage 'reached consensus and will [be working] promptly to finalise the agreement' (BOJ, 2018).

On China's part, the work of Lin *et al.* (2016) examines the factors that affects China's decision to sign currency swap agreements from 2008 to 2014. Their empirical results show that the level of trade interactions measured by total trade or exports show consistent positive correlations with the choice of setting up BSAs. Another positive correlation is shown in the results of the partner countries' economic size as well as whether they have free trade agreements with China or are considered as comprehensive strategic partnerships by China's Ministry of Foreign Affairs (see Lin *et al.* 2016). Moreover although China's BSA partner countries include regional governments/regimes in Asia such as Indonesia, Thailand, Malaysia (comprehensive strategic partners) and South Korea, ASEAN (strategic partners), the government has also signed BSAs with other regional governments/regimes in Europe and North America such as the European Union, the United Kingdom, Switzerland, and Canada (see Eichengreen *et al*., 2018). Once again, these evidence demonstrate that China's BSAs are signed on the basis of economic rationale (i.e. trade relations) rather than geopolitical considerations in response to the BOJ's actions.

These examples demonstrate that interactions amongst the BOJ, the PBC, and the BOK are against the realist account of conflict or relational responses, especially after the 2008 global financial crisis. Similarly, when evaluating the BOJ's endeavours in signing BSAs with other monetary authorities, these engagements also do not exert any geopolitical considerations which are often mirrored in state actions of hedging, soft, and hard balancing.

ii. The BOJ's Secondary Role in the CMI/CMIM and Alternative Approach towards Internationalising the Yen

If the signing of BSAs cannot be conceptualised from a realist perspective, what are the possible factors that shape these policy outcomes? In this final section, I debate on the underlying reason for the BOJ's endeavours in regional financial cooperation. This includes the assessment of whether the BOJ and the MOF's engagements in developing

short-term liquidity support mechanism and internationalising the yen currency are coherent? I posit that although the two organisations cooperate closely on the working-level, the BOJ's actions show that it has adopted an alternative approach to realising its organisational goal of maintaining price stability. Applying the analytical framework proposed in Chapter 2, the actions of the BOJ resembles *mutualistic-symbionts* in which aims at preserving and enhancing the existing institutional arrangement.

As debated in Chapter 3, after the Bank gained its independence status, the norm of the maintenance of stability of the financial system was institutionalised and defined as the ultimate policy goal of the BOJ in Clause 2 of Article 1 in the *1998 Bank of Japan Act* (BOJ, 1998). One of the unintended consequences of ensuring its complete mandate on monetary policy was conceding its power to actively engage in international financial cooperation as clarified in Article 42 (BOJ, 1998: 263). Yet given internationalising the yen was framed by the Ministry as the method to increase regional financial stability and the MOF has embedded the policy initiative within the CMI/CMIM agenda, this seemingly allowed the Bank to 'actively' engage in the signing of bilateral credit lines either as the principal or as the agent for MOF[31]. Nevertheless, this is not the case.

The Bank's alternative approaches on signing BSAs and yen's internationalisation exemplifies how processes of history have affected the respective behaviours and policy decisions of the two organisations. With regard to BSAs, as shown in Table 4.5 if one evaluates the BOJ's involvements in signing currency swap facilities under the CMI/CMIM framework, it is evident that the BOJ has mainly served a secondary role (i.e. as an agent) in these developments (MOF: 16; BOJ: 6). This indicates that the decision to sign with a particular regional country is mainly based on the discretion of the Ministry, whilst the Bank merely functions as the executing organisation. By contrast, if one compares the BOJ's engagements within the CMI/ CMIM framework and the Bank's individual initiatives (e.g. cross boarder collateral arrangements, local currency swap facilities, BSAs), it is evident that the BOJ is more active in its own initiatives (BOJ: 12; BOJ under CMI: 6) (see Table 4.5). As shown in Chapter 2, this resembles the actions of *mutualistic-symbionts* in which agents seek to preserve the existing institutional arrangement by following stipulated rules.

[31] BOJ acts as an agent for the MOF in signing BSAs when the designated currency is in US dollars.

Table 4.5. The Bank of Japan's Engagements in Financial Cooperation in Asia (2000-2017)

	CMI-Agent (US dollar)	CMI Principal (JP Yen)	BOJ initiatives	Agent of MOF (US dollars)
2000-2008	**2001** - Japan- Thailand - Japan-Korea Agreement - Japan-Malaysia **2003** - Japan-Korea Agreement - Japan- Singapore Agreement **2005** - Japan-Thailand Agreement - Japan- Indonesia Agrement - Japan- Singapore Agreement **2006** - Japan- Korea Agreement - Japan- Philippines Agreement **2007** - Japan-Thailand Agreement	**2002** - Yen-Renminbi Swap Facility **2005** - Yen-Won Facility **2008** - Yen-Won Facility of 2005 Enhanced	-	**2008** - Japan-India Swap agreement

	CMI-Agent (US dollar)	CMI Principal (JP Yen)	BOJ initiatives	Agent of MOF (US dollars)
2009-2017	**2009** - Japan-Indonesia Agreement **2014** - Japan-Philippines Agreement **2015** - Japan-Singapore Agrement **2017** - Japan-Thailand Agreement - Japan-Philippines Agreement	**2009** - Yen-Won Facility of 2008 enhanced **2010** - Extension of Yen-Won Facility **2011** - Increase in Size of Yen-Won Facility	**2009** - BOE, ECB, FED, BOJ, SNB Swap arrangement (BOJ-FED credit line) **2010** - BOJ- FED New York Swap Arrangement **2011** - Japan-Thailand Cross-Border Collateral Arrangements - Japan-Swiss Swap Arrangement - Japan-ECB Swap Arrangement - Japan-Canada Swap Arrangement - Japan-United Kingdom Swap Arrangement **2013** - Japan-Singapore Cross-Border Collateral Arrangements - Japan-Indonesia Cross-Border Collateral Arrangements **2015** - Japan-Philippines Cross-Border Collateral Arrangements **2016** - Japan -Australia Local Currency Swap - Japan - Singapore Local Currency Swap	**2014** - Japan-India Swap Agreement

Source: MOF (2002-2006), BOJ (2002, 2005a-d, 2006a, 2006b, 2007c, 2008a, 2008c, 2009a-c, 2010b-c, 2011b-g, 2013c, 2013d, 2014a-c, 2015a, 2015c, 2016b-c, 2017a, 2017c)

To reiterate, the Ministry's policy objective to internationalise the yen is closely linked to addressing the common problem of most Asian economies prior to the Asian

crisis (i.e. dollar peg) via the adoption of a currency basket exchange rate regime that consist of US dollar, euro, and Japanese yen. Evidence also show that the BOJ did not follow suit with the MOF's approach. The BOJ's actions in promoting yen's internationalisation also demonstrate that the organisation act similar to *mutualistic-symbionts* that seek to preserve and enhance the existing institutional arrangement. To begin with, when surveying the publicised minutes of BOJ's Monetary Policy Meeting, there were only three occasions that yen's internationalisation was mentioned and in two instances that the policy objective were discussed (see BOJ, 1999; 2000, 2003a). At first sight, this tentatively suggests that BOJ may have not supported the policy initiative. Nevertheless, if one were to further review the public remarks of numerous BOJ senior officials, it is evident that the Bank did support the policy initiative. The BOJ merely supported it via a less political and vocal approach. Once again, this relatively reserved political stance on engaging in the MOF's regional financial cooperation initiatives is in line with the stipulated rules concerning the Bank's secondary role in international financial cooperation.

For instance, during the BOJ Governor's routine press meeting on 13 August 1998, then BOJ governor Hayami Masaru (1998-2003) was asked about how the Bank has reviewed the theme of issuing financial bills and what the expectations are in regard to future developments. In response, Mr. Hayami stated that he believes that the first step to yen's internationalisation is hinged upon fostering the financial bill market by means of a public offering scheme, as well as enhancing the convenience and usability of yen for non-residents that hold yen assets. (Hayami, 1998).

In 2001 Mr. Hayami restated the Bank's approach to yen's internationalisation in his *My Central Bank Doctrine* (私の中央銀行論) at the 125-year anniversary celebration of his *alma mater* Hitotsubashi University. In his remarks, he first identified that he considers central bankers as '[guardians] of the integrity of money' and that their most crucial mandates are: 1) ensuring the 'complete functions' of money is fulfilled; 2) ensuring the 'credibility' of the currency (Hayami, 2001). Linking these mandates to the policy initiative of yen's internationalisation, he denotes that 'for many years based on many perspectives, I have advocated that in order to achieve yen's internationalisation we need to accumulate our efforts on various aspects, for instance, increasing the convenience of yen's usage for non-residents, and developing deeper

financial capital market[32]' (Hayami, 2001). These statements demonstrate that the BOJ's approach to yen's internationalisation is based on increasing yen's liquidity via fostering the necessary market infrastructures (e.g. real-time gross settlement system). This differs from the Ministry's proposal of a new coordinated exchange rate regime in Asia.

In addition to Mr. Hayami's statements, the different approaches adopted by the Bank and Ministry to yen's internationalisation is explicitly shown in the public remarks given by Deputy Governor Fujiwara Sakuya on November 29, 1999. When remarking on the linkage between the Asian crisis and the MOF's attempt to promote yen's internationalisation, Mr. Fujiwara stated as follows:

"According to the [report of the Ministry's advisory Group the Council on Foreign Exchange and Other Transactions], one of the main reasons for the recent crisis was that Asian countries had linked their currencies to the dollar without paying due attention to trade and investment ties with other countries. Now, having been forced to de-couple their currencies from the dollar and adopt a floating exchange rate regime, some Asian countries may consider it desirable to link their currencies to a currency basket. The basket is composed of multiple currencies, which, given the close trade and investment relationships between the Asian region and Japan, naturally includes the yen….In addition a single key currency system based on the dollar runs the risk of developments in the US economy triggering significant adverse effects on the world economy. In this regard, [the council] hopes that the euro and the yen will complement the dollar to contribute to the stability of the international monetary system."(Fujiwara, 1999*)*.

In regard to the BOJ's position on the issue, Mr. Fujiwara stated as follows:

'The Bank of Japan has repeatedly stated the importance of improving financial market infrastructure to make it more conducive to the internationalisation of the yen. Greater usability of the yen both domestically and abroad would enhance its international credibility, thereby promoting internationalisation….Related to enhanced efficiency and

[32] Author's translation

stability, one of the important issues we have focused on recently is the liquidity of Japanese government bond markets. When one wants to hold yen assets, government bonds with negligible credit risks are likely to be selected for investment. If a large volume of transactions can be executed quickly with a minimum impact on prices in government bond markets, in other words if the markets are highly liquid, government bonds will become more attractive as an investment instrument…' (Fujiwara, 1999)

The above mentioned makes apparent that the Bank and the MOF had different approaches towards yen's internationalisation. The BOJ's approach for fostering market infrastructure (e.g. real-time gross settlement system) and its linkage to internationalising the yen has been consistent. This is proven not only from the public remarks of Mr. Hayami (August 1998; April 2001), Mr. Fujiwara (November 1999), but also the Monetary Policy Meeting on September 2000, where it was clearly stated in the third point of consideration for the BOJ's monetary policy in the foreseeable future that 'it was necessary to improve the infrastructure of various markets in order to facilitate the flow of funds from overseas and promote the internationalisation of the yen' (BOJ, 2000: 2).

Consistency in supporting yen's internationalisation is demonstrated in the keynote speech of Deputy Governor Mr. Nishimura Kiyohiko (2008-2013) where he not only reemphasised the BOJ's adherence to 'improving financial infrastructure, including the payment and settlement system', but also remarked on China's attempt to internationalise the renminbi by stating 'taking into consideration the long and profound ties between the two countries [and importance in] Asian regional trade, mitigating foreign exchange risks incurred by exporters and importers, and reducing their transaction costs, by promoting trade settlements denominated in both currencies would have considerable significance' (Nishimura, 2012). These statements show that BOJ's approach to yen's internationalisation has been consistent, and it also has also an open attitude towards renminbi's internationalisation.

IV. Conclusion

In conclusion, contrary to what many realist scholars have suggested that Japan's engagements in the development of CMI/CMIM are *reactive* responses to the US and China at different time junctures, I argued in this chapter that the underlying reason that

contributed to Japan's active engagements in developing the CMI/CMIM is mainly due to the change of socio-economic and political context (i.e. public perception that exchange rate management is necessary and the occurrence of the Asian crisis). The unintended consequence of the *1998 Bank of Japan Act* that clearly identified the respective mandates of the MOF (i.e US dollar assets) and the BOJ (i.e. yen assets), as well as the relegating the BOJ to a secondary role in international cooperation have been manifested in the different approaches adopted by the Ministry (i.e. emphasis on establishing exchange rate regime) and the Bank (i.e. emphasis on building market infrastructure) on the policy initiative of yen's internationalisation and developing the CMI/CMIM.

I began with a brief overview of the developments of the CMI/CMIM and how the Japanese government has actively engaged in these developments in both tangible and intangible ways. It was identified that notably prior to 2005 ASEAN+3 Finance Ministers' meeting the majority of Japan's BSAs were one-way agreements. Furthermore, although most of the BSAs under the CMI were renewed into two-way agreements, it is shown that Japan's BSAs are more favourable to its contracting parties with regard to the respective volume of dollar commitments pledged. Based on how Japan has engaged in these processes, it is evident that the country has been actively engaged in developing the CMI/CMIM.

In the next section, the main debate was on the underlying reasons why Japan has actively and consistently engaged in developing the CMI/CMIM. This was achieved via two respective analyses. The first analysis is on the MOF's involvement in these developments. I argued that the underlying reason for the MOF's active engagements in fostering the CMI/CMIM is due to the change of socio-economic and political context in the early 1990s (e.g. ideas of yen bloc or APEC currency unit). The change affirmed the Ministry's organisational mandate and demanded it's active involvement in exchange rate risk management, whilst the occurrence of the Asian crisis also contributed to the strengthening of this socio-economic and political context. As soon as the Ministry considered yen's internationalisation as the policy objective that would reduce exchange rate risks, the organisation has been consistently linking the policy goal with its regional financial cooperation initiatives. These attempts include: 1) promoting yen's internationalisation through the yen facilities under the New Miyazawa Initiative; 2) signing local BSAs under the CMI; 3) promoting a

currency basket regime which composed of yen, dollar, and euro in the ASEAN+3 finance ministers' process; 4) using the IIMA as a proxy institution to shape the discussion of exchange rate regime through the ASEAN+3 Research Group studies. Although the aforementioned policies seem disarrayed, what remains consistent is the MOF's active engagement in fulfilling its mandate. Through this debate, it demonstrates the limitations of considering Japan's involvement in the CMI as responses to the US and US-led international financial governance structure, as well as reactions to China's signing of BSAs after the global financial crisis. Notably the MOF was able to adopt the *layering* strategy to reframe the Hashimoto Cabinet's policy initiative of yen's internationalisation from focusing on capital account deregulation for the competitiveness of Japan's financial institution and Tokyo as an international financial market (i.e. offensive logic), to one that fulfils the socio-economic and political context of 'active management of exchange risks' (i.e. defensive logic).

In the subsequent analysis, the main debate was on the BOJ's engagements in these processes. This was achieved by evaluating two points. Firstly, I critically analysed whether the realist account on Japan and China's rivalry relation post-2008 is accurate and how the Bank has approached the developments of the CMI/CMIM. It was argued that the BOJ and the PBC have developed a more cooperative rather than a conflictual relationship post-2008. One example is the formalised Tripartite Governors' Meeting amongst the BOJ, PBC, and the BOK in the immediate aftermath of the 2008 global financial crisis, and how these meetings have been routinely held annually from 2009. In the aspect of maintaining financial stability via fostering the CMI/CMIM or internationalising the yen, I identified that the BOJ has approached these policy initiatives by honouring the existing institutional arrangement (i.e. the MOF at the forefront for international financial cooperation) and thus resembles the actions of *mutualistic-symbionts* identified in Chapter 2. In terms of BSAs, the BOJ plays a secondary role, and in addition, has been actively engaged in signing bilateral swap facilities (e.g. cross-border collateral facilities, local currency BSAs) beyond the confinements of the ASEAN+3 grouping. This indicates that the BOJ's approach to signing BSAs did not exert any geopolitical considerations.

In the second debate, I analysed the BOJ's approach to internationalising the yen. The numerous statements of senior BOJ officials make apparent that the BOJ did not voice their support of the Ministry's emphasis on changing the exchange rate

regime (i.e. currency basket) but rather adopted an alternative approach with the emphasis on fostering market infrastructure. The different emphasis of the two organisations exemplifies institutional goals have shaped how these actors have engaged in these policy initiatives. In other words, the reason for Japan's relatively coherent state actions in fostering the CMI/CMIM is due to the unintended consequences of the newly established institutional arrangement in 1998.

After debating on the underlying reason that shaped the actions of the MOF and the BOJ, I will demonstrate in the next chapter why the proposition that states are power containers should be problematised and not be taken as a given. This will be achieved by the assessment of how private sector actors have responded to the MOF's policy objective of yen's internationalisation and subsequently the development of the CMI/CMIM.

Chapter Five. Japanese Private Sectoral Actors' Responses to the Developments of the Short-term Liquidity Support Mechanism

I. Introduction

After debating on why the Ministry of Finance (MOF) and the Bank of Japan (BOJ) have engaged in fostering the Chiang Mai Initiative (CMI), in this chapter I turn to investigate how private sector actors in Japan have responded to these developments. The analysis is of great significance to this thesis insofar as it validates the central thesis proposition that states are not power containers. It demonstrates that in the case of Japan the government's ability to mobilise support from the private sector in regional financial cooperation policies is not definite and should be problematised. Hence this evaluation also serves as a response to both neo-liberal institutionalist and neo-realist approaches to Asian financial regionalism. In both cases I challenge their shared perception that states are unitary actors, whilst also argue against the 'functionalist logic' proposed by neo-liberal institutionalism.

In this chapter, I focus on three major private sector industry associations. First, the Japan Business Federation (or *Keidanren*) which mainly represents the interest of manufacturing corporations in Japan. Second, the collective organisation of Japan's banking industry, namely the Japanese Bankers Association (JBA). Third, the Japan Securities Dealers Association (JSDA), which is the lobby organisation for Japan's securities industry.

The main proposition put forward here is that the most important factor that affected how these private sector actors have responded to the developments of the CMI/CMIM is whether they perceive the mechanisms as beneficial and effective to their daily business operations. In the case of short-term liquidity support mechanism, private sector actors have paid less emphasis on these developments since its endorsement in 2000. By contrast, private sector actors have devoted most of their efforts in building up their own firewalls via reinforcing their respective risk management systems. In addition the banking sector have adopted strategies of showing intentions to comply with international regulations (e.g. commercial banks: Basel I, II, III) to demonstrate the soundness of their business operations. This does not indicate that private sector actors are not in favour of developing the CMI. Instead, if

private sector actors perceive these governmental engagements as beneficial to other policy goals upheld by them (e.g. internationalisation of yen), they would not oppose them. In other words, the most important factor that shapes the behaviours of these private sector actors is whether these governmental actions/goals align with their respective economic interests, rather than the mobilisation of the state.

The chapter is arranged into two sections. In the first section, I focus on one of the most important industrial associations in Japan, namely the *Keidanren*. Being the recipient of corporate finance for investments, the evaluation provides one insights into how they have responded to the developments of the short-term liquidity support mechanism. In the second section, I turn to evaluate two suppliers of corporate finance for investments, which are the JBA and the JSDA.

II. Recipient of Corporate Finance: *Keidanren*

In this section, I assess the *Keidanren's* responses to the developments of the CMI/ CMIM. My proposition is that the organisation has exhibited limited interest in the developments of the CMI due to the misalignment of its economic interests with the short-term liquidity support mechanism.

Keidanren is arguably the most significant lobbying organisation in Japan. The Federation is comprised of 1340 representative companies in Japan, and also 109 national wide industrial associations and 47 regional organisations (Keidanren, 2017). Notably, commercial banks are also members of the organisation, and also take up important positions. For instance, the chairman of Committee on Economic Law, as well as one of the two chairmen of the Committee on Finance and Accounting are individuals from the Bank of Tokyo-Mitsubishi UFJ (i.e. Mr. Nagayusu Katsunori) and Sumitomo Mitsui Banking Corporation (i.e. Mr. Kunibe Takeshi). However, when evaluating the current and past chairmen of *Keidanren*, it is evident that the organisation is headed by personnels from influential manufacturing corporations (e.g. Toyota Motors: Toyodo Shoichiro and Okuda Hiroshi; Canon Inc.: Mitarai Fujio) and heavy/chemical industries (e.g. Sumitomo Chemicals: Yonekura Hiromasa).

Nevertheless the *Keidanren's* passive attitude towards the development of the CMI/CMI is puzzling. As shown manufacturing industry constitutes one of the most significant segment of the *Keidanren* and a large proposition of their business transactions have been with certain ASEAN countries (i.e. Thailand, Philippines,

Indonesia) since the mid-1980s (see Taguchi, 1994: 347). Theoretically this would suggest a zealous attitude towards the development of the CMI/CMIM. On the contrary although the organisation has not issued any public statements (e.g. policy proposals) against the government's endeavour to foster the short-term liquidity support mechanism, equally they have also not exhibited significant interest in the CMI in the early 2000s. The issue is further complexed when including two additional factors: 1) *Keidanren* was a strong advocate of yen's internationalisation along side the MOF; 2) the organisation has began to advocate the importance of developing the CMI/CMIM after 2008. What accounts for this diverging support from the *Keidanren?*

There are two aspects to this misalignment of economic interests. The first is the organisation's policy preference for yen's internationalisation over the CMI. The second is associated with the aspect of risk perception. I begin with the discussion on the first aspect.

1. Policy Preference for Yen's Internationalisation: A Case of Successful Mobilisation?

The reason why the *Keidanren* exhibited more interest in yen's internationalisation is not a case of successful mobilisation. Rather it is due to the policy objective fulfils its economic interest. Applying the analytical framework proposed in Chapter 2, it is evident that the *Keidanren's* expressed policy preference for yen's internationalisation shaped the socio-economic and political context that enabled the MOF to push for the policy. These interactive dynamics resembles to what Mahoney and Thelen (2010: 30) referred to as 'coalition formation'. As demonstrated in Chapter 4, this eventually enabled the MOF to remain at the forefront of regional financial cooperation policymaking and its strong involvement in exchange rate risk management after the Asian financial crisis.

In order to demonstrate why yen's internationalisation fulfils the *Keidanren's* economic interests, one must take into consideration two interrelated aspects. In regard to the first aspect, it is important to consider macro-level dynamics when identifying the underlying economic rationale for the *Keidanren* to promote yen's internationalisation. On the surface, promoting yen's internationalisation seemingly contradicts with the economic interest of the *Keidanren*. For instance, many have

argued that an important component of the capitalist developmental state of Japan is the government's control on state finance (see Johnson, 1982; Wade, 1990; Evens, 1995; Woo-Cummings, 1999). Yet, currency internationalisation not only significantly reduces the government's ability to influence domestic interest rates for allocating capital resources, but also limits the government's ability to manipulate exchange rate values for the purpose of increasing export competitiveness[33] (Kenen, 2011: 6). Moreover, in tandem with the increase in international circulation of domestic currency is exchange rate appreciation, which further jeopardises Japan's export sector (Chey, 2013).

The problem of yen's exchange rate value was a significant political problem for Japan in the 1980s. As discussed in Chapter 4, the historical backdrop of the 1985 Plaza Accord was due to the Japanese government being heavily criticised by the US government for contributing to its current account deficit in the early 1980s (see Grimes, 2002). The burgeoning pressure from the US government on Japan to reduce its trade surpluses and restore the global imbalance by 'bringing down the dollar' is shown in the 1983/4 Yen-Dollar Accord negotiations (Brown, 1994). After the signing of the Plaza Accord, this led to the drastic appreciation of the yen. To illustrate, the nominal exchange rate between dollar and yen ascended from 260 yen per dollar in early 1985 to 125 yen per dollar in early 1988, and went beyond 90 yen per dollar in 1994 (Obstfeld, 2009: 66). Without doubt, the main victim of the soaring appreciation of the yen was Japan's export sector.

Nevertheless, the response of the *Keidanren* is puzzling for two reasons. Firstly, the *Keidanren* refrained from openly pressuring the government to address the problem of yen's appreciation. Secondly, not only was the *Keidanren* silence in this process, the organisation actually stated that yen's appreciation will be beneficial for Japan in the foreseeable future. For instance when the yen-dollar exchange rate surged beyond 90 yen per dollar in 1994, the *Keidanren* put forward its first comprehensive strategy policy proposal (i.e. *Determination to Achieve Reforms and New Ideas*). The 1994 proposal not only denoted that 'private sector must take the lead in forging a bright outlook for the 21st century', but also approached this via initiatives such as

[33] The concept is famously put forward by Robert Mundell and Marcus Fleming also known as the Mundell-Fleming model. The so-called Mundell-Fleming model argues that any given economy cannot maintain a fixed-exchange rate, unfettered capital mobility, and independent monetary policy. This trade off is widely known as the 'unholy trinity' (see Mundell, 1968).

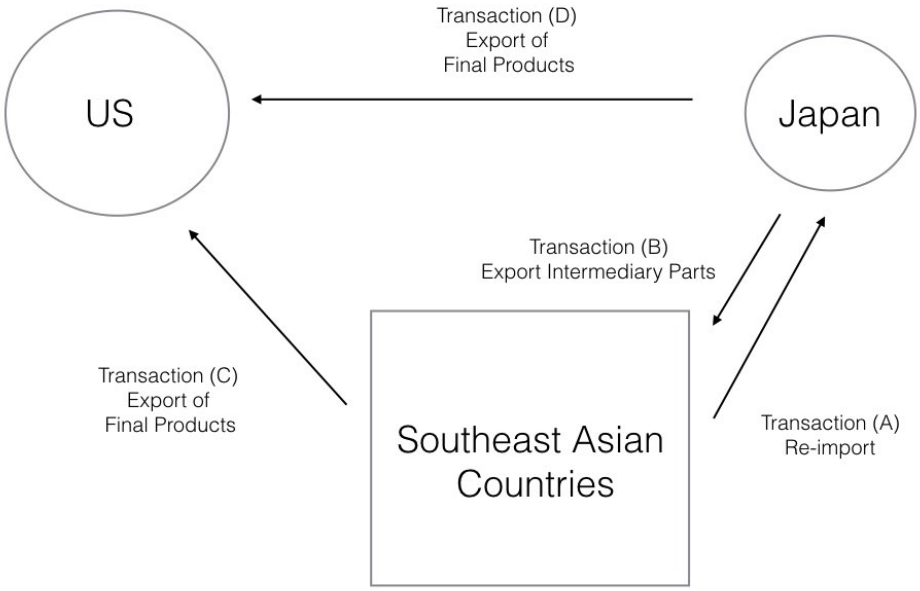
'improvement in market access" and "correction of price disparities between Japan and the rest of the world,…'(Keidanren, 1994: 1). The same proposal also stated that the *Keidanren* hopes to 'work for a deeper mutual understanding with the private sector in the United States and Europe through open and practical dialogue and international industrial cooperation' (Keidanren, 1994:1). The proposal exemplifies that although the appreciation of the yen is against the economic interest of the *Keidanren*'s member firms, the pressure to correct the global imbalances was substantial to the extent that opposing it may further jeopardise their business transactions with foreign counterparts. This constitutes as an important aspect of the *Keidanren*'s economic rationale for supporting yen's internationalisation.

In regard to the second aspect, although yen's internationalisation may negatively affect Japan's export sector, if one evaluates the economic benefits on the basis of a risk management perspective, currency internationalisation actually increases the leverage of manufacturing firms when mitigating potential currency risks. As noted by Kenen (2011: 5), one of the benefits of currency internationalisation is that in circumstances when a significant time margin exists between payment of goods and placement of orders, this shifts the risk of exchange rate fluctuation away from exporting countries to importing countries. In the case of Japan, Graph 5.1 illustrates how the outflow of FDIs to Southeast Asian countries created a division of labour, where Japan would export intermediate goods to their production sites in Southeast Asian countries (i.e. Transaction B) and these countries would then in turn complete the production process and export the final products either to the US (i.e. Transaction C) or back to Japan (i.e. Transaction A) (see Grenville, 2000; METI, 2012: 301). Hence the optimal scenario for Japanese manufacturing firms is to increase the invoicing of yen in transactions D, B, and A.

Looking at the statistics on the use of yen as the invoicing currency in Japan's trade settlement (see Okuda, 2001: 48-50), the usage of yen in export transactions had increased from accounting for 0.9% in 1970 to 29.4% in 1980, and 37.5% in 1990. On import transactions, the percentage of yen-invoiced payments increased from 0.3% in 1970 to 2.4% in 1984, and 14.6% in 1990 (Okuda, 2001: 48-50). These statistics show that there has been a steady increase of yen as an invoicing currency during the 1970s and 1980s. Moreover, if one looks into Japan's yen trade transactions with regional countries, yen-denominated exports to Southeast Asia accounted for 47.3% in 1985,

and 48.9% in 1990, whilst yen-denominated imports from Southeast Asian merely accounted for 11.5% in 1985, and 19.4% in 1990 (Taguchi,1994: 336). Hence, it is evident that Japanese firms were able to reduce exchange rate risks in transaction B and capitalise the under-appreciated and stable exchange rate of local currencies in Southeast Asian (i.e. *de facto* peg to the US dollars) by means of transaction C, in oppose to the conventional method of transaction D where production costs are high and exports were uncompetitive due to the appreciation of the yen (see Graph 5.1). Although yen-invoiced import settlements reached 23.8% in 1992, the dollar remained to be the main invoicing-currency given more than 70% of these transactions were dollar-denominated throughout 1992-1998 (Murase, 2000: 12). However Japanese firms were able offset this by attaining favourable import settlements in intra-regional trade with its currency's purchasing leverage.

Graph 5.1. Illustration of Japan's Export/Import Trade Transactions



Source: Author articulated based on Murase (2000), METI (2006)

Given yen's internationalisation aligns with the economic interest with the *Keidanren* (i.e. prevent mid-to-long term exchange rate risks; avoid trade frictions with

the US), the organisation began to release policy proposals in support of the policy objective. For instance in the General Assembly Resolution in 1995 (i.e. *Japan's Agenda for the Future: Building a Dynamic and Creative Society*), it was pointed out in clause 4 that internationalisation of the yen would be a '[measure] to stabilise [Japan's] foreign exchange rate' (Keidanren, 1995a: 2). In the same year, another policy proposal was put forward in September (i.e. *Ensuring Appropriate and Stable Exchange Rate*) in which the point on 'making a yen an international currency' was proposed as a means to stabilise the yen's exchange rate value (Keidanren, 1995b). In June 1996, the *Keidanren* issued its first vision paper (i.e. *An Attractive Japan: Keidanren's Vision for 2020*). In the vision paper, promotion of yen's globalisation was linked to the overall purpose of 'building up convenient, efficient, …capital markets befitting an international financial centre' (Keidanren, 1996:2). In the 1997 policy proposal concerning US-Japan relations, the organisation's commitment to yen's internationalisation was reemphasised (Keidanren, 1997). It is evident that these documents identify both the trade and financial aspects that are beneficial for Japan if the yen was widely used as an international settlement currency (see Kenen, 2011).

i. The Factor of the Asian Financial Crisis

The occurrence of the Asian financial crisis became an important factor that allowed the *Keidanren* to push for yen's internationalisation. However, this was not the result of the contagion effects that collectively engulfed the region. In fact, manufacturing firms were able to utilise the crisis as their leverage to push forward their own policy agendas such as restructuring Asian economies' corruption problem and exclusion of foreigners in local business operations (see Katada, 2001: 188-190).

A similar strategy is also adopted by the *Keidanren* in pushing for yen's internationalisation. For instance as identified in the previous section, the *Keidanren* put forward three policy proposals that recommended the promotion of yen as an international currency in 1995 and 1996. What is evidently shown in these policy proposals is that both documents did not link the advantages of the broader use of the yen for regional countries. Nevertheless after the occurrence of the Asian crisis promoting policy proposals that supported yen's internationalisation was reframed to include its effects on contributing to 'regional financial stability'.

The first policy recommendation (i.e. *Laying New Groundwork for Development in the 21st Century*) that associated the policy preference of internationalising the yen with regional currency stability was proposed in May 1998 (Keidanren, 1998a). In the statement, the *Keidanren* stated that '[a] task for Japan is… improving regional currency stability [in which] requires promoting so-called internationalisation of the yen as both a payment and reserve currency' (Keidanren, 1998a: 2). In July 1998 two additional policy papers were released (i.e. *Views Expressed at Meetings of Special Task Force on Asian Currency and Financial Crisis; Towards Economic Recovery in Asia*), which proactively stated that as a private sector's initiative for contributing to the economic recovery of Asian economies, 'Japanese corporations will make efforts to promote the switch of the yen in their international transactions in areas where it is possible' (Keidanren 1998c: 1, 1998d). In addition shortly after the release of the two aforementioned documents, the *Keidanren* drafted another policy proposal to advocate the international use of yen as a response to the Asian economic crisis on 30 July (Keidanren, 1998e: 3). This policy proposal (i.e. *Recommendations for the New Cabinet*) is particular important given it was the *Keidanren*'s attempt to ensure its policy agenda was not affected by the ongoing political dynamics after the resignation of Prime Minster Hashimoto.

Based on the total number of policy proposals released from 1997 to 1998 (i.e. 6) as well as how the two policies were framed to be closely associated in these documents, it is evident that the organisation was utilising the crisis as a leverage to enhance their own agenda to promote yen's internationalisation. Subsequently, the promotion of the yen as an international currency remained as one of the *organisation'*s central policy goals after the concept and eventual creation of the CMI (i.e. 2000), and was placed in their policy proposals in 1999 (i.e. *Enhancing Industrial Competitiveness and Revitalising the Economy*), 2000 (i.e. *For Asia's Economic Renewal*), and 2001 (i.e. *Creating a Vibrant Private Sector-led Economy through Structural Reform*) (Keidanren, 1999; 2000; 2001). However due to the prolonged recession of Japan's economy together with the broadly adopted pricing-to-market (PTM) strategy of Japanese exporters on exports to Asia (see Ito *et al*, 2010), this policy agenda was eventually dropped after 2002.

2. Insufficient Interest in the Developments of the CMI: A Case of Unsuccessful Mobilisation

The response, or lack of response, of the *Keidanren* to the developments of the CMI exemplifies that the MOF's ability to mobilise support for its policy agenda is not definite and should be problematised. For instance, when referencing to the *Keidanren*'s policy proposals from 1997 to 2008, the developments of the CMI was only mentioned once in the 2001 policy proposal[34]. In fact, there were only 8 publicly released documents that associated the Asian currency crisis with international/regional policy recommendations (Keidanren, 1998a-e, 1999, 2000, 2001). The lack of interest on the *Keidanren*'s part is complexing given its large presence in the Asian region since the mid-1980s. Moreover, given the MOF was capable to successfully mobile the *Keidanren*'s support of its policy objective of yen's internationalisation, why has the Ministry witness limited success in the case of the CMI?

This is associated with the second aspect— risk perception. If one identifies the type of risks the CMI was purposed for and the market risks entailed in the business transaction of the *Keidanren*'s member firms, it is apparent why the organisation showed limited interest in these regional dynamics. For instance, the CMI was launched for the purpose of counteracting the 'herding' effects of international capital mobility. As displayed in the Asian crisis, regional economies suffered greatly from the panic sentiment and were subsequently engulfed by the contagion effect which led to the sudden and massive outflow short-term capital. However, the type of risks entailed in the *Keidanren'*s business transactions is not prone to the contagion effect manifested in the Asian financial crisis. As shown in Chapter 3 regarding the effects of the 1985 Plaza Accord, one notable outgrowth of the appreciation of the yen is that it created the 'push' factor that stimulated outward FDIs to Tiger economies and Southeast Asian countries, which initiated Japan's gradual change of trade patterns (see also Hatch, 2001). The reallocation of production bases to Southeast Asian countries is beneficial for Japanese manufacturing. This is due to it enables domestic firms to reduce production costs by utilising cheaper factors of production (i.e. labour, land) (Grenville,

[34] In the 2001, the *Keidanren* put forward the policy recommendation entitled 'Japan-China Relations in the 21st Century' which was included in the General Assembly Resolution. The policy proposal did mentioned the developments of the CMI. However, the context for identifying the CMI is to show that 'China demonstrated its readiness to participate in regional decision-making process' rather than voicing their opinion about the initiative *per se.* (Keidanren, 2001)

2000: 40; Hatch, 2001). This is especially evident in labour intensive production industries such as textile manufacturing and electronic products assembly (Kwan, 2001:16-19).

Hence, capital investment of Japanese manufacturing corporations in Asia (i.e. Tiger economics, Southeast Asia, China) are predominantly in the form of FDIs, which are fixed assets such as plants and equipments (METI, 2006; 2012). Thus this implies that in situations when a financial crisis engulfs the region, Japanese manufacturing firms will only be affected if these economies are their export markets and/or the negative effects of the crisis have spilled over to the real sector. This was not significantly demonstrated in the case of the Asian financial crisis, given that it was the ASEAN-4 countries (i.e. Thailand, Malaysia, Indonesia, Philippines) and Korea that were the main victims of the crisis, whereas export destinations such as the United States (US) and Europe experienced limited shock. In fact the only evident effect was a large decline in Japanese outbound FDIs to Asia from US$13.1 billion in fiscal year 1997 to US$7.8 billion in fiscal year 1998 (JETRO, 2017). However the decline is a decrease in new FDI inflows to Asia (Katada, 2001: 188). In other words, the impact of the decline is mainly on crisis-hit countries as they began to receive almost a 50% reduction of investments.

3. Increased Interest in the Developments of the CMI/CMIM?

Has the *Keidanren* exhibited increased interest in the developments of the CMI/CMIM in recent years? The answer is positive. Yet given the *Keidanren* did not put forward any policy proposals that promoted the CMI/CMIM from 2000-2007, the attitude change cannot be attributed to the MOF's active promotion of the initiative. Instead, the change of preference is due to the alignment of its business transactions and the entailed exchange rate risks they involve.

As debated, the *Keidanren's* interest to promote yen's internationalisation phased out in the early 2000s. This is clearly demonstrated in the thorough omitting of the policy issue during the subsequent policy proposals (i.e. categories of comprehensive strategy and regional affairs-Asia) during the period from 2003 to 2009. However after the 2008 global financial crisis, the *Keidanren* has released in total of 6 policy proposals and statements (i.e. 2009-2012) that included passages that stated its

support for the developments of the CMI/CMIM. For instance in the policy proposal (i.e. *Overcoming Crisis, Opening a Path from Asia to Global Economic Growth*), the *Keidanren* not only identified that 'the stabilisation of currency is a prerequisite condition for the smooth business deployment of foreign enterprises in Asia countries', but also denoted in the same clause that 'the increase of subject countries and increased flexibility of [the] use [of the Chiang Mai Initiative] should be considered now' (Keidanren, 2009a: 3). The same point was reiterated in the November proposal (i.e. *Toward Realisation of the Action Plans for Asian Economic Growth*) in which the enhancement of the CMI was considered as one of the two pillars in Action Plan 2 (Keidanren, 2009b: 2). Furthermore, the policy preference for strengthening the CMI/ CMIM was stated again by the *Keidanren*'s chairman Mr. Yonekura Hiromasa in 2012（Keidanren, 2012a: 1), and the role of the CMIM as a regional safety net for Asian economies has been repeatedly identified in the Joint Statements of the Asian Business Summit (ABS) (i.e. 2010, 2012), as well as the Korea-Japan-China Business Summit in 2010 (see Keidanren, 2010a; 2010b; 2012b).

Why has the *Keidanren* become active in promoting the CMIM? This is due to the change of economic circumstances, and thus aligned the organisation's economic interests with promoting the CMIM. As noted in the previous discussion, promoting the wider use of yen as an invoicing currency was a strategy that Japanese manufacturing firms adopted to counteract the yen's appreciation from the mid-1980s. To certain extent, this strategy was successful, because they were able to reduce the exchange rate risks by means of using the yen as the invoicing-currency in their imports to Asia, and utilised the *de facto* peg to the US dollar to reduce currency fluctuations (see Graph 5.1). The condition has drastically changed in the post-1997 crisis era, given most Southeast Asian countries have changed their exchange rate policies from *de facto* peg (e.g. Thailand) or managed floating (e.g. Indonesia) to independently floating (see Hernández and Montiel, 2001: 6). This indicates increased complexity for exchange rate risk management in transactions A, B, and C (see Graph 5.1).

As a consequence, this has changed the invoicing practices of Japanese manufacturing firms. The work of Ito *et al* (2010) conducted a micro-level economic analysis on the invoicing behaviours of 23 Japanese manufacturing firms (i.e. automobile, electrical machinery, general machinery, and electrical components

industries) and identified that these corporations preferred invoicing in US dollar in both exports from Japan to their production bases in Asia (i.e. Transaction B) and exports from Asia to the US (i.e. Transaction C). Moreover Japanese corporations' intra-regional trade settlements invoiced in US dollars surpassed the yen as the predominant medium of exchange during the time period between 2005 to 2009 (Ito *et al*, 2015). To illustrate the level of exchange rate exposure of Japanese manufacturing firms in this time period, Ito *et al* (2016: 25) found that based on nominal effective exchange rate the transport-equipment industry has the highest exposure (i.e. more than 90 %), followed by precision instruments (i.e. above 70%), and both electric machinery and general machinery (i.e. both above 60%).

This implies two concerns. First, this indicates a major reversal of exchange rate risks to the headquarters in Japan which differed from the pre-crisis period. In other words, the cost of hedging (i.e. financial and operational hedging) became extremely high. Second, this also implies that although capital investments of Japanese manufacturing firms remains to be FDI-based, they are more vulnerable to the volatility of exchange rate fluctuations against the US dollars. In this regard, the above mentioned all contributed to the *Keidanren*'s change of attitude from impartial to relatively active in promoting the development of the CMI.

In brief, the analysis on how the *Keidanren* has responded to the MOF's endeavours to foster the CMI/CMIM affirms the central thesis argument that the state is not a power container. This is evidently demonstrate in the *Keidanren*'s diverging responses to the MOF's policy objective to promote yen's internationalisation (i.e. positive response) and fostering the CMI/CMIM (i.e. lack of response).

III. Suppliers of Corporate Finance: The JBA and The JSDA

In this section, I turn the discussion to the JBA and the JSDA's responses to the developments of the CMI/CMIM. Both the JBA and the JSDA have conventionally represented different types of financial institutions in Japan. In the case of the JBA, it represents the banking industry of Japan, which includes 5 city banks, 64 regional banks, 41 second associations of regional banks, 4 trust banks, 1 foreign bank, as well as 71 associate members (JBA, 2017o). As for the JSDA, it is the collective lobbying institution for the securities industry in Japan, which includes 254 regular members (i.e.

securities firm), as well as 211 special members (i.e. banks, insurance companies that conduct securities business) (JSDA, 2016a).

1. A Shared Tendency of Insufficient Interest in the Developments of the CMI/ CMIM

For both the JBA and the JSDA, empirical evidence suggest that they have exhibited limited interests in the developments of the CMI/CMIM. For instance, when surveying the JBA's policy proposals (see Table 5.1), one would find that amongst the total number of policy recommendations/opinions issued by organisation prior to 2009 (i.e. 204), these statements are heavily leaned toward issues concerning domestic affairs (i.e. 191 proposals, 94%) compared to overseas activities (i.e. 13 proposals, 6%) (JBA, 2017b-n). Furthermore amongst the 13 proposals released in this time period, none of these policy proposals were aimed at dealing with regional affairs. The policy proposals of the JSDA share the same tendency. As illustrates in Table 5.2, prior to 2010 all of JSDA's policy proposals are concerned with domestic affairs, whilst from 2010 policy proposals concerned with overseas affairs gradually increased. What explains this shared domestic-orientated tendency? The main reason for this shared tendency is that both organisations were altercating on the issue concerning Japan's indirect financial structure due to the 'financial big bang'.

Table 5.1. Japanese Bankers Association's Policy Proposals/Comments (2004-2016)

Year/ Policy Proposals	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 (As of January)
Domestic Affairs	27	36	38	46	44	36	37	27	28	18	30	31	22	1
Overseas Affairs	3	1	-	1	8	7	20	29	16	33	27	32	24	1
International (including US/ Europe)	3	1	-	1	8	7	20	29	16	33	24	30	21	1
Regional Affairs (including Asia, Oceania)	-	-	-	-	-	-	-	-	-	-	3	2	3	-
Total	30	37	38	47	52	50	57	56	44	51	57	63	46	2

Source: JBA(2017b-n)

Table 5.2. The Policy Proposals of Japan Securities Dealers Association (2002-2016)

Year/ Policy Proposals	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Domestic Affairs	1	1	1	1	1	1	1	1	4	6	4	5	1	1	2
Overseas Affairs	-	-	-	-	-	-	-	-	1	2	1	2	1	4	3
International (including US/Europe)	-	-	-	-	-	-	-	-	-	-	-	1	1	4	2
Regional Affairs (including Asia, Oceania)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	1	1	1	1	1	1	1	1	5	8	5	7	2	5	5

Source: JDA (2017a)

2. A Battle for Supremacy: the JBA-JSDA Dyad Relation

The main proposition put forward here is that although both the JBA and the JSDA's risk perception do align with the CMI's policy objective, their altercations after the financial system reform have made them less attentive to its developments. Once again, this underpins the argument that the MOF has limited leverage to influence private sector actors preferences.

The financial big bang proposed by Prime Minister Hashimoto was aimed at imposing structure reform on Japan's financial system under the three main principles of the 'Free', 'Fair', and 'Global' (MOF, 1997). Under the three principles, the government lifted the restriction on various lines of financial businesses and allowed financial institutions to compete according to market principle. For instance upon the implementation of the financial system reform, commercial banks are allowed to engage in: 1) over-the-counter trading of derivatives; 2) sell securities investment trusts certificates directly; 3) issue ordinary bonds. As for securities firms, the financial structure reform also abolished restrictions including 1) displaced the licensing system for securities companies with a system of registration; 2) allowing securities firms to diversify business operations including insurance and banking by means of the subsidiary structure (MOF, 1997). In addition to the removal of regulations for all business fields in the financial sector, under the 'Global' reform principal this led to the total revision of the *Foreign Exchange Law* in April 1998 which completely liberalised cross-border transactions (MOF, 2000). Notably the *1998 Foreign Exchange Law* was aimed at increasing the demand for the yen, making it an international currency.

The change of financial landscape under the 1997 financial system reform effectively ended the compartmentalised financial system from the post-war period (see Chapter 3). The liberalised financial system became the battle ground for both the JBA and the JSDA. In the next section, I will demonstrate how the micro-level development unfolded by applying the analytical framework identified in Chapter 2. I begin with the discussion on the JSDA's action.

i. The Power-Deficit Actor: JSDA and the Policy Preference of Yen's Internationalisation

In the case of the JSDA, the institutional arrangement of Japan's compartmentalised financial system had provided favourable economic advantage for commercial banks. As shown in Table 5.3, the composition of household financial assets in Japan are predominantly in the form of cash and deposits, whereas securities instruments such as bonds and stock equities together have merely took up less then 20% from FY2000 to FY2014. Hence in the JBA-JSDA dyad relation, the JSDA is unquestionably the power-deficit actor. Referring back to the gradual institutional change proposed by Mahoney and Thelen (2010) in Chapter 2, the JSDA's actions and intentions makes it the *insurrectionary* attempting to induce total *displacement* of the existing indirect financial system (i.e. institution arrangements).

Table 5.3. Composition of Household Financial Assets (2000-2014)

End of FY	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Cash and Deposits	53.9	54.0	54.3	53.2	52.9	49.9	49.1	52.2	54.5	54.0	54.2	54.7	53.6	53.3	51.7
Bonds	3.4	2.9	2.4	2.2	2.5	2.6	2.7	3.0	3.0	2.8	2.5	2.3	2.0	1.8	1.6
Stocks and Other Equities	8.1	6.5	5.5	8.5	9.1	12.9	12.7	7.7	5.8	6.8	7.1	7.2	8.4	9.3	10.8
Investment Trusts	2.4	2.1	2.0	2.3	2.6	3.5	4.4	4.4	3.3	4.0	4.2	3.9	4.5	4.8	5.6
Insurance and Pension Reserves	27.1	29.5	30.0	28.4	28.1	26.5	26.6	28.5	29.3	28.1	27.9	27.8	27.3	26.8	26.0
Others	5.0	4.9	5.7	5.3	4.8	4.6	4.4	4.3	4.1	4.3	4.1	4.1	4.1	4.0	4.3
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: JSDA (2016b: 34)

In order to *displace* the existing indirect financial structure the JSDA adopted two strategies. The first strategy is shaping the socio-economic and political context through active persuasion. For instance, upon surveying the JSDA's annual reports from 2001 to 2006 (JSDA, 2001; 2002b, 2003, 2004b, 2005, 2006), the common policy aim identified in these reports was the necessity to transform Japan's financial system from indirect finance to direct finance. For example in 2001, the JSDA Chairman Okumoto Eiichiro explicitly expressed in his statement as the following:

'To reform the economic structure, it is necessary to get rid of negative factors, such as non-performing loans, while on the other hand it is also necessary to take action to promote new industry and create employment. To this end, it is extremely important to change Japan's economic structure into one based on direct finance' (JSDA, 2001: 3)

In the year 2002, Chairman Okumoto once again emphasised the necessity to transform Japan's financial system in his statement. As follows:

'*Japan's socio-economic structure is undergoing a major transition,....Our country has to break quickly with the negative heritage of its tradition economic system as represented by the non-performing loans problem,...Shifting the economic structure of Japan from its dependence on indirect finance to one based on direct is an urgent issue .. for new economic growth.' (JSDA, 2002b: 2-4).*

Similar statements can be found in the chairman's messages in the subsequent years (i.e. 2003, 2004b), and the promotion of such goal did not change after the incumbent of the new chairman in 2004 (i.e. Mr Koshida Hiroshi) (JSDA, 2003; 2004b; 2005, 2006).

The JSDA's second strategy is forming coalitions to increase its leverage and enhance its odds for imposing successful change (see Mahoney and Thelen, 2010). As stated in Chapter 2, for *insurrectionaries* (i.e. in this case the JSDA), 'coalition alignments' for these actors does not indicate that they have a shared reason for *displacing* the existing institutional arrangement, but instead because they have the collective interest to attain the goal for varying reasons (see Mahoney and Thelen, 2010: 29-31). In this particular case, JSDA's policy preference for yen's

internationalisation allowed it to form coalitions with not only the government, but also the *Keidanren.* For instance, similar to the BOJ's approach to promote yen's internationalisation via issuing Japanese Government Bonds, yen's internationalisation can also be achieved via increasing the issuance of securities instruments such as corporate bonds. As part of the financial big bang reform, the JSDA's policy recommendation to promote yen's internationalisation aligned with the approach of the BOJ in certain policy areas. Firstly this is shown in its emphasis on developing market infrastructures. In JSDA's 2002 report, it was identified that establishing a low risk and efficient securities settlement system will allow the enhancement of yen's international clout and contribute to the global competitiveness of Japan's financial market (JSDA, 2002a: 12). In addition to laying emphasis on enhancing market infrastructures, the JSDA also advocated tax reforms related to securities transactions. For instance, the 2002 policy proposal put forward policies such as preferential tax treatment for retail investors, and undertake Commercial Law reform to enable equity investment with less capital and listing of exchange traded funds (JSDA, 2002b; 2002c). Another example is demonstrated in JSDA's attempt to push for an extra year of extension for the special tax treatment for dividends and capital gains from listed equality products, which also experienced success in the fiscal year of 2007 (JSDA, 2007a). As a consequence, this contributed to the lack of interest in the developments of CMI. This is evident when referencing the organisation's policy proposal in the same time period, which there were no mentioning of the CMI/CMIM (JSDA, 2001; 2002b, 2003, 2004b, 2005, 2006).

In regard to the *Keidanren*'s support, although yen's internationalisation was actively promoted to achieve exchange rate stability (Keidanren, 1998a,1998c-e), its linkage with financial big bang under the 'Global' reform principal has allowed it to ally with the JSDA and the BOJ in pushing forward the reform agenda. In this particular case, the *Keidanren* acts as an *opportunist* that supported the *insurrectionary* behaviours of the JSDA and the BOJ's policy objective. For example, one notable case of this coalition is shown in the *Keidanren*'s policy proposal in September 1998. The policy proposal was dedicated to push for reform on short-term financial markets by improving the quality of a number of short-term financial products such as negotiable certificate of deposit, commercial papers, and the repo (Keidanren, 1998b). Notably, the policy proposal to displace the fixed-rate public subscription system with a public

auction system for Financing Bills echoes the BOJ's approach to promoting yen's internationalisation via improving market infrastructures (see Chapter 4). In addition, the *Keidanren* also pushed for the review of withholding tax system to increase the liquidity of short-term government securities (i.e.. Financing Bills), and restated its demand for the Securities Transaction Tax to be abolished. In the subsequent 1999 policy proposal, the implementation of the financial system reform was reemphasised and linked with the international use of the yen (Keidanren, 1999)

Although there are no direct evidence that the JSDA has any direct input in articulating the *Keidanren*'s policy proposals for pushing for these reform agendas, it is evident that these policy proposals have contributed to shaping the socio-economic and political context for challenging the indirect finance structure of Japan. Once again, this type of coalition alignment between the JSDA and the *Keidanren* is in sharp contrast with the long-term working relationship between the JBA and the *Keidanren* under the main-bank system. Hence, this underpins the thesis argument that institutional arrangement is a main variable that shapes actors' behaviours.

ii. The Power-Privileged Actor: the JBA

The JBA has been successful in surviving the challenges of the JSDA. As shown in Table 5.3, the predominant form of household financial asset remains stable in cash and deposits (i.e. roughly 50%) from 2000 to 2014. The question is how was the banking industry able to attain this? Applying the analytical framework proposed in Chapter 2, it is evident that as the power-privileged actor in this dyad relation, it is essential for the JBA to continue to reinforce the socio-economic and political context that favours indirect financing in order to fend off the political space for new ideas (i.e. direct financing) to trigger change.

Remarkably, the banking industry achieved this in a collective manner. In fact, when referring to the chairman's tenure of the JBA and the JSDA, it is evident that the short tenure of the JBA's Chairmanship may hinder the organisation to put forward cohesive policy proposals that member firms have consensus on. As illustrated in Table 5.4, 3 of the 6 largest city banks have held the JBA chairmanship from 1999-2001, and during the post-mergers period (i.e. roughly 2002) the position has been routinely held by personnel affiliated with the three mega banks (i.e. 2004-2010). On the other hand,

if one references the chairmanship of the JSDA from 1994-2010 (see Table 5.5), with the exception two JSDA chairmen (i.e. Suzuki Masashi and Yukihara Tsugio[35]) between 1996 to 1997, the tenure of the position has been 2 to 3 years. Furthermore, the JSDA chairmanship also became a full-time position since 2010.

Yet in this case, the JBA and its member firms' were able to collectively respond to the JSDA's challenge via the processes of restoring market confidence. This is shown in the two strategies adopted by the banking industry. The first is to restore market confidence by recovering their respective financial positions, whilst the second is to rebuild their social relationship with the general public.

Table 5.4. The Affiliation of the Japanese Bankers Association Chairmanship (1999-2010)

1999	Dai-Ichi Kangyo Bank	2005	Mizuho Bank
2000	Sumitomo Bank	2006	Bank of Tokyo Mitsubishi UFJ
2001	Fuji Bank	2007	Sumitomo Mitsui Banking Corporation
2002	UFJ Bank	2008	Mizuho Bank
2003	Tokyo-Mitsubishi Bank	2009	Bank of Tokyo Mitsubishi UFJ
2004	Sumitomo Mitsui Banking Corporation	2010	Sumitomo Mitsui Banking Corporation

Source: JBA (2003a, 2004-2010)

Table 5.5. The Affiliation of the Japan Securities Dealers Association (1994-2010)

Tenure	Name	Affiliation
Jul 1994 - Jun 1996	Doi Sadakane	Daiwa Securities
Jul 1996 - Mar 1997	Suzuki Masashi	Nomura Securities
Mar 1997- Aug 1997	Yukihira Tsugio	Yamaichi Securities
August 1997- Jun 2000	Kato Seiichi	Okasan Securities
Jul 2000- Jun 2003	Okumoto Eiichiro	Full-time Chairman
Jul 2003- Jun 2006	Koshida Hiroshi	Full-time Chairman
July 2006 - Jun 2010	Ando Toshio	Full-time Chairman

Source: JSDA (2017)

[35] Both chairmen had shorter tenure for different reasons. For instance, Yukihara Tsugio had to step down early due to the bankruptcy of Yamaichi Securities in 1997, whilst Suzuki Masashi had to forfeit his chairmanship after he was forced into semi-retirement after Normura Securities was hit by corporate scandal (see Japan Times, 1997)

Getting the House in Order

In regard to the first aspect, it is evident from the annually issued New Year's Addresses from the JBA's Chairmen (2003-2010) that recovering financial positions were the first priority. For instance from 2003 to 2010, the reoccurring task that was identified by the JBA's chairmen is solving the non-performing loan (NPL) problem (2003, 2004, 2005, 2006) and public finance reform related to the privatisation of Japan Post (2004, 2005, 2007, 2010), followed by the importance of members to participate in corporate social responsibility activities (2008, 2009) (see JBA, 2003a-2007, 2008a, 2009, 2010a). I will leave the discussion on public finance reform to Chapter 7.

At the firm level, commercial banks began restructuring their balance sheets by: 1) increasing profits; 2) cutting costs. The reduction of costs via mergers became the most evident solution to increase profits in a relatively short period of time span. This was the reason why this was a shared emphasised goal stated in the medium-term management plan of the three mega banks in this time phase. In the case of Mizuho bank, it was the result of the merger amongst the Dai-ichi Kangyo Bank (DKB), Fuji Bank (FB), and the Industrial Bank of Japan (IBJ), which subsequently resulted in the establishment of Mizuho Financial group in April 2002. This is similar to the core bank of Mitsubishi-UFJ Financial Group (MUFG) and Sumitomo-Mitsui Financial group (SMFG), which are the Bank of Tokyo-Mitsubishi (BTM) and Sumitomo-Mitsui Banking Corporation (SMBC). The purpose of these mergers was either to enhance their competitive advantages and financial capital or reduce their operation costs, or in some cases both. For instance, the work of Drake and Hall (2003: 893) illustrated that the merger amongst DKB, FB, and IBJ was not only to significantly reduce the annual expenses via cost reduction of 100 billion yen, shedding staff (i.e. around 7000 personnels), combine domestic branch networks (i.e. reduce 170), but also to enhance their competitive advantage by means of seizing IBJ's client list and expertise in wholesale finance. Different from the case of Mizuho, the merges to form the SMBC and the BTM (with Mitsubishi Trust and Banking) were only aimed at cost savings via combining branching and reducing staffs (Drake and Hall, 2003).

The objective to increase profits via the reduction of operation costs did not halt after the mergers because banks were facing increased pressure from the market. For instance in fiscal year 2001, Japanese corporations began to increase their equity financing (i.e. 9.4%) as well as bond-financing (i.e. corporate straight bonds issuance

rose by 3.2%) compared to fiscal year 2000 (JSDA, 2002a). The increase of equity financing was also evident in 2003 when the amount surged to 3.4 trillion yen from 1.7 trillion yen in 2002 (JSDA, 2004a). Hence after the mergers to form mega banks, they still undertook drastic measure to reduce their operational costs. According to the medium-term management plans of Mitsubishi Tokyo Financial Group[36] in 2001 and 2002, the financial group envisaged to cut total staff of approximately 4000 to 4500 by 2004 in both BTM and Mitsubishi Trust Bank, reduce remuneration of both banks, and also close or consolidate overseas branches (MUFG, 2001; 2002). Similarly, Mizuho also continued to accelerate its cost structure reforms such as the reduction target of 6300 employees until 2005, and reduction goals of domestic (i.e. 120) and overseas offices (i.e. 13) by 2004 (Mizuho Financial Group, 2002). This also applies to the case of SMBC, although its medium-term management plan merely committed to further streamline the workforce by without giving concrete numbers (SMFG, 2003).

Shaping Social Perception via Transparency and Corporate Social Responsibility

The second approach to the banking industry adopted to shape the socio-economic and political context is via remedying their image and relationship with the general public. The public criticism on the banking industry for creating the bubble economy in the 1990s and causing the economic recession of the 'lost decade' was overwhelming (see Brown, 1999; Hartcher, 1999). As shown in the discussion of the JSDA's actions, the banking industry's deficit in social perception allowed the JSDA to engage in active persuasion for *displacing* the indirect financial structure. In response, the banking industry adopted two strategies to enhance its social credibility.

First, a common strategy that were adopted by mega banks was releasing the medium-term management plans and committing to the proposed goals. The medium-term management plan is a forward-looking document that identifies the key priorities such as financial targets and strategic business areas and region of the institution in a given time period (i.e. normally 2-3 years). The document is crucial given that it provides investors with materials that they can potentially hold accountable against these organisations. Although these management plans all include a disclaimer to indicate that the stated objectives are merely projections that the management will

[36] Mitsubishi Tokyo Financial group was the predecessor of the Mitsubishi UFJ Financial Group which was formed in 2005.

endeavour to achieve, the fact that these documents all undergo review and readjustments[37], this demonstrates the commitments of financial organisations to the targeted objectives in these statements. In addition, under the 'fair' principle of the 1997 financial system reform agenda, the enhanced requirements for greater transparency also adds another layer of pressure on banks. This is due to the more stringent regulations on the disclosure of consolidated financial statements. As shown in Table 5.6, 5.7 and 5.8, all three financial groups have routinely announced their medium-term management plans since 2001. One positive effect of issuing these statements is that it increases transparency of their business activities, and creates communication channels given that these statements are frequently announced in press conferences with powerpoint presentations. This contributes as the first method adopted by mega banks to enhance their deficit in social credibility.

The second strategy adopted by mega banks is by voicing their commitment to society, albeit to different extent. For instance, Mitsubishi Tokyo Financial Group announced its new management philosophy in its 2002 management plan, which states that '[The group] contributes to the prosperity of its customers at home and abroad and of the communities it serves, and continuously creates social and economic value,..' (MUFG, 2002). The management philosophy was developed into what was called as 'socially responsible management' in 2004 (MUFG, 2004), which was later succeeded by the Group's corporate social responsibility activities (MUFG, 2010). In both cases of the SMFG and Mizuho Financial Group, the two groups approached this via committing to enhance their corporate governance policies. For instance, the SMFG's first management plan in 2002 included 4 main sections, and 1 section was devoted to presenting how the group would strengthen its corporate governance (e.g. auditor system and appointment of outside directors on the Board of Directors) (SMFG, 2002). In the subsequent management plan, the SMFG linked the enhancement of its corporate governance as a cornerstone to its aspiration of '[becoming] the No.1 Bank with "the highest trust of customers, markets, and society"'(SMFG, 2005:20). Similarly, Mizuho also placed strengthening corporate governance as one of the three pillars in its 2002 management plan (Mizuho Financial Group, 2002), and subsequently

[37] Examples include: 1) MUFG updated and revised its 2001 business goals in 2002, and released a revised version in the same year ; 2) Mizuho reviewed its 2002 medium term management plan in 2005 before announcing its new management plan.

established the corporate social responsibility committee under the holding group framework in 2005 (Mizuho Financial Group, 2005).

Table 5.6. Sumitomo-Mitsui Financial Group Medium-term Management Plans (2003-2014)

2003	Medium-term Management Strategy
2005	Medium-term Management Plan: New Stage
2007	Lead the Value Plan
2011	Medium-term Management Plan (FY2011-2013)
2014	Medium-term Management Plan (FY 2014- 2016)

Source: SMFG (2003, 2005, 2007, 2011, 2014)

Table 5.7. Mizuho Financial Group Medium-term Management Plans (2002-2016)

2002	Change & Speed-up Program
2005	Channel to Discovery Plan
2010	Transformation Program
2013	One Mizuho New Frontier Plan - Stepping Up to the Next Challenge
2016	One Mizuho - The Path to a Financial Services Consulting Group

Source: Mizuho Financial Group (2002, 2005, 2010, 2013, 2016)

Table 5.8. Mitsubishi UFJ Financial Group Medium-term Management Plans (2001-2015)

2001*	MTFG's Medium-term Management Plan (2001)
2002*	MTFG Medium-term Management Plan (2002)
2004*	MTFG First Medium-term Strategy Plan
2007	MUFG Medium-term Business Plan
2009	MUFG Medium-term Business Plan (FY 2009-2011)
2012	MUFG Medium-term Business Plan (FY 2012 - 2014)
2015	MUFG Medium-term Management Business Plan (FY 2015-2017)

* Mitsubishi Tokyo Financial Group (MTFG) and UFJ Holdings, Inc. merged on 1 October 2005. Hence the medium-term management plans were proposals of MTFG rather than the UFJ Holdings, Inc..

Source: MUFG (2001, 2002, 2004, 2007, 2010, 2012, 2015)

As shown in Table 5.3, the responses of the JBA and its member firms were successful when referencing the composition of household financial assets from 2010 to 2014. The direct result of the altercation between the JBA and JSDA explains why the two organisations showed no interest in the developments of the CMI. Nevertheless in the case of the JBA, there is one additional factor that explains the organisations insufficient interest in the regional financial initiative. I proceed to this discussion in the next section.

3. Insufficient Interests in the Developments of the CMI/CMIM: The Case of the JBA

The final aspect I will critically analyse in this section is whether the JBA has increased their interest in the developments of the CMI/CMIM after member firms gradually recovered their financial positions in the later half of the 2000s.

The curious case of Japanese banking industry is that what was entailed in the process of restructuring the respective balance sheets of commercial banks was a reduction of overseas financial transactions in Asia. For instance according to statistics of the Bank for International Settlements (BIS) (2000:2), the foreign claim of Japanese banks in Asia dropped from a total exposure of 48% in the end of 1998 to less than a quarter of total claims in 1999 (BIS, 2000: 2). Although the overseas business transactions of Japanese banks increased in the early 2000s, this was not driven by the international banking activities in Asia. For instance the consolidated banking statistics of the BIS shows that whilst Japanese banks increased their holdings on long-term US public sector bonds by approximately US$5 billion in 2000, they simultaneously reduced their bank positions in Singapore (i.e. US$4.7 billion) and Hong Kong (i.e. US$4.7 billion) (BIS, 2001: 1). Moreover during the course of 2002, the main driver for Japan's overall credit activity was the shift into lower-risk assets. According to the BIS (2003: 1), the international claims rose to US$964 billion with the US and European government securities accounting for 35% of this total amount. This indicated a further increase from 27% in the previous year (BIS, 2003).

The aforementioned empirical evidence tentatively suggest that the lack of loan exposures in Asia may have been the other reason that contributed to the JBA's insufficient interest in the developments of the CMI/CMIM. Following this rationale,

with mega banks' reversal of business activities in Asia after they recovered their respective financial positions, theoretically this should increase their collective interest in promoting the development of CMI/CMIM. This is the aspect I will evaluate in this section.

i. Increased presence in Asia

The most notable evidence of the reversal trend is shown in the medium-term management plans of the three financial holding groups in Japan (i.e. Mitsubishi UFJ Financial Group, Mizuho Financial Group, Sumitomo-Mitsui Financial Group). For instance in the case of the Mitsubishi UFJ Financial group (MUFG), in the 2007 medium-term business plan it not only indicated its focus on Asia where "continued growth is expected", it also stated that the Group's "aim for [its] overseas business to comprise 20% of [its] gross-profit over the medium term" (MUFG, 2007: 2). The same statement was also denoted in the MUFG's 2010 corporate review (MUFG, 2011: 7). Increased emphasis on Asia as its primary overseas market is demonstrated in the 2012 medium term plan, where the group states its endeavour to '[become Asia's] No.1 Financial Services Provider in Asia' with engagements such as developing Chinese renminbi business and strengthening marketing activities in Asia (MUFG, 2012: 4).

A similar case is also demonstrated in documents released by the Sumitomo-Mitsui Financial Group (SMFG). For example, in the 2005 document (i.e. *Financial Results in FY 2004 & Management Policies and Strategies*), one of the four main pillars of its growth strategy is to expand its profitability in the Asian market (SMFG, 2005: 21-22). The importance of Asia in its overall growth strategy was also emphasised in SMFG's 2007 and 2011 medium-term management plans (SMFG, 2007: 2; 2011: 2), whilst in the 2014 document the SMFG put forward its vision of becoming a "truly Asia-centric institution" (SMFG, 2014: 5). As for Mizuho Financial Group, the emphasis has expanded from solely focusing on enhancing international business in China (Mizuho, 2002: 3) to the entire Asian region from 2010 (Mizuho, 2010: 3). This is exemplified by Mizuho's public slogans such as 'Mizuho Means Asia' (Mizuho, 2013: 2). To illustrate an increase of scale of Japanese banks' overseas business activities in Asia, overseas branches in the Asian region have increased from 33% in 1990 to 58% in 2009 (JBA, 2011a). The increase of ratio is mainly from the reduction

of overseas branches in the Americas (i.e. North, Central, and South) which contracted from accounting for 45% of overseas branches in 1990 to 26% in 2009 (JBA. 2011a: 17)

In addition to the three mega banks, it is important to point out that regional banks have also increased their engagements in the Asian region, albeit indirectly. As shown in the 2011 survey of the JBA (JBA, 2011b), *Akita* Bank, *Gunma* Bank, *Kinki Osaka* bank together with the other 40 regional banks all have business transactions in China and Southeast Asian countries. It is evidently demonstrated that Japanese banks have increased their presence in Asia.

ii. Policy Preference of International Regulations Over the CMI/CMIM

However, this is not reflected in the volume of the JBA's policy proposals to promote the CMI, which proves that the factor of retrenching of overseas banking activities in Asia is not the sole explanatory variable. As shown in Table 5.1, the number of policy proposals concerned with overseas affairs increased significantly from 2009 (i.e. 7) to 2010 (i.e. 20), and eventually overtook the volume of statements concerned with domestic affairs in 2011, as well as subsequent years (i.e. 2013, 2015, 2016). Upon close evaluation of the overall policy proposals tackling overseas affairs, not only were there only 8 documents related to regional affairs, but most importantly, these policy proposals were not related to regional financial cooperation. For instance, the three regional affairs policy proposals announced in 2016 were the JBA's comments to the Australian Prudential Regulatory Authority, as well their opinions on Hong Kong Monetary Authority publicised document (i.e. *Non-centrally Cleared OTC Derivatives Transactions-Margin and Other Risk Mitigation Standards*) (see JBA, 2016a).

In addition to policy proposals, during the time period from 2008 to 2014, there is an increase of research reports produced by the Research Group on Financial Markets (i.e. 6 out of 13 reports) that investigates on research themes such as the effects of global financial crisis, Asia's financial system, and regional financial cooperation in Asia (see JBA, 2008b; 2010b; 2011c; 2012; 2013b, 2014). However, given these research reports are not produced by JBA personnel, it is difficult to examine whether these opinions represent the views of the organisation. By contrast, there were only two official reports that were publicised by the JBA in 2011. Although

the two documents included the JBA's vision for the development of financial and capital markets in the Asia economic sphere (see JBA, 2011a; 2011b), the three policy recommendations put forward in these reports also did not regard promoting further development of the CMIM as a policy goal.

The reason for this is that Japanese banks consider conveying their willingness to comply with international standards and regulations (e.g. Financial Stability Board, and Basel Committee on Banking Supervisions) would allow them to convince the general public regarding their financial soundness and how they mitigate against risks. For instance in clause 6 of MUFG's medium-term business plan in 2001, it clearly indicated that the group will 'introduce improved risk management structure in line with the anticipated new standard of BIS' (MUFG, 2001: 11). This implies that the MUFG perceives mechanisms such as capital adequacy ratio standards and risk asset management systems for management of assets and capital procurements more effective in ensuring the 'soundness' of the group's operations. To demonstrate its compliance with international regulations for financial soundness, the MUFG announced in its 2007 medium-term management plan that its growth strategy will be formed on the basis of targeting "a Tier 1 ratio of 8% and an equity capital ratio of 12%" (MUFG, 2007: 2).

These instances are not limited to the MUFG, but also applies to the cases of Mizuho group and the SMFG. For instance in the SMFG's 2014 management plan, it denoted that the Group's sustaining growth and higher profitability will be formed on the basis of efficient investments as well as targeting the Common Equity Tier 1 Capital ratio to around 10% in 2016 (SMFG, 2014: 6). Similar to the SMFG, Mizuho group also included reaching approximately 25% on their Equity Portfolio to Tier 1 Capital ratio, and above 8% on the Common Equity Tier 1 ratio in their 2013 medium-term management plan (Mizuho, 2013:3).

In addition, close evaluation of the JBA's policy proposals show that banks began to put their efforts in ensuring their inputs are heard when discussions of new regulations are taking place at the international level. For instance in 2005, the JBA provided its comment to the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions (i.e. *The Application of Basel II to Trading Activities and the Treatment of Double Default Effects*), which includes its request to revise the operational requirements concerning 'forms of protection' (see

JBA, 2005b). Other instances include the JBA's comment on Basel III's *Liquidity Coverage Ratios Disclosure Standards* (see JBA, 2013c). In addition, the emphasis on engaging in rule-making at the firm level is also demonstrated in the 2004 MUFG medium-term business plan, where they conveyed how the financial group would comply to the new BCBS capital adequacy ratio as well as responded to Section 404 of the Sarbanes-Oxley Act (i.e. appraisal of internal controls on financial reporting) (see MUFG, 2004: 11).

Based on the disparity between the two, it is evident that the main reason that explains the lack of interest to promote the development of CMI of Japan's banking sector is mainly due to the widely held perception that conveying their willingness to comply with international regulations is considered most effective in persuading the general public about their financial soundness. As a result, the JBA and its member banks have placed great emphasis on ensuring their inputs are channelled to international regulatory authorities rather than developing regional safety nets. Nevertheless, it is important to point out that although Japanese banks have conveyed their willingness to comply with international regulations, whether this indicates their actual compliance or merely paying lip service is another discussion that is beyond the investigation of the thesis.

IV. Conclusion

To sum up, the main purpose of this chapter is to assess whether private sector actors have positively responded to the government's active promotion of developing the CMI/CMIM. Based on the critical analysis on the policy proposals put forward by the *Keidanren,* the JBA , and the JSDA, it is evident that the government had limited success in mobilising support, or even merely gaining the attention of private sector actors in these processes. Instead, it was identified that these private sector actors are utility-maximising entities and their respective economic rationales have shaped how they responded to the developments of the CMI/CMIM. This is exemplified in how private sectoral actors have showed significant support for yen's internationalisation (i.e. *Keidanren*, JSDA) but insufficient interests in the developments of the CMI/ CMIM. In addition, institutional arrangements matter in this case because it allowed these private sectoral actors to pursue their individualistic interests and form coalitions

(i.e. *Keidanren*-JSDA) when their economic interests are aligned (i.e. yen's internationalisation).

The analysis once again affirms the central thesis argument that the state is not a power container that can manipulate the interests and actions of private sector actors. Moreover, the insufficient interests of private sector actors show that there were no 'demand' for the development of the CMI/CMIM. Yet the active engagements of the Japanese government indicated in Chapter 4 demonstrates the continuous supply of these policies. The contradicting trajectories between meso-level actions and micro-level inactions shows that the 'functionalist logic' is not the sole variable that accounts for why Japan has engaged in Asian financial regionalism. On the basis of the critical assessment, these findings respond to the collective assumption of both neo-realist and neo-liberal institutionalist theories that the state is a unitary actor.

The chapter began with the discussion on why the *Keidanren* has exhibited limited interest in the development of the CMI/CMIM, but actively promoted yen's internationalisation. It was argued that given the main business transactions of the *Keidanren*'s member firms are FDI-based, this misaligned with the intended policy objective of the CMI. In contrast, given the internationalising the yen allows not only the management of currency risk, but also avoids trade frictions with the US, this has contributed to the organisation's active promotion of the policy initiative. The linkage between regional financial stability and international of yen was drawn mainly because the Asian crisis became leverage point to push for the *Keidanren*'s own policy agenda. As the attempt to internationalise the yen failed in the early 2000s, this led to the omission of such policy preference in its subsequent policy proposals from 2002 to 2008.

The turning point for this was in 2009 when the *Keidanren* started to release various policy proposals/statements in support of the developments of the CMIM, and greater flexibility of its application. The change of attitude is directed to the alteration of exchange rate regimes amongst Southeast Asian countries, which resulted in trade settlements invoiced in dollars. Consequently, this made manufacturing firms more vulnerable to exchange rate fluctuations which also increased the costs and complexity to manage currency risks.

In the second section, I critically evaluated the JBA and JSDA's responses to the developments of the CMI/CMIM. I focused on examining why both organisations have

showed limited interest in the development of the CMI/CMIM. In the first subsection, I identified that the micro-level dynamics between the JSDA and the JBA on changing the existing indirect finance structure preoccupied both organisations from advocating the developments of the CMI/CMIM. What is important in this discussion is that it also demonstrated how the collapse of the main-bank system has allowed manufacturing firms to ally with the JSDA to challenge the JBA when their interests aligned (i.e. yen's internationalisation). Finally, I examined whether the banking industry's increased presence in Asia has made these actors advocate the necessity to develop the CMIM (i.e. functionalist logic). As shown, the JBA continued to exhibit limited interest in the developments of the CMI/CMIM, whereas its emphasis on international rule-making has substantially increased. It was identified that the reason for the diverging levels of interest is due to the Japanese banks perceive conveying their willingness to comply with international standards and regulations as more credible for the general public concerning their financial soundness and how they mitigate against risks

Chapter Six. The Varying Approaches of the Ministry of Finance and the Bank of Japan in Developing Asian Bond Markets

I. Introduction

After discussing the Japanese government's reasons for fostering the Chiang Mai Initiative (CMI) and how private sector actors have responded to the policy initiative, the main debate of this chapter is how the government has been involved in the development of Asian bond markets. This includes two regional initiatives: 1) the Asian Bond Markets Initiative (ABMI); and 2) the Asian Bond Funds (ABFs). Similar to Chapter 4, the critical assessment of this chapter is important to the thesis for two reasons. The first is that it allows one to further evaluate whether the new institutional arrangement stipulated in the *1998 Bank of Japan Act* has also shaped how the Ministry of Finance (MOF) and the Bank of Japan (BOJ) have engaged in developing bond markets in Asia. This is the most important debate in this chapter. As for the second reason, by identifying how the Japanese government has engaged in developing bond markets (i.e. active/consistent or passive/inconsistent), it will enable the thesis to evaluate how micro-level actors have responded to these dynamics, and subsequently allow the analyses of the interactive dynamics between meso-level actors and micro-level actors in Chapter 7. These discussions are closely linked to validating the central thesis argument that the state is not a power container.

It is imperative to denote that there are two main reasons that make regional policymakers devote their efforts in developing Asian bond markets. The first reason is addressing their structure deficiency of over-reliance on foreign borrowing (i.e. short-term) to finance long-term fixed domestic investments (Katada, 2008; Kurihara, 2012; Park, 2016). Accordingly, fostering local bond markets in Asia was regarded as a means to diversify financial channels to raise corporate finance (i.e. bank-lending, bond-financing, and equity-financing). This is aimed at enhancing regional financial stability via making the region self-sufficient and enable countries to decouple from potential external shocks (Ryou *et al*., 2004; Park, 2016). The second reason follows another rationale. According to the *Chairman's Press Release on the Asian Bond Market* in 2003, it states that the ABMI is aimed at 'better utilisation of Asian savings for Asian investments' (MOF, 2003b). This indicates developing bond markets also increases

investment opportunities in the already recovered and fast booming Asian region (McCauley and Park, 2006). These two aspects are both important components one must bear in mind when debating on Japan's engagements in promoting the ABMI and launching the ABFs.

In this chapter I tackle two key research questions. The first research question is the underlying reason for Japan's active engagements in these processes. This demands a number of discussions. For instance, whether the MOF and the BOJ have both actively promoted the ABMI and ABFs. If so, whether the two organisations also have different approaches toward developing bond markets in Asia. The second research question is whether the decision-making processes of Japan's regional financial cooperation policies have become more pluralistic. The importance of this discussion is that it allows the assessment of the government's ability to conduct economic statecraft. This is my response to the key argument proposed by realist political economy identified in Chapter 2. The argument is premised on regional financial cooperation policymaking merely involving 'limited number of strategically minded actors within governments'(Grimes, 2009: 13).

The main proposition of this chapter is that Japan has been active and consistent in developing bond markets in Asia, and the respective approaches adopted by the MOF and the BOJ demonstrate that the new institutional arrangement is the main variable that shapes their behaviours. In the case of developing Asian bond markets, the MOF has been active and vocal whilst the BOJ being 'active yet reticent'. Hence in this particular case, the BOJ also act as *mutualist-symbiont* in which leverage on the ambiguity of the institutional setting to enhance the existing arrangement. In the case of the MOF, it actively engages in developing bond markets not only because it aligns with its policy objective of yen's internationalisation and institutional mandate of engaging in financial cooperation, but also an act of *layering* to increase its political clout vis-à-vis politicians. With regard to the decision-making processes of regional financial cooperation policies, empirical evidence suggest that these processes have indeed become more pluralistic insofar as there is increasing numbers of both state and non-state actors contributing to these processes.

This chapter is organised into two sections. In the first section, I will provide a brief overview of how bond markets in Asia have been developed under the two initiatives and whether Japan has been actively engaged in these processes. The ensuing

discussion is on the underlying reasons for the MOF and BOJ's active involvements and the factor that shapes the two organisations' different approaches in developing Asian bond markets. In the final section, the main discussion is on assessing the policymaking processes of Japan's regional financial cooperation policies.

II. Developments of Asian Bond Markets and Japan's Involvement

In this section, I will provide a brief overview of the developments of Asian bond markets from the early 2000s to 2017. In turn, I assess whether the Japanese government has been actively involved in these developments. Such an assessment will allow the one to evaluate whether supporting bond markets is shaped by the power rivalry between Japan and China.

1. Developing Bond Markets in Asia: Asian Bond Markets Initiative and Asian Bond Funds

When assessing the developments of Asian bond markets, it is crucial to identify two points. Firstly, it is notable that there are two different regional initiatives concerned. The first regional initiative formulated under the ASEAN +3 finance ministers' process is the ABMI. The second regional initiative is the ABFs, which are formulated under the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP) platform. Secondly, although both initiatives are aimed at fostering bond markets in Asia, the ABMI and the ABFs tackle different challenges and are complementary to each other. The ABMI focuses on supplying the necessary infrastructures to create liquid bond markets, whilst the ABFs lay emphasis on increasing the demand of local currency-denominated bond markets via investing the region's surplus foreign exchange reserves (Amyx, 2004b; Urade, 2005; Jang and Hyun, 2009).

i. The Asian Bond Markets Initiative

In terms of the ABMI, one can distinguish its developments into two separate periods: 1) the first time phase covers the period from 2003 to 2007; 2) the second time phase encompasses the period from 2008 to 2017. As shown in Table 6.1, during the first time phase noteworthy achievements include issuances of local currency-denominated bonds in China (2004), Thailand (2004, 2005), Malaysia (2006, 2007), and Indonesia (2006,

2007) (ADB, 2005a; JBIC, 2004, 2005, 2006a, 2006b, 2007a, 2007b). Additionally in support of the ABMI, the Asian Development Bank (ADB) also launched the Asian Currency Note Programme in which local currencies of four Asian countries/political entities (i.e. Singapore, Hong Kong, Malaysia, Thailand) are issued under a unified framework (i.e. document and law) in their respective markets (ADB, 2006). These collective efforts have lead to a 2.8 times increase of size in bond markets in the ASEAN+3 region from 2002 to 2007 (ADB, 2008). Moreover, emerging Asia's[38] level of local currency bond outstanding grew from US$0.5 trillion in 1996 (i.e. accounting of 2.0 % of world total) to US$3.69 trillion in 2008 (i.e. accounting of 6.2% of world total) (ADB, 2009b: 5). It is noteworthy that China's bond market accounted for 3.7% of world total in 2008 which makes it roughly equivalent to the bond market size of the United Kingdom (UK)(see ADB, 2009b).

Table 6.1. Development Phases of the Asian Bond Markets Initiative (2003-2017)

Timeframe	ASEAN+3 Framework
Aug. 2003	- **Launched Asian Bond Market Initiative** - Established 6 working groups to study local bond markets
May 2004	- ABMI Focal Group established (coordinate the 6 existing working groups) - ASEAN Bonds Online Website launched - **Japan-ASEAN Technical Assistance Fund launched.** - Study Possible Asian Currency-basket bonds
May 2005	- **Proposed ABMI roadmap** - 6 working groups became four working groups - Ad hoc Support Team for Focal Group + Technical Assistance Coordination Team (TACT)
May 2006	- Issuance of local-currency Bonds (e.g. Baht-denominated, Peso-denominated, Renminbi-denominaited, and ringgit-denominated bonds) - Study asset-backed Asian currency-basket bonds and cross-boarder local currency bonds
Sep. 2006	- ADB Launch US$10 billion Asian Currency Note Programme
May 2007	- Endorse new studies on: 1) Exploring New Debt Instruments for Infrastructure Financing; 2) Promotion of Securitisation of Loan Credits; 3) Receivables Promotion of Asian Medium Term
Dec. 2007	- Establishment of Group of Experts by ABMI
May 2008	- **Proposed New ABMI Roadmap** - reorganised working groups into 4 Task Forces + ABMI Steering group + TACT + Ad hoc Working Team - Four main areas of concern 1) promoting issuance of local currency-denominated bonds; 2) facilitating demand of local currency denominated bonds; 3) improving regulatory framework; 4) improving related infrastructure or the bond markets

[38] Emerging Asia comprises of the People's Republic of China, Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Thailand, and Vietnam.

Timeframe	ASEAN+3 Framework
Apr. 2009	- Two New Asian Currencies under ADB Asian Currency Note Programme
May 2009	- **ABMI launched Credit Guarantee and Investment Mechanism** - later renamed the Credit Guarantee and Investment Facility (CGIF). CGIF to support developing local currency-denominated corporate bonds
Sep. 2010	- **ABMI introduced the ASEAN+3 Bond Market Forum (ABMF)** under Task Force 3 upon the suggestion of the Group of Experts
May 2012	- **New ABMI Roadmap Plus Endorsed** - Nine priorities of the new roadmap
Apr. 2013	- Credit Guarantee and Investment Facility Inaugural Guarantee Transaction to Noble Group Ltd. (Thailand)
May 2013	- Setup Cross-border Settlement Infrastructure Forum - Endorse ABMI Taskforces' work plan for implementing the ABMI New Roadmap Plus - Endorse Initiative for 'Fostering Infrastructure Financing Bonds Development'
May 2014	- CFIF capital increased from US$700 million to US$1.75 billion - Muti-currency Bond Issuance Framework - Cross-boarder Settlement infrastructure forum provided recommendations
May 2015	- CGIF guaranteed projects increased - CFIF conducted bilateral studies - ABMF released implementation guidelines for ASEAN+3 Multi-Currency Bond issuance Framework. - TACT continue to provide Technical Assistance in Cambodia, Lao, Myanmar, Vietnam, and Philippines
May 2016	- **Endorsed new Medium-term Roadmap (outline for 2016-2019)** - 4 main focus areas: 1) promote green bonds; 2) covered bonds; 3) prime collateral for repo market; 4) municipal finance in selected infrastructure development with local currency-denominated bonds
May 2017	- **Yokohama Vision proposed** - Second pillar of Yokohama Vision devoted to advance ABMI development. Includes four points: 1) increase and diversify local currency funding options; 2) CGIF to be further promoted 3) knowledge sharing 4) TA for human resources development - Publication of 'Good Practices in Developing Bond Markets' - TACT to implement technical assistance

Source: ADB (2006, 2009a), Eichengreen (2004), Jang and Hyun (2009), Moon and Rhee (2012), CGIF (2013, 2014), MOF (2000, 2001, 2002b, 2003a, 2003b, 2004, 2005a, 2006, 2007a-2017)

As for the second phase, policymakers pursued more visible outcomes during this time phase. For one, the 2008 ABMI roadmap was proposed against the backdrop of the 2008 global financial crisis. In comparison to the 2005 ABMI roadmap, the 2008 roadmap not only addressed logistical arrangements for the new framework (i.e. functions of a newly established steering group, and new four task forces), but also identified four key areas for fostering bond market developments, which include: 1) promoting the issuance of local currency-denominated bonds; 2) facilitating the demand of local currency-denominated bonds; 3) improving regulatory framework; and 4) improving related infrastructure for the bond markets (ADB, 2008). Most

importantly under Task Force 1 (promoting the issuance of local currency-denominated bonds), members decided to prioritise developing the Credit Guarantee and Investment Mechanism, promoting Asian Currency Note Programme, as well as the types of structured finance instruments (e.g. debt instruments for infrastructure financing) (ADB, 2008). With reference to the set goals in the 2008 ABMI roadmap, tangible results include: 1) enhancement of the ADB's Asian Currency Note Programme in 2009 when two new Asian currencies (i.e. Philippines peso, New Taiwan dollar) were included in the initiative to promote the issuance of bonds in local currencies; 2) the establishment of the Credit Guarantee Investment Mechanism[39] in 2009 and its increase of capacity from US$700 million to US$1.75 billion in 2014 (see Table 6.1).

The commitment of the ASEAN+3 finance ministers to continuously support the development of the ABMI is demonstrated in the 2017 Yokohama Vision. In the statement. ABMI not only constitutes as one of the two main pillars for regional financial cooperation, but most importantly the ABMI's emphasis on promoting local currency bonds is considered to 'support ASEAN financial integration' (MOF, 2017). In other words, this implicates that regional policymakers consider further developments of the ABMI as stepping stones that will allow the region to move beyond interstate cooperation and achieve regional integration.

ii. The Asian Bond Funds

Under the EMEAP framework, the launching of the Asian Bond Fund-I (ABF-I) and the Asian Bond Fund-II (ABF-II) are important milestones in the development of Asian bond markets (see Table 6.2). This is especially evident when referring to developing local-denominated currency bonds under the ABF-II, which comprised of the Pan-Asian Bond Index Fund and 8 Fund of Bond Funds. As argued by Ma and Remolona (2005), the significance of ABF-II is that it is the first initiative that involves actual creation of local currency bond funds. Moreover, in Phase 2 of the ABF-II, the 9 bond funds are to be gradually opened to other institutional and retail investors rather than limited to the investment of the EMEAP central banks (i.e. ABF-I) (Ma and Remolona, 2005).

[39] Later renamed Credit Guarantee and Investment Facility (CGIF)

Table 6.2. Development Phases of the Asian Bond Funds (2003-2017)

Timeframe	EMEAP Framework
Jun. 2003	**Launched Asian Bond Fund- I (ABF-I)** - US$1 billion pooled by EMEAP central banks - Invest in dollar bonds issued by 8 EMEAP sovereign and quasi-sovereign borrowers (exclude Japan, Australia, New Zealand)
Dec. 2004	**Launched Asian Bond Fund-2** - US$2 billion US dollars pooled by EMEAP Central Banks - Phase I: US$2 billion to investment in local-currency bonds issued by 8 EMEAP sovereign and quasi sovereign borrowed - Phase II: private sector actors (institutional investors/retail investors) can participate
Jul. 2016	**EMEAP Reinvest Asian Bond Funds** - closed US-dollar denominated bond fund - transferred the original US-denominated bond fun all into local-currency bond fund

Source: BOJ (2003b, 2004), EMEAP (2003, 2006, 2016)

Under the request of the EMEAP Working Group of Financial Markets, a third-party assessment was made by the Bank of International Settlement (BIS) Representative Office for Asia and the Pacific in 2011. In the report (Chan *et al*, 2011: 4), it identified that the Pan Asia Bond Index Fund gained cumulatively 40% in local currency terms, whilst by 2011 the best performing funds amongst the 8 Fund of Bond Funds were the ABF Indonesia Fund (i.e. returning 86%) and the ABF Philippines Fund (i.e. returning 51%). In the investigation of Shim (2012: 6), the author found that although during the 2008 global financial crisis sub-investment grade bond issuance from international rating agencies had sharp declines (i.e. 2007: more than 30%; 2008: 3%), these bond issuance reached the pre-crisis level of 31.6% by 2011, and the amount of both unrated and rated Asian corporate bond issuances by local credit rating agencies actually increased from 2005 to 2009 (Shim, 2012). In 2015, issuance of local currency-denominated bonds in Asia (excluding Japan) had a near eight-fold increase to USD 1 trillion compared to USD 125 billion in 2003 (EMEAP, 2016). In addition, the collective decision to cease investment in dollar-denominated bonds issued by sovereigns and invest the proceeds into ABF-II also demonstrate the EMEAP central banks' commitment to enhance the development of Asian bond markets (EMEAP, 2016). Although the liquidity of Asian bond markets still remain limited in comparison to the UK and US standards, it has become an alternative market for government/ corporate fund raising in the past decade.

2. Japan's Engagements in Developing Bond Markets in Asia

In terms of Japan's active and continuous support of developing the ABMI, the MOF is the leading state actor that is involved in this framework. The MOF's active and leadership role is consistent with the institutional arrangement stipulated in the *1998 Bank of Japan Act* in which granted it the primary authority to conduct international financial cooperation vis-à-vis the BOJ (see Chapter 3). It is important to point out that although the aforementioned examples display the ABMI's substantial progression, the main emphasis of the first time phrase is creating the building blocs for developing bond markets in the region. In other words, the bulk of these endeavours are likely to be less visible and readily overlooked. Hence when evaluating the MOF's actions, it is crucial to identify that the organisation's 'willingness to contribute' in the initial phase is paramount.

The Ministry's dedication to fostering Asian bond markets is demonstrated in its political commitment, financial contribution, and also its role in coordinating and facilitating these collective regional endeavours. The Ministry's political commitment to developing Asian bond markets is shown in its consistent emphasis of the importance of the issue in various publicised statements. For instance, the significance of developing bond markets in Asia was proposed by then Vice Minister of Finance for International Affairs Mr. Kuroda Haruhiko (1999-2003). In his speech on 11 April 2000, Mr. Kuroda clearly suggested the development of bond markets by denoting that 'in emerging Asian economies,..bond markets have been underdeveloped. [This] is why [the second stage of] the New Miyazawa Initiative places particular priority on the development of bond markets' (Kuroda, 2000b:4). A similar statement was made on 6 June 2002 when Mr. Kuroda mentioned that although bank-financing is the predominant way of raising capital in Asian countries, 'the role of banks in supplying long-term capital may be limited, ….[due to the fact] that they operate under prudential regulations, such as capital adequacy requirements and large exposure rules' (Kuroda, 2002a: 3). Hence, 'in order to mitigate the over-concentration of risks in banks, it is important that both government and corporate bond markets [are] developed in Asian countries' (Kuroda, 2002a: 4). From Mr. Kuroda's statements, this demonstrates the Ministry's political commitment to develop bond markets in Asia. The political commitment later materialised when Japan's ABMI proposal was put forward by then Senior Vice Minister of Finance Mr. Taniguchi Takayoshi during the ASEAN+3 High-

Level Seminar on "Fostering Bond Markets in Asia" in March 2003 (Taniguhchi, 2003). As debated in the work of Hook *et al. (*2012 :229), the significance of the Tokyo Meeting in March 2003 is that it placed bond market developments on the agenda of the ASEAN+3 finance ministers' process.

In addition to political commitment, the MOF has also demonstrated its willingness to partake in fostering bond markets via taking up the role of handling logistical arrangements of the initiative. For instance, the Ministry co-chaired one of the six working groups (i.e. Rating Systems and Information Dissemination on Asian Bond Markets) with Singapore. Additionally Japan has also provided technical and research assistance support, as well as capacity building programmes to regional countries (MOF, 2004). Also, it is noteworthy that these engagements are accompanied with the financial contribution from Japan via the Japan-ASEAN Financial Technical Assistance Fund (JAFTA) in which has expanded its scope of supporting activities (e.g. research) to include bond markets developments as one of its main objectives after 2003 (Nasution, 2003; ASEAN, 2017c).

Another notable example of the Ministry's dedication to bond market developments is demonstrated in the 2005 ABMI roadmap. As mentioned, 6 voluntary working groups were established to address existing issues and challenges for fostering bond markets in Asia. These endeavours include developing settlement systems, rules, and regulations related to transactions, as well as strengthening the capacity of credit rating agencies in respective countries (ADB, 2017a: 3). To sustain the momentum of developing bond markets, Japan put forward the idea of articulating a roadmap for implementing the ABMI at the November Focal Group Meeting in Tokyo 2004. The significance of the 2005 ABMI roadmap is that it established the guidelines of how members should cooperate in these meetings under the Ad-hoc Support Team for the Focal Group (e.g. frequency of meeting, arrangement of venue, member compositions) (ADB, 2005b).

Similar to the first time phase, the organisational change denoted in the 2008 ABMI Roadmap was also proposed by the MOF (see Lee, 2012). In addition, the Ministry has also taken up the role of co-chairing Task Force 2 with Singapore (i.e. Facilitating Demand for Local Currency-denominated Bonds) and Task Force 3 with Malaysia (i.e. Improvising Regulatory Frameworks) (Urade, 2005; Jang and Hyun, 2009). After the ABMF Sub-Forums (ABMF-SF) were launched in 2010, Japan has

been the Chair for ABMF SF-1 (i.e. Mr. Muraki Tetsutaro, Tokyo Stock Exchange), and the Vice-Chair of ABMF SF-2 (i.e. Mr Ikegami Hiroshi, Japan Securities Depository Centre, Inc). In addition, the Ministry has been assisting the organisation of the ASEAN+3 Bond Market Forum-Japan (ABMF-J), which is Japan's domestic platform for deliberating the county's engagements in the ABMF. As for financial contributions, Japan continues to provide financial contributions via a newly established fund known as the Investment Climate Facilitation Fund (ICFF) in 2008. The ICFF supports activities including technical assistance, and activities that facilitates further regional cooperation and integration (ADB, 2018a). For example the quarterly publication of the ADB's Asia Bond Monitor.

In terms of the ABFs' developments, the BOJ is the only actor that represents the Japanese government to participate in the EMEAP framework. There are two ways one can assess the BOJ's support of the ABFs. The first is the Bank's devotion to the EMEAP platform *per se*, and second is via conducting research activities for monitoring the progress achieved under the ABFs. To reiterate, the BOJ's active engagements in fostering the EMEAP framework affirms that institutional arrangement stipulated in the *1998 Bank of Japan Act* did shape the Bank's behaviours. For instance, prior to the change of institutional arrangement in 1998, the BOJ took active leadership in establishing the EMEAP forum under Governor Mieno Yasushi in 1991 (Amyx, 2004b). What is crucial to point out here is that although the EMEAP framework was established in 1991, the consultation process had already began in October 1990 when the BOJ dispatched a senior official to counterpart central banks in Asia (Hamanaka, 2009: 4). Interestingly, the exclusion of the US government in this 'Asian version of the BIS' was a conscious decision of the Bank[40], and pre-dates the East Asian Economic Caucus proposal by Dr Mahathir (Hamanaka, 2009). In addition, the BOJ not only hosted the first EMEAP Governors' Meeting in Tokyo, but it was also agreed in the meeting that the forum would be elevated to the governors' level status and that it would be assembled on an annual basis (EMEAP, 2008). Arguably the most important achievement of the 1996 Governors' meeting is it established two working groups (i.e. Financial Market Development, Central Banking Operations) and one study group (i.e. Banking Supervision) (EMEAP, 1996). As noted in the EMEAP's press release

[40] Personal interview with a senior BOJ official confirms that the Bank had intensive internal debates about the US's membership in the EMEAP framework (Personal Interview, 2016f)

(EMEAP, 1996), the mandate of the financial market development working group is to 'study the development of bond, money and foreign exchange markets, …., in order to promote their further developments'.

Nevertheless in contrast to the BOJ's pro-active and visible engagements to developing the EMEAP framework prior to 1998, after the restriction was imposed according to Article 42 of the *1998 Bank of Japan Act*[41] this also shaped how the BOJ has participated in the platform. For instance in the third EMEAP Governors' Meeting in Tokyo, governors agreed to combine the mandate of the financial market development working group (i.e. market developments) and the mandate of the central bank operations working group, to form a new working group entitled 'working group on financial markets' (EMEAP, 1998). The working group on financial markets is crucial to the forming of the ABFs due to its mandate to development foreign exchange, money and bond markets in the region. From 2006-2010, the working group was chaired by then the BOJ's Assisting Governor, Mr Horii Akinari. During his tenure Mr. Horii commissioned several studies reviewing the effectiveness of the ABF-II on developing local currency-denominated bond markets, as well as put forward policy proposals to enhance the development (see EMEAP, 2006; Chan *et al.*, 2011). The BOJ's change of approach from 'active' prior 1998 to 'active yet reticent' demonstrates that institutional arrangement did shape the political behaviour of the Bank. I will discussed more about how the BOJ act as *mutualistic-symbiont* in the next section.

III. Japan's Active Promotion of Developing Asian Bond Markets: Power Rivalry or Policy Objectives and Organisational Goals?

I argue in this section that not only has state-actors in Japan played a significant role in developing the ABMI and the ABFs, the consistencies of their involvements in both initiatives also exposes the limitations of explaining Asian financial regionalism from a realist's perspective. It is the variable of institutional arrangement that shapes how the MOF and BOJ have engaged in developing bond markets in Asia. I begin with the assessment of the power rivalry variable.

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[41] In Article 42, of the 1998 Bank of Japan Act it states 'the Bank of Japan may conduct…other transactions necessary for cooperating, as the central bank of Japan, with foreign central banks, etc. or international institutions in the field of international finance, including the provision of international financial assistance, at the request, or upon the approval, of the Minister of Finance: ' (BOJ, 1998)

1. Power Rivalry as the Variable

To begin with, when debating on macro-level dynamics such as developments of financial regionalism, occurrence of financial crises, and how they affect meso-level changes in policy outcomes, most scholars have shied away from using the case of bond market developments as their case study. For instance, when debating on China and the US's political struggles in Asia, realist scholar Aaron Friedberg (2011: 169) not only leaves out the discussion of Japan's role in the Sino-American rivalry, but also omitted the debate on how China has endeavoured to make ASEAN+3 into the 'major framework' for regional cooperation. Similarly, when providing their critique on the ASEAN+3 framework's existing limitation (i.e. Sino-Japanese rivalry), and how this has resulted in ASEAN taking the lead on financial regionalism in the post-2008 era, Emmers and Ravenhill (2011: 139-145) also left out the debate on bond market developments and touched upon dynamics such as competing ideas of the region (i.e. Japan's East Asia Community and Australia's Asia Pacific Community) and the ineffectiveness of the CMIM during the aftermath of the 2008 global financial crisis.

As identified in Chapter 2, one of the few scholars coming from a realist political economy perspective that has debated on bond market developments and Japan's engagements in these processes is William Grimes in his 2009 monograph. In his work, Grimes (2009: 166) argues that from a realist perspective when states engage in financial market developments 'the ultimate goal,…is wealth creation….without increasing national vulnerability to potential competitors for power and security'. Based on this rationale, Grimes argues that the underlying reason that contributed to Japan's decision to actively promote the ABMI is because it enables greater regional advantage in standard-setting vis-à-vis China, and at the same time allows the country to have greater leverage over the US due to the country's exclusion from the framework (Grimes, 2009:200-201). In addition another rationale for Japan's active promotion is directed to the urgency for Tokyo to obtain the lion's share of regional bond exchanges in face of challenges of other Asian financial centres, especially the increasingly important Shanghai financial centre (Grimes, 2009: 198). Based on the aforementioned remarks, it shows that power rivalry relations amongst Japan, China, and the US remain the most important factor that shapes the outcomes of Asian financial regionalism, and Japan's active promotion of bond markets is merely realising its economic and political

interests (Grimes, 2009:196)[42]. Evidently, these remarks depict an offensive logic of Japan's involvement. Given I have already debated in Chapter 4 on whether the 2008 global financial crisis has changed the continuity of the ASEAN+3 finance ministers' process as well as the interactions amongst the BOJ, the People's Bank of China, and Bank of Korea, I will not reiterate on my propositions here again. Instead I will focus on China's interaction with the ADB as well as assessing whether Japan's promotion of bond market developments fulfils Grimes's realist prediction.

Grimes's proposition that Japan is pursuing its national political and economic interests in developing Asian bond markets is accurate. Yet, focusing on relative gains in developing bond markets as well as the effects of setting financial standards to 'lock-in' China when developing its capital market seem contradictory to the collective efforts of the ASEAN+3 finance minsters' process. In regard to China's potential resistance to being 'locked-in' by Japan's efforts in setting financial standards, Grimes identified the ADB as one of the key players in developing both the ABFs and the ABMI in these processes. This is particular fitting for Grimes's narrative given Japan has dominant influence in the ADB (e.g. ADB presidency has always been held by Japanese officials, mostly from the BOJ and the MOF). Based on this rationale, the expected relational respond by China should be not supporting the ADB's engagements, enhancements, or related activities. This in not unprecedented in China's foreign policy. In fact, China's avoidance to be 'locked-in' into international organisations and regimes was the country's foreign policy orientation under Mao Zedong, and only began to change under Deng Xiaoping's leadership (see Johnston, 2003: 12). Moreover in the wake of the 2008 global financial crisis, China's change of foreign policy orientation from Deng's 'keep a low profile and bide your time' principle to a new 'assertive' foreign policy orientation has been identified as triggered by the common feelings of triumphalism amongst Chinese policymakers, academics that Washington's power is in the decline and also its influence over East Asia (see Scobell and Harold, 2013: 115; Zhao, 2013, Yahuda, 2013). On the basis of this claimed new assertiveness of Chinese foreign policy, this should suggest more resistance, or more confidence to resist, any progression that attempts to 'lock-in' and contain China's

[42] The key arguments of Grimes (2009) concerning Japan's engagement in developing bond markets is identified in points (3) and (4) in Chapter 2.

influence such as demonstrated in the case of China's reactions in the 2009 Copenhagen Summit on Climate Change (Johnston, 2013: 14; Zhao, 2013: 546).

By contrast, on 22 February 2009 China along with other ASEAN+3 finance ministers put forward a joint media statement entitled *Action Plan to Restore Economic and Financial Stability of the Asian Region.* In this joint statement, it called for the support of a substantial increase in the ADB's financial capital under the Fifth General Capital Increase of the ADB for '[fulfilling] its role in Asia' and 'mitigating the impacts of the global financial turmoil' (MOF, 2009a: 3). The support of the ADB's financial capital base was reiterated by the ASEAN+3 finance ministers during the annual finance ministers' meeting in Bali on 3 May 2009 (MOF, 2009b). At the international level, China's continuous support for bond market developments in Asia is exemplified in the endorsed *G20 Action Plan to Support the Development of Local Currency Bond Markets* on November 2011. On point 3 of Clause 9, head of states commended the role of the ADB in providing technical support for developing the ABMI, and also welcomed regional initiatives including both the ABMI and the ABF Initiatives (see G20, 2011: 3). Based on the aforementioned examples, these evidence constitute as one of the limitations of Grimes's power rivalry prediction on China's likelihood of avoiding being 'locked-in' by Japan, and hindering the ADB's endeavours to develop bond markets in Asia.

On Japan's side of the narrative, Grimes's power rivalry perspective on the state's objective of wealth creation and avoidance of creating potential national vulnerabilities to potential competing countries when engaging in financial market development is also problematic. To begin with, it is noteworthy that although the member compositions of the EMEAP is different from the ASEAN+3 finance ministers' process, both frameworks include China whilst the EMEAP framework also includes Hong Kong (see Table 6.3). Nevertheless, the EMEAP central bank members' collective efforts to develop Asian bond markets via ABF-I (i.e. US dollar-denominated bonds) and ABF-II (i.e. local currency-denominated bonds) both excluded Japan, Australia, and New Zealand (EMEAP, 2016). Indeed in comparison to other member economies, the three countries have more sophisticated financial markets and therefore do not require these collective efforts for developments. Yet, if the relative gain perspective of realists political economy were to be fulfilled, should this not deter Japan's active promotion of bond market transactions in financial centres of Hong

Kong, or Shanghai?

Table 6.3. Frameworks of Asian Bond Market Developments

Regional Initiatives	Framework	Participating Countries/ Political Entities	
Asian Bond Markets Initiative	**ASEAN+3**	**ASEAN**	Thailand, Singapore, Indonesia, Malaysia, the Philippines (i.e. ASEAN-5), Brunei, Vietnam, Cambodia, Laos, Myanmar
		Plus Three	Japan, Korea, China
Asian Bond Funds*	**EMEAP**	**ASEAN**	Thailand, Singapore, Indonesia, Malaysia, and the Philippines (i.e. ASEAN-5)
		East Asia	Japan, Korea, China, Hong Kong
		Pacific	Australia, New Zealand

* It is noteworthy that although EMEAP consists of 11 central banks in the region, ABFs exclude bond markets of Australia, New Zealand, and Japan

Source: EMEAP (2008), ASEAN (2014)

In addition, according to statistics of the ADB (2009b: 5), China's local currency bond outstanding reached US$2.21 trillion in 2008, and its bond outstanding growth trajectory has continued and increased to US$8.8 trillion in 2017 (ADB, 2018a: 15). This makes China's local currency bond market account for the largest share of the emerging Asia region with the share of 71.2 % as of 2017 (ADB, 2018a: 15). Accordingly, these dynamics exemplify that the relative gain perception cannot thoroughly explain why Japan has actively promoted the development of Asian bond markets.

Finally to reiterate, I do agree with Grimes's perception on Japan's active promotion of bond market development is due to the fulfilment of its national political and economic interests. The argument is especially strong on drawing the linkage between how Japan's financial sector has engaged in numerous technical assistance projects and why this will increase its competitive edge over global competitors insofar as becoming primary dealers in local currency bond markets (see Grimes, 2009: 197). My disagreement with Grimes on this particular point is by omitting detail discussions on why states and non-state actors cooperate in this policy area inevitably suggest that the state is a power container which obtains the upper-hand influence over non-state actors in conducting economic statecraft in regional financial cooperation policies. As

will be further debated in Chapter 7, this is not an accurate account of the interaction between micro-and meso-level actors.

2. Institutional Arrangement as the Variable

If Japan's active support for advancing bond market developments in Asia is not driven by the variable of power rivalry, this engenders the debate on what other factors may have shaped the country's political behaviours? Applying the analytical framework proposed in Chapter 2, I argue that there are different reasons why the MOF and the BOJ have actively engaged in the developing of Asian Bond Markets. In the case of the MOF, the organisation's promotion of bond market developments can be argued as adhering to its low-profile foreign policy approach of 'quiet diplomacy', whilst the unintended consequences of this approach is it actually resembles the act of *layering* and increase its power-deficit status vis-à-vis the LDP. In the case of the BOJ, the organisation continues to acts as a *mutualistic-symbiont* to fulfil its organisational goal of maintaining financial stability via bond market developments. I begin with the underlying reasons for the MOF's engagements.

i. The Ministry of Finance: Quiet Diplomacy and the Act of Layering

In the case of the MOF, I have demonstrated in Chapter 4 how the socio-economic and political context has demanded the MOF to continue its strong involvement in the economy in aspects of exchange rate risk management and international financial cooperation (i.e. ASEAN+3 framework). What is often overlooked when debating on Japan's engagement in fostering Asian bond markets is that not only does it demonstrates how Japan's quiet diplomacy is carried out, but also it can be regarded as the MOF's act of *layering* to remain at the forefront of regional financial cooperation making.

With regard to the first, I argue that the MOF's promotion of developing Asian bond markets can also be regarded as a form of quiet diplomacy. This is achieved by disguising the MOF's policy objective of yen's internationalisation and embedding it into its promotion of bond market developments in Asia. As denoted in Chapter 3 and 4, one of the main essence of Japan's quiet diplomacy is it tends to adopt a long-term policy perspective and achieve this incrementally via formal, informal and proxy channels (Hook *et al.* 2002: 6). It is shown in various open statements made by the

MOF's senior officials that promoting bond market developments in Asia is indeed the Ministry's quiet diplomacy at play. One instance is shown in the aforementioned open remark by Mr Kuroda in 2000. The statement was one of the earliest public statements that identified the necessity to develop bond markets for achieving greater regional financial stability in Japan. The significance of the speech is how Mr Kuroda associates bond market development with the second stage of the New Miyazawa Initiative. The other instance is Japan's official ABMI proposal in 2003. In his speech, Mr. Taniguchi's began by stating that 'the lesson learned from the currency crisis is that Asian bond markets must be fostered so that the private sector does not become entrapped in "currency" and "maturity" mismatches in their financing' (Taniguchi, 2003). In order to reduce the propensity of the double mismatch, Mr. Taniguchi proposed to foster bond markets and promote 'bonds denominated in a currency-basket consisting of regional currencies', and more importantly, 'the creation of bonds denominated in currency-basket would pave the way for bonds denominated in Asian Currency Units (ACU)' (Taniguchi, 2003).

Mr. Taniguchi's statement on creating 'currency-basket bonds' is very important. The idea of creating currency-basket bonds and promoting local currency-denominated bonds are different insofar as the former envisions a truly regional market whereas the latter indicates developing the domestic bond markets of respective states (Grimes, 2009: 192). Notably the advantages of issuing and borrowing Asian bonds via a common basket currency rather than individual international currencies (e.g. US dollar) is that it also fulfils the purpose of decreasing foreign exchange risks (Ogawa and Shimizu, 2007). Yet, the greatest challenge of developing a regional bond market is that the precondition for increasing its attractiveness is when currency stability is achieved (Grimes, 2009: 192). In other words, exchange rate stability is a precondition for a regional bond market.

When further assessing Mr Kuroda's public statements in 2002, it is evident that the MOF's emphasis on exchange rate co-ordination prevails its promotion of developing Asian bond markets. For instance, in three occasions (i.e. 6 June; 17 June; 2 October) when Mr Kuroda remarked on regional financial cooperation after the Asian crisis, there was only one case (i.e. 6 June 2002) that the importance of bond market developments was mentioned. Moreover, even when pointing out the necessity to develop bond markets as a means of long-term financing solution, Mr Kuroda explicitly

stated that the main obstacle of 'developing regional bond markets is exchange rate risks' and that 'coordination in exchange rate regime in the region would greatly contribute to the development of regional bond markets' (Kuroda, 2002a). In the two other occasions (i.e. 17 June; 2 October), not only were bond market developments not mentioned, the emphases were still on exchange rate regime coordination. For example not more than two weeks after Mr Kuroda's public remarks on the importance of bond market developments in Asia (i.e. 6 June), he stated in another occasion that not only could the currently deepened regional financial cooperation progress into mechanism for achieving exchange rate stability, but also '[he] is not convinced that [the] "two-corner solutions (pure float and hard peg)" are the most desirable exchange rate regimes for emerging economies. A possible option for emerging economies in East Asia might be a managed exchange rate regime in which the currency moves within a certain rage with its centre targeted to a basket of major currencies' (Kuroda, 2002b). More importantly, Mr. Kuroda's public remarks on 2 October 2002 went as far as stating that he believes that an Asian Common Currency (ACC) is possible, although it might be only in the long run (Kuroda, 2002c).

Table 6.4. Japan Bank for International Cooperation and the Asian Bond Markets Initiative

Time	Bond Issuance Firm	Underwriters	Amount
2004 Jun	TRI PETCH ISUZU SALES CO. Ltd (Joint Venture between Mitsubishi Corporation and Isuzu Motors)	- Primary: Mitsubishi Corporation - Secondary: JBIC	3.5 billion-baht (10 billion yen)
2006 Jan	ORIX LEASING MALAYSIA BERHAD (Orix Corporation has equity stakes. Orix Corporation is a financial service group in Japan)	- Primary: ORIX Corporation - Secondary: JBIC and Labuan Branch of Bank of Tokyo-Mitsubishi UFJ	150 million-ringgit (4.5 billion yen)
2006 Mar	P.T. Summit Oto Finance (Indonesian corporation which Sumitomo Corporation has equity stakes)	- Primary: Bank of Tokyo-Mitsubishi UFJ - Secondary: JBIC	1 trillion-rupiah (12 billion yen)
2007 Mar	P.T. Summit Oto Finance (Indonesian corporation which Sumitomo Corporation has equity stakes)	- Primary: Sumitomo Mitsui Banking Corporation - Secondary: JBIC	1 trillion-rupiah (13 billion yen)
2007 Oct	ORIX LEASING MALAYSIA BERHAD (Orix Corporation has equity stakes. Orix Corporation is a financial service group in Japan)	- Primary: ORIX Corporation - Secondary: JBIC and Labuan Branch of Bank of Tokyo-Mitsubishi UFJ	200 million-ringgit (6.9 billion yen)

Time	Bond Issuance Firm	Underwriters	Amount
2008 Aug	AEON Thana Sinsap Public Company Ltd. (AEON Credit Service Co., Ltd has equity stakes. AEON Credit Service is the financial service corporation under AEON group in Japan).	- Primary: Mizuho Corporate Bank - Secondary: JBIC	1 billion-baht (3.4 billion yen)

Source: JBIC (2004, 2006a, 2006b, 2007a, 2007b, 2008)

The MOF's quiet diplomacy is evident based on Mr Kuroda's three open remarks in 2002, leading up to Japan's official ABMI proposal announced by Mr. Taniguchi on March 2003. These empirical evidence demonstrate that whilst the MOF has actively promoted bond market developments, this is achieved by making yen's internationalisation and exchange rate regime coordination as a prioritised policy objective. Nevertheless this does mean that bond market developments do not align with the MOF's political interest. In fact, when assessing the 6 cases of local currency-denominated bonds and bond guarantee issued by Japan Bank for International Cooperation (JBIC), all of these entities are Japanese investments (see Table 6.4). Instead, what I am referring to here is that the way the MOF has packaged bond market developments into its promotion of yen's internationalisation exemplifies how the Ministry approaches regional financial cooperation via its conventional low-profile diplomacy.

With regard to the second, the Ministry's approach to promote bond markets developments via disguising its intent to promote exchange rate coordination also benefited the Ministry insofar as remaining at the forefront of regional financial cooperation policymaking. In this particular case, this is the result of the varying strategies adopted by the MOF and the LDP. To reiterate, I identified in Chapter 3 that there are three reasons that allow the Ministry to remain at forefront of regional financial cooperation policymaking, despite becoming the power-deficit actor in the LDP-MOF dyad relation. These include: 1) the LDP's lack of institutional ties with foreign counterparts (see Grimes, 2002: 223); 2) the margin of expertise between the two organisations; and 3) the consistency of Japan's foreign policy towards ASEAN.

The first and second points have been further enhanced by the MOF's promotion of bond market developments through the act of *layering*. Applying the analytical framework proposed in Chapter 2, Mahoney and Thelen (2010: 16) denotes

that the act of *layering* is process of attaching new mandates on to those in the existing institutional arrangement, and 'thereby changing the ways in which the original institutional arrangement shapes behaviours'. In this process, actions of a *subversive* (i.e. MOF) do not violate the existing institutional arrangement, given power-privilege actors obtaining strong veto power (i.e. LDP). Hence its actions may seem like it is a supporter of the institutional setting.

As for the third point, the LDP's inactions may have also contributed to the Ministry's prominent role in the dyad relation. In the analytical framework proposed by Mahoney and Thelen (2010), the LDP's behaviour is similar to the act of *drift* in which change occurs when actors do not respond to macro-level dynamics (see Chapter 2). As discussed in Chapter 3, Japan's engagements with ASEAN is based on the 1977 Fukuda Doctrine which underscores the importance of 'equal partnership' and 'heart-to-heart relationship'. Therefore within the confines of this foreign policy principle, the LDP is unlikely to challenge the Ministry's role in these engagements.

In fact, the Fukuda Doctrine has been reinforced in two occasions. The first occasion was in 2003 when Prime Minister Koizumi and the Head of States of ASEAN member countries signed the *Tokyo Declaration for the Dynamic and Enduring Japan-ASEAN Partnership in the New Millennium*. Notably, the Tokyo Declaration (MOFA, 2003: 1) stated that they are '[c]onvinced that the "heart-to-heart" understanding, nurtured among peoples of Japan and South Asian countries…, has developed into the "acting together, advancing together"partnership which is the foundation for our future relations'. More importantly, in the same document leaders identified that they have agreed to '[f]oster and strengthen financial and monetary cooperation such as capital market development, capital account liberalisation, and currency cooperation' in Clause 1 of the Common Strategies for Action (MOFA, 2003: 3).

The second occasion occurred in November 2011 when Japan and ASEAN released the Bali Declaration[43]. Similar to the 2003 Tokyo Declaration, the Bali Declaration stated again that leaders '[appreciate] the special ties between ASEAN and Japan based on heart-to-heart understanding, ...' (MOFA, 2011: 1). Notably in Clause 19 of the Declaration, leaders also identified that '[strengthening] regional financial cooperation to prevent the recurrence of...potential economic and financial crisis ' as a

[43] The official title of the Bali Declaration is the *Joint Declaration for Enhancing ASEAN-Japan Strategic Partnership for Prospering Together*.

commons strategy agreed upon (MOFA, 2011:5). These common strategy was further affirmed in December 2013 with the release of the *Implementation Plan of the Vision Statement on ASEAN-Japan Friendship and Cooperation*. In this joint statement, leaders not only agreed to further strengthening of regional architectures such as the ASEAN+3 framework, but also indicated the necessity to 'enhance existing financial cooperation as well as explore possible future financial cooperation between ASEAN Member States and Japan' (MOFA, 2013: 4). These examples demonstrate that given the Ministry's engagements in the ASEAN+3 framework is consistent with the government's foreign policy agenda, it provides some political space for the Ministry to manoeuvre.

Has the MOF's act of *layering* and the LDP's act of *drifting* induced any change? I argue that change has taken place. For instance when closely surveying the Bali Declaration and the Tokyo Declaration, both documents stated the importance of currency cooperation but neither refer to enhancing bond markets developments. Although the 2003 Tokyo Declaration did mention capital market development in the same clause of currency cooperation, it did not specify the ABMI in the declaration. Moreover in the 2011 Declaration, leaders did identify the CMIM's role in preventing the recurrence of financial crisis, but the document once again failed to mention the ABMI (see MOFA, 2011: 5). On the basis of this, it is apparent that political leaders have focused mostly on the developments of the short-term liquidity support mechanism rather than bond market developments.

ii. The Bank of Japan as Mutualistic-Symbiont

In the case of the BOJ, given the premise of developing bond markets in Asia was reduction of risks via diversifying channels for raising capital (i.e. bank and capital markets) (BOJ, 2009d), this also enabled the Bank to take up an important role in this regional financial cooperation initiative. Yet, what deserves one's attention is how the Bank has approached the policy initiative in comparison to the Ministry.

As identified in Chapter 4, although both the MOF and BOJ have promoted yen's internationalisation, they laid emphasis on different aspects of the policy initiative (i.e. MOF: exchange rate regime; BOJ: fostering market infrastructure). In the case of developing Asian bond markets, the BOJ's actions also resemble *mutualistic-symbionts*

which leverage on the ambiguous rules to enforce the spirt of the existing institutional arrangement (see Chapter 2).

First, the BOJ's cautious support of bond market developments is demonstrated in the platform that the Bank pursued the policy, namely the EMEAP framework. Unlike the ASEAN+3 financial ministers' process, which involves personnels from both MOF and BOJ at deputies and working-levels, only BOJ staffs are engaged in the EMEAP framework at all three levels (i.e. working group, deputies, and governors' levels). Accordingly, the probability of a policy proposal to be politicalised is significantly lower in comparison to the ASEAN+3 framework. This is especially important because it may violate the MOF's mandate as the primary actor for international financial cooperation. Moreover against the backdrop when the Ministry's emphasis on exchange rate regime became more politicalised after ideas such as a ACC were identified, it also resulted in the poor reception by regional financial policymakers due to their deep suspicion on Japan's motive to assert itself as the regional hegemon (Amyx, 2004b: 9).

Second, it is important to reiterate that the ABF's objective is to help Asian bonds gain more recognition from investors whilst concurrently encourage the EMEAP members to address market barriers in this process (BOJ, 2009d). This compliments the Bank's existing emphasis on fostering the payment and settlement system for yen's internationalisation via issuance of JGBs. What is entailed in this process is various deregulation policies such as tax reforms to exempt non-resident investors from withholding tax, and liberalisation of foreign exchange administration rules across the region (Kuroda, 2017). Hence after the idea of launching the ABF-I was put forward by then Deputy Chief Executive of the Hong Kong Monetary Authority (HKMA) Mr Norman Chan (1996-2005) to the BIS Asia Office headed by Mr. Yoshikuni Shinichi (Yoshikuni, 2011), it was swiftly upheld by the BOJ and collectively supported by the EMEAP Deputies' meeting in Seoul 2002, and eventually endorsed in June during the EMEAP Governors' meeting (EMEAP, 2003, 2006).

Finally, although platform selection may have been an initial consideration for the BOJ to engage in bond market developments, this does not indicate that both organisations have not closely cooperated under the ABMI framework. In fact, when the ABMI policy objective aligned with the BOJ's emphasis on fostering the necessary market infrastructures for bond market developments, it has increased the engagements

of the Bank. One tentative example is the convergence of objectives of the ABFs and the ABMI. For instance, in the 2008 ABMI roadmap Japan's main mandate under Task Force 2 is to foster the demand of local currency-denominated bonds. This highly resembles the ABFs' aim to reduce market barriers via improvement of taxation systems for non-residents and regulations on foreign exchange transactions (ADB, 2008). Given the 2008 roadmap was proposed after ideas of ACC, Asian Monetary Unit (AMU) were gradually dropped roughly around 2006, this suggest that a less politicalised environment may have increase the BOJ's role at the working-level. In addition, perhaps the most notable example of the Bank's active participation in the ABMI is its engagement in the Cross-border Settlement Infrastructure Forum (CSIF) under the ABMI Task Force 4. To begin with, the member compositions of Japan (i.e. BOJ: 4; MOF: 1) in the CSIF demonstrates that the BOJ's political ownership in this platform (ADB, 2014). Moreover not only has the BOJ contributed to the proposal of the Central Securities Depositories-Real Time Gross Settlement (CSD-RTGS) system to foster cross-border transactions, the Bank has also taken the initiative to conduct bilateral desktop studies on the CSD-RTGS with the HKMA since 2015 (MOF, 2015a, 2017).

What explains BOJ's active engagements? My proposition is the alignment of policy goal on fostering market infrastructures such as payment and settlement system. Firstly, when assessing the main objective of the CSIF, it is apparent that CSIF's policy objective of fostering a cross-border bond and cash settlement infrastructure and potential creation of a regional settlement intermediary corresponds to the BOJ's emphasis on fostering market infrastructures for bond market developments. Secondly, this also allows the BOJ to promote greater usability of the yen. The linkage between greater usage of yen as a settlement currency and the CSD-RTGS system is that it enables the BOJ-Net[44] to connect with overseas system via a gateway system. Although the CSD-RTGS system is still in its initial stage of development, the support and expectations of this system is shown in various public statements made by the BOJ's senior officials. For instance in November 2014, the BOJ Deputy Governor Nakaso Hiroshi stated that the BOJ's 'future payment and settlement infrastructure should offer an environment that facilitates the smooth delivery of the Japanese yen and Japanese

[44] BOJ-NET is the online payment and settlement system for processing transactions in money markets and fund settlements related to Japanese government securities transactions.

government bonds anywhere and anytime [to achieve] what I would call the ubiquity of the Japanese yen and JGBs' (Nakaso, 2014). When commenting on how this can be achieved Mr. Nakaso denoted that 'A possible answer is currently being discussed in the ASEAN+3 countries. They created [the CSIF] in which the establishment of cross-border linkage in the region is currently being explored' (Nakaso, 2014). In addition, when announcing the expected launching of the new BOJ-NET in October 2015, the current BOJ Governor Mr. Kuroda explicitly linked the new system with facilitating the smooth delivery of the Japanese yen and JGBs in support of 'the globalisation of the yen— a longstanding challenge—from the settlement aspect' (Kuroda, 2014). Once again, Mr. Kuroda identified that the CSD-RTGS system currently under discussion in ASEAN+3 economies will potentially make this possible (Kuroda, 2014).

On the basis of the BOJ's discreet approach to developing Asian bond markets under the EMEAP framework as well as its active engagement in enhancing cross-border settlement infrastructure under the ABMI, it is evident that organisational goal played a substantial role in shaping the way the Bank has engaged in bond market developments. In this case, the Bank has become an active supporter of the institutional arrangement (i.e. *mutualistic-symbiont*), despite being the power-deficit actor in the MOF-BOJ dyad relation.

IV. A Pluralistic Decision-making Process: The MOF's Quest of Policymaking Authority

After discussing on how institutional arrangement has shaped the respective approaches of the MOF and the BOJ, the final question I want to debate on is whether the decision-making process of regional financial cooperation policy has become more pluralistic with more engagement of non-state actors. The importance of this discussion is because it is associated with whether the state is a power container that can effectively conduct economic statecraft. As I shall demonstrate in this section, there is an increase of non-state actors involved in the decision-making processes of regional financial cooperation policies. Yet upon assessing the MOF's decision-making process, it affirms that the Ministry as a power-privilege actor in the institutional arrangement has continued to fuel its authority via shaping the socio-economic and political context that allows its active engagement in regional financial cooperation.

1. Increase of Non-state Actors Involved in the MOF's Regional Financial Policymaking Process

Referring again to what I identified in Chapter 2 concerning some of the key arguments of realists political economy, the argument put forward by Grimes (2009) is that Japan's active engagement in developing Asian bond markets is an act of economic statecraft. Yet, Grimes's argument is predicated on financial cooperation policymaking being limited to few strategic minded actors within the government (Grimes, 2009: 13). Apart from denoting that regional financial cooperation policymaking is unlike trade politics that are domestically complex, Grimes does not offer any explanation as to why the MOF is able to effectively put forward these policies.

Moreover under this rationale, this also omits the possibility of a 'bottom-up' process in which non-state actors can actively engage in shaping policy outcomes. Again, I will leave the assessment on whether the government's economic statecraft is 'effective' insofar as shaping the actions of private sector actors in Chapter 7. Instead I will focus discussing the policymaking process in this section.

On the issue of actors involved, there are two ways that non-state actors may potentially engage in the MOF's policymaking processes. One of these methods is through participating in the Sub-council on Foreign Exchange and Other Transactions, as well as its affiliated Expert Groups. The Sub-council and its affiliated Expert Groups act as advisory platforms where the Ministry can receive inputs from non-state actors on any specific policy agenda. The functions of Sub-council meetings and expert group meetings are different. In the case of the latter, the convention consist of practitioners and academics and is the main platform where policy issues are debated and policy recommendations are formulated. As for Sub-council conventions, these meetings are normally held on an annual or biannual basis, and member compositions include business leaders, government agencies, and academics. The main purpose of this meeting is to review the policy recommendations produced by the Expert Group members in hope of reaching consensus on a given regional financial cooperation policy. When observing the member compositions of the Sub-council meetings, it shows that there is a general increase in participation from academics (e.g. 2001: 8 ; 2014: 21), whilst industry (both financial and manufacture sectors), media, and government representatives have remain stable (see Table 6.5).

Table 6.5. Background of Members in the Sub-council on Foreign Exchange and Other Transactions (2001-2015)

Date	Academia	Financial Industry	Manufacturing Industry	Government	Media	Law
2001 JAN	8	2	4	5	1	1
2001 SEP	7	2	4	5	1	1
2003 MAY	8	3	4	4	1	1
2005 MAR	18	8	9	7	3	1
2007 JAN	8	4	4	3	1	1
2009 MAR	11	3	4	3	1	1
2011 FEB	15	2	4	4	1	1
2011 JUN	13	2	4	4	1	1
2011 DEC	13	2	4	4	1	1
2012 JUN	13	2	4	4	1	1
2013 JUN	13	2	4	4	1	1
2014 JUN	21	2	4	4	1	1
2014 DEC	14	2	4	3	1	1

Source: MOF (multiple sources)

The other channel that allows non-state actors to engage in the MOF's regional financial policymaking process is personnel rotations from private sector industries to the Ministry. In 1999, the Diet enacted the *Law on Personnel Exchanges between Government and Private Institutions* (官民人事交流法) which came into force in March 2000 (NPA, 1999). According to the *Personnel Exchange Law,* private sector actors as well as government officials can be deployed to different organisations for a period of 3 years and a maximum period of 5 years. In addition, the Law also clearly identifies the types of organisations that are eligible to participate in this rotation mechanism (NPA, 1999).

The MOF's International Bureau has been utilising this mechanism in accordance to the *Personnel Exchange Law* in recent years. The increased importance of these exchanges for the International Bureau's operations is demonstrated in the substantial amount of admitted personnel. According to the NPA report (2014), during the period from 2000-2014, the MOF admitted in total of 84 personnels. In 2016 the International Bureau *per se* accommodates roughly 20 private sector personnels

(personal interview, 2016c; 2016d)[45]. Furthermore, in the past few years the International Bureau has also deployed private sector personnels to manage the development of Asian bond markets. For instance, after the launching of the ABMF in 2010 the Director for Promotion of Regional Financial Cooperation position was held by a personnel deployed from Sumitomo Mitsui Banking Corporation until 2012. The position was succeeded by Director Mr. Yamada Fumihiko which is a personnel from Sumitomo Corporation (personal interview, 2016c).

2. A Quest for Policymaking Authority

After indicating an increase of non-state actors engaged in the MOF's regional financial policymaking processes, the ensued question is why the MOF has been willing to accepting more actors to participate in these processes. As shown in the previous section, the increased numbers of actors that participate in the policymaking process does not sit well with the argument of conducting 'effective' statecraft. After all, the more actors involved in the process will inevitably engender more dispersed opinions. This increases the difficulty to reach consensus and put forward a cohesive policy.

Applying the historical institutionalist analytical framework denoted in Chapter 2, I argue that this is the MOF's attempt to continue to influence the socio-economic and political context that allows the Ministry to remain at the forefront on regional financial policymaking. This is potentially achieved in two ways. The first method is to ensure that the MOF can articulate effective policies that will benefit the country's economic performance via incorporating the perspectives of leading experts, opinion leaders, and market practitioners. The second is to foster the MOF's policymaking authority with the support of these non-state actors.

In regard to the first, it was mentioned in Chapter 3 that the MOF is constrained by its organisational practices of personnel rotation and on-the-job training for its new undergraduate personnel recruits. The gradually reduced margin in expertise between the LDP and the MOF on the budget compilation process from the 1960s eventually allowed the LDP to effectively encroach on the MOF's budget authority. The MOF's International Bureau is no exception of being potentially a victim of such constrain. Hence applying the analytical framework proposed in Chapter 2, the Ministry's actions

[45] Interviewees are staffs from the MOF.

to increase personnels from academia in Sub-council meetings (see Table 6.5), and allow personnel rotation from private sector industries resemble *subversives* which aim at displacing the institutional arrangement by working themselves from the peripheral to the centre through *layering.* Although this seems at odds with the proposition that the Ministry is at the forefront on regional financial cooperation policymaking, it is important to reiterate that the MOF's seemingly power-privilege status is due to the existing margin on international financial expertise and the rare alternation of foreign policy orientations (see Chapter 3).

A number of empirical evidence tentatively affirms this evaluation. For one, a personal interview with a private sector personnel that was previously deployed to the MOF's Regional Financial Cooperation Division pointed out that MOF's role in the working-level meetings of ABMF-J is quite limited and is very much reduced to being the logistic coordinator (personal interview, 2016a). For another, a number of scholars that have participated in these Sub-council and Expert Group meetings have eventually taken up important positions in the Ministry. For example, this includes Professors Ito Takatoshi and Kawai Masahiro. In the case of Professor Ito and Professor Kawai, they both served as Deputy Vice Minister of Finance for International Affairs under Mr. Kuroda (Professor Ito: 1999- 2001; Professor Kawai: 2001-2003).

In regard to the second method, the MOF continues to act as a *subversive* that seek eventual *displacement* of the existing institutional arrangement (i.e. politician-led policymaking) via shaping the socio-economic and political context. As mentioned in Chapter 4, it was the macro-level context (i.e. demand for exchange rate management and Asian crisis) that allowed the MOF to continue its strong involvement in managing the economy in the aspect international financial affairs, whereas its domestic regulatory mandates weakened in face of soaring criticisms in the 1990s (e.g. establishment of the Financial Services Agency, and the independence of the BOJ). Therefore, the importance of these non-state actors' engagements in policymaking processes is it allows the MOF to obtain the support of key figures from academia, private sectoral industries, and the media. To certain extent, this is similar to what Hook *et al.* (2002) have identified as the 'back' or 'implicit' approach (*ura*) which depicts a domestic consensus building process that forms the foundation for Japan' foreign policy.

Empirical evidence underpin this proposition. Firstly according to the personal interview (2016d) with a senior official in the MOF, the interviewee conveyed that Sub-council meetings are not in the actual decision-making processes of regional financial cooperation policies. The purpose of these meetings are crucial for the Ministry because it allows the MOF to *manage* public opinion, given that members are all important opinion/business leaders in Japan[46] (personal interview, 2016d). Secondly if one critically assess whether regional financial cooperation policies are influenced by non-state actors via Sub-council and Expert Group meetings, the results are unclear. For instance, regarding the Ministry' policy initiative of yen's internationalisation, the Council[47] produced two reports. One report was publicised in March 1985 and the other was in April 1999. Both reports supported the policy initiative to internationalise the yen and transform Tokyo into an international financial centre (MOF, 1999). Additionally in the 1999 report, one of the main reasons put forward to promote the yen as an international currency was due to it enables greater contribution to financial stability in the international system (MOF, 1999). Both of these examples tentatively suggest that non-state actors were able to channel their opinions and influence the MOF's policymaking. Yet if one considers the timeframe when Finance Minister Miyazawa announced internationalising the yen as a policy goal, (Miyazawa, 1999), the 1999 report was release in April after the Minister's new year's statement. Furthermore in Miyazawa's speech to the Foreign Correspondents Club of Japan in December 1998, he already implied the Ministry's policy goal by suggesting that 'it might be generally appropriate that emerging or developing countries peg their [exchange] rates to a currency, or a basket of currencies of the developed countries with which they have the closest trade and investment interdependence' (Miyazawa, 1998: 4).

Another example is demonstrated in the 2002 Expert Group report (i.e. *Responding to the Challenges of the Asian Economic and Financial Markets: Crisis Prevention and Realisation of Stable Economic Growth*). The 2002 report put forward

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[46] Similar opinion also identified by another interviewee from the MOF (personal interview, 2016b) and former member of the Sub-council on Foreign Exchange and Other Transactions (personal interview, 2016e).

[47] The Council on Foreign Exchange and Other Transactions (外国為替等審議会) was reorganised into the Sub-council on Foreign Exchange and Other Transactions (外国為替等分科会) in the late 1990s. However Sub-council succeeded all of the functions of the Council.

a number of policy recommendations which include: promoting the adoption of a currency basket as emerging markets' exchange rate regime (i.e. yen, dollar, and euro), support monetary cooperation of the CMI, as well as developing local-currency denominated corporate bond markets (MOF, 2002). Yet as mentioned in the previous section, the policy goal was already advocated by Mr. Kuroda in his open remarks in April 2000 and 6 June 2002, which predates the release date of the Expert Group report (i.e July 2002).

Based on the empirical materials surveyed in this thesis, it would be an inaccurate account that Sub-council meetings have significant influence on the MOF's decision-making processes of regional financial cooperation policies. Instead, if one further investigates how non-state actors from the Sub-council meetings may have exerted considerable power to fuel in the authority of the MOF's regional financial cooperation policies, this may be more plausible. For instance, a number of Sub-council and Expert Group members including Professor Kawai Masahiro and Professor Yoshino Naoyuki have taken up important positions in the ADB[48], and Asian Development Bank Institute (ADBI) which aims at fostering Asian financial regionalism. Notably After Mr. Kuroda was appointed ADB president in 2005, Professor Kawai was also appointed as the Head of the ADB's Office of Regional Economic Integration. The Office acts as a focal point for enhancing regional economic integration for regional bodies, forums and initiatives (ADB, 2005c). Subsequently, Professor Kawai became the Dean for the ADBI from 2007-2014 and was succeeded by Professor Yoshino Naoyuki (2014-), which not only participated in Sub-council and Expert Group meetings, but also held the chairmanship of the Expert Group on the Challenges of the Asian Economy and Finance Markets (i.e. 2001-2003) as well as the Sub-council meetings (i.e. 2005-2010). In addition to Professor Kawai and Professor Yoshino, there are also other examples that ordinary members of the Sub-council and Expert Group meeting have published reports that are in support of the Ministry's policies. One notable case is Professor Ogawa Eiji's engagement in promoting the Asian Monetary Unit (AMU) when serving as the project leader for promoting the AMU indicator project under the Japan's Research Institute of Economy, Trade and Industry (Grimes, 2009: 144).

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[48] See Hook *et al.* (2012) for the MOF's influence in the ADB, and ADB (2018b) for background of ADB presidents from 1966.

Once again, apart from the aforementioned instances in which non-state actors have held official positions in the MOF and participated in the policymaking processes, it is unclear whether the increase of non-state actors in Sub-council meetings have actually shaped the Ministry's regional financial cooperation policies. Instead, the MOF's decision to increase the number of non-state actors in the advisory panel is viewed as its attempt to continue to foster its authority in regional financial cooperation policymaking and shape the socio-economic and political context that enables this development.

V. Conclusion

In this chapter, I critically assessed how the Ministry and the Bank have approached developing Asian bond markets. I argued that although Japan's engagement in bond market developments may appear to be coherent (i.e active and persistence), the nuance of how the two meso-level actors have actively participated in these processes validates that the new institutional arrangement stipulated in the *1998 Bank of Japan Act* has indeed shaped their behaviours.

The chapter began by providing an overview of the developments of Asian bond markets from the early 2000s to 2017. In turn, I provided an assessment on whether Japan has been actively promoting bond market developments under the ABMI (i.e. MOF) and ABF initiatives (i.e. BOJ). With regard to the ABMI, it was argued that MOF's active involvement is demonstrated in its willingness to partake in fostering bond markets via: 1) political commitment; 2) logistical arrangement; and 3) financial contribution. In the aspect of political commitment, this is demonstrated in various open remarks by then Vice Minister of Finance for International Affairs Mr. Kuroda Haruhiko in 2000 and 2002, as well as Senior Vice Minister Mr. Taniguchi in 2003. In aspects of logistical arrangements, it was identified that the 2005 and 2008 ABMI roadmaps proposed by the Ministry demonstrates its effort in coordinating regional efforts to foster bond market developments. Finally, Japan's financial contribution is channelled through the JAFTA and ICFF which promotes research activities and technical assistance aimed to developing regional bond markets. As for the ABF initiatives, the BOJ's active involvement is apparent in its political commitment to developing the EMEAP framework and capital subscriptions to both ABF-I and ABF-

II. This is accompanied with conducting research activities to evaluate the progress and challenges to enhance local currency bond market developments in the Working Group of Financial Markets. As demonstrated in this section, the change of institutional arrangements did in fact change how the BOJ has engaged in the EMEAP Framework from 'active' prior to 1998 to 'active but reticent' in the later time phase.

In the next section, I engaged in two separate debates. The first debate is whether the power rivalry variable proposed by realist political economy is sufficient to explain Japan's active engagements. It was argued that the rationale of relative gain exhibited limited explanatory power on Japan's actions. In addition, the fear and resistance to be 'locked-in' by Japan's financial standard is at odds with China's support of the ADB's further enhancement. On the basis of the discussion, I proceeded to the next debate on assessing whether the new institutional arrangement stipulated in the *1998 Bank of Japan Act* is the main variable that shaped the MOF and BOJ's engagements in bond market developments. As shown in numerous statements, it was evident that although bond market developments was promoted by the MOF, this was conditioned on the coordination of exchange rate regimes. This exemplified that the approach adopted by the MOF is a form of quiet diplomacy approach in which involves disguising the policy objective of yen's internationalisation in the organisation's promotion of fostering bond market developments in Asia. Hence once again this makes apparent that the MOF's is acting upon the organisational goal of exchange rate risk management. Interestingly, one the consequences of the Ministry's quiet diplomacy was that it also became the act of *layering.* In tandem with the LDP's strategy of *drift,* this enabled the MOF to remain at the forefront of regional financial cooperation policymaking vis-á-vis politicians.

In the case of the BOJ, the organisational goal of maintaining financial stability as well as its emphasis on fostering market infrastructures have also allowed the Bank to actively engage in the ABMI framework. Yet against the backdrop of the highly politicalised exchange rate regime debate proposed by the MOF, the BOJ selected the EMEAP framework for bond market developments to avoid violating the institutional arrangement that privileged the MOF as the primary actor for international financial cooperation. As soon as ideas concerning exchange rate regime coordination was dropped in mid-2000s, this also contributed to the BOJ's increase engagement in the ABMI. This is shown in the convergence of objectives of ABF-II and the 2008 ABMI

Roadmap in which Japan was mandated to foster the demand of local currency bond markets, and BOJ's active engagement in fostering the CSD-RTGS system under the CSIF platform. All these instances demonstrate that the variable of institutional arrangement is the main factor that has shape policy outcomes, although this is manifested in different ways (i.e. MOF: *subversive;* BOJ: *mutualistic-symbiont*).

In the final section, I turn the assessment to whether the MOF's policymaking on regional financial cooperation policy has become more pluralistic, and if so, for what reason. I found that one can argue that the decision-making process has become more pluralistic if the benchmark is based on member participation. This is shown in the increase number of academics involved in the MOF's Sub-council and Expert Group meetings, as well as an increased number of private sector personnel recruited in the Ministry. The reason why the MOF is attempting to be more inclusive can be explained from a historical institutionalist perspective. On the basis of the proposed analytical framework in Chapter 2, I argued that the MOF also acts as a *subversive* that attempt to ultimately *displace* the existing politician-led policymaking process via *layering*. I Identified two methods adopted by the MOF. The first is allowing extinguished academics to take up official positions and recruiting non-state actors from private sector industries via the *Personnel Exchange Law*. The second is strengthening its policy authority via the support of leading academics, opinion and business leaders. Both these approaches have continue to sustain the socio-economic and political context that allow the MOF to continue its strong involvement in managing international financial affairs for the economy.

After debating on the underlying reasons why the MOF and the BOJ have been actively developing Asian bond markets, in the next chapter I will turn to evaluate how private sector actors in Japan have responded to these policy initiatives (i.e. ABMI. ABFs).

Chapter Seven. The Inconsistent Engagements of Japan's Private Sector Actors' in the Developments of Asian Bond Markets

I. Introduction

Upon identifying the active and persistent engagements of the Ministry of Finance (MOF) and the Bank of Japan (BOJ) in fostering Asian bond markets, in this chapter I turn to the discussion on how micro-level actors have responded to these endeavours. The assessments conducted in this chapter serves two purposes for the thesis. Firstly, the evaluation of whether meso-level actors have the ability to mobilise support from micro-level actors is directly linked with the analysis of whether the state is a power container. As mentioned in Chapter 6, there are two aspects in the development of Asian bond markets. The first aspect is addressing the double mismatch of currency and maturity— the fundamental structural weakness of regional economies that was exposed in the Asian financial crisis. The second aspect of developing Asian bond markets is the accompanied investment opportunities. Hence, the investigation is substantial to the assessment of state's ability to conduct economic statecraft. Secondly, the assessment will unveil the interactive dynamics of micro-level actors. This will enable one to understand how the change institutional arrangement (i.e. *keiretsu* relationship) has affected how private sector actors have responded to the developments of regional financial cooperation initiatives.

I focus on four major private sector industries: 1) *Keidanren*; 2) Japan Foreign Trade Council (JFTC); 3) Japanese Bankers Association (JBA); 4) Japan Securities Dealers Association (JSDA). I argue that upon reviewing the responses of these four private sector actors to the government's active promotion of bond market developments in Asia, it is evident that the state's ability to conduct economic statecraft is questionable. In the case of the *Keidanren* and the JFTC, the two actors have both exhibited insufficient interests in the development of Asian bond markets, and maintained similar economic interests (i.e. market access) as well as orientations (i.e. domestic orientation) prior to 2009. The increase of emphasis and active promotion of Asian bond markets post-2009 is largely attributed to both industries' recognition of Japan's continuous general budget constraint as well as the change of ruling party. Notably the linkage between developing Asian bond markets and infrastructure projects

are closely aligned with the economic interest of the JFTC, and to a lesser extent with the *Keidanren.* Hence this explains their diverging levels of support of theses policies. As for the JBA and the JSDA, economic condition and the alignment of economic interests are the determining reasons that shape their respective responses to regional initiatives such as the Asian Bond Markets Initiative (ABMI) and the Asian Bond Funds (ABFs).

In order to underpin the proposed argument, this chapter is arranged into the following sections. In section one, I focus on evaluating the engagements of private sector actors that are recipients of corporate finance. There are two separate sub-sections that devote to assess the involvements of the *Keidanren* and the JFTC. In section two, I turn to assessing the engagements of the two suppliers of corporate finance. Similarly, this section is further separated into two sub-sections which conducts evaluations of the JBA and the JSDA respectively from 2000 to 2017. A potential and notable caveat that one needs to take notice of during the assessment is that actors within these institutions may not share collective, or in some cases, similar interests. However, I argue that the benefit of such evaluation is directed to it provides a general trajectory of how respective industries have responded to bond market developments in Asia.

II. The Engagements of Private Sector Actors in the Development of Asian Bond Markets: An Assessment of the Collective Actions of Recipients of Corporate Finance

In this section, I argue that when probing into the engagements of the *Keidanren* and the JFTC in the past two decades, it demonstrate that they have not laid emphasis on the development of Asian bond markets prior to 2009. Although after 2009 both actors began to focus on bond market developments collectively, this cooperative relationship is merely based upon their individualistic pursue of economic gains rather than the long-term based working relationship during the height of the main-bank system (see Chapter 3). In addition, referring back to one of Grimes's key argument concerning the government's ability to conduct economic statecraft in Chapter 2, it is evident that this is an inaccurate depiction of how these two actors have responded to the development of Asian bond markets. I begin with the discussion on the *Keidanren*.

1. Keidanren

In the case of the *Keidanren*, the organisation's expressed interest in promoting the development of Asian bond markets exemplifies that its engagement/disengagement is heavily contingent upon whether the promotion of these initiatives align with its economic interests. In other words, the main variable that shapes its behaviour is the organisational goal of pursing profits. This can be demonstrated through two separate time phases with the 2009 as the dividing time point.

i. Pre-2009: Market Access as the Prioritised Economic Objective

On assessment of the *Keidanren*'s policy proposals over the past two decades, it demonstrates that the organisation has not exerted significant interest in Asian financial cooperation (see Chapter 5) nor the development of Asian bond markets prior to 2009. The *Keidanren* distinguishes its policy proposals into 12 categories[49]. However, in order to evaluate the emphasis of the organisations' policy proposals, I further distinguished these policy proposals into two separate categories (i.e. domestic affairs and overseas affairs). The first includes policy areas such as social security, low birth rate and ageing society, labour polices, taxation policies, whilst the second encompasses policies such as international cooperation (e.g. official development assistance (ODA)), regional affairs, as well as trade and investments (i.e. free trade agreements (FTAs)).

As shown in Graph 7.1, it is evident that domestic affairs have been the main focus of the organisation throughout the 1990s and until the mid-2000s. Moreover, when probing into the policy proposals that have been categorised as overseas affairs from 1998 to 2000, there were only two policy proposals that were related to regional financial cooperation. One policy was proposed in October 1998 (i.e. *Towards Economic Recovery in Asia)*, and the other proposed in March 2000 (i.e. *For Asia's Economic Renewal: A Proposal by Japanese Business Community)* (Keidanren, 1998b; 2000). Although these proposals did mention the Asian financial crisis (Keidanren, 1998b), the main objective was pushing for yen's internationalisation rather than bond market developments (see Chapter 5 for the discussion on yen's internationalisation). In

[49] The 12 categories of policy commendations include: 1) Comprehensive Strategy ; 2) Economic Policy, Social Security; 3) Business Law; 4) Industrial Policy; 5) Urban and Local Development; 6) Industrial Technology; 7) Environment and Energy; 8) Corporate Social Responsibility and Education; 9) Labour Policy; 10) Trade, Investment, EPA/ FTA; 11) International Cooperation; 12) Regional Affairs.

addition, it also shows that the *Keidanren* had not expressed its interest in promoting bond markets developments in Asia prior to Vice Minister Mr. Kuroda's first recorded open remark in 2000 (see Chapter 6).

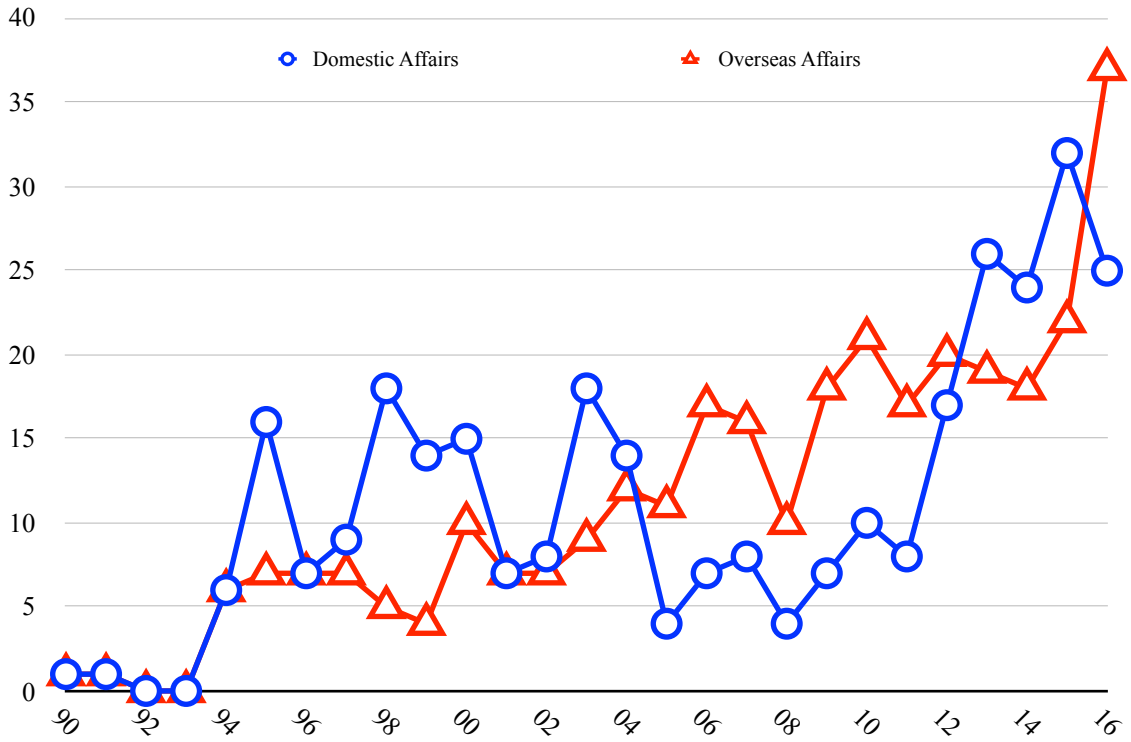
By contrast, the emphasis of the *Keidanren*'s domestic affairs policy proposals were mostly on policy areas of economic policy and social security in the same period (1998-2000). For instance in 1998, there were in total 18 policy proposals in which the policy area accounted for 10, and in 1999 the policy area took up 5 out of the total 14 policy proposals (Keidanren, 2017c). Most of these policy proposals were related to the organisation's expectations on the outcomes of the ongoing policy reforms of the financial big bang, such as the policy proposals of July 1998 (i.e. *Towards Stabilising Financial Systems: Realigning and Strengthening Financial Institutions, Promoting, Further disclosures, Clarifying the Roles and Responsibilities of Financial Authorities, and Putting in Place the Legal Framework Concerning Bridge Banks*) and February 1999 (i.e. *Statement on the Financial Inspection Manual of the Financial Supervisory Agency*) (see Keidanren 1998c; 1999). Although the 1998 proposal on reforming short-term financial markets did mention about the Asian currency crisis, the document predominantly laid emphasis on improving short-term financial products such as Financing Bill, Negotiable Certificate of Deposit, Commercial Paper, and Repo (see Keidanren, 1998a). Once again, these aspects are related to the policy initiative of yen's internationalisation, as well as its coalition with the JSDA in its attempt to *displace* the indirect finance structure (see Chapter 5).

As shown in Graph 7.1, although there has been a steady increase of emphasis on overseas affairs starting from 2001, most of these policy proposals were not directed to the promotion of the development of Asian bond markets nor related to regional financial cooperation. Instead, they were related to promoting the signing of economic partnership agreements (EPAs). For example, the *Keidanren* proposed to negotiate EPAs with Singapore (i.e. 2000), ASEAN (i.e. 2002), Thailand (i.e. 2003), Indonesia (i.e. 2006), as well as proposed to study the feasibility of negotiating FTAs with Mexico (i.e. 1999, 2002), Brazil (i.e. 2004), Australia and the US (i.e. 2006), and Switzerland and the EU (i.e. 2007) (see Keidanren, 2017k).

These empirical evidence demonstrate that the *Keidanren* had exhibited limited interest and not expressed its support for the developments of Asian bond markets. This is especially in great contrast to the MOF and BOJ's active promotion of developing

bond markets under the ABMI and the ABF Initiatives in the same timeframe (see Chapter 5).

Graph 7.1. Keidanren's Policy Proposals (1990-2016)



Source: Keidanren (2017b-m)

ii. Post-2009: Increased Interest in Bond Market Developments?

The turning point only took place in 2009, when the *Keidanren* began to lay emphasis on the importance for regional financial cooperation. This is shown with the organisation's policy proposal entitled *Overcoming Crisis, Opening a Path from Asia to Global Economic Growth* (Keidanren, 2009b). In this document, the *Keidanren* not only identified Asia as a driving force for the global economy insofar as the region's increasingly importance of becoming an 'end consumer market', but also put forward 7 action plans to increase the domestic consumption of regional countries (Keidanren, 2009b). There are two reasons why this policy proposal is of great significance. Firstly, it is the first official policy proposal released by the organisation that identified the necessity of regional financial cooperation since 2000. Second, although the *Keidanren* did not mention regional financial cooperation initiatives such as the ABFs or the ABMI, it clearly stated in the second prioritised action plan that 'for Japanese

enterprise to develop their businesses abroad, it is necessary to procure local currency' (Keidanren 2009). In other words, the organisation has implicitly expressed its support for developing Asian bond markets.

The momentum for bond market developments was further enhanced in 2010 when the *Keidanren* began to routinely host the Asian Business Summit (ABS) (i.e. Keidanren, 2010a). As part of the commitment proposed in the first ABS meeting, the organisation issued two reports: 1) *Promoting Financial Cooperation for a Prosperous Asia: Supporting Asian Growth Through Regional Bond Markets; 2) Accelerating Development of Asian Bond Markets.* Both of these documents encompassed policy guidelines that stated its anticipated government actions for fostering bond markets (Keidanren, 2010b, 2010c). Moreover, the organisation's research think tank, The 21st Century Public Policy Institute (T21PPI) collaborated with the Asian Development Bank Institute (ADBI) in 2011, and crafted a policy proposal entitled 'Asian Bond Markets Development and Regional Financial Cooperation' (T21PPI, 2011). These examples tentatively suggest that the *Keidanren* has become an advocator for developing Asian bond market. Yet if one assess *Keidanren*'s actions from a historical institutionalist approach concerning the factor of 'continuity'(see Chapter 2), it unveils an alternative pattern of behaviour.

As mentioned, the original purpose of developing Asian bond markets is to reduce the so-called 'double mismatch' of maturity and exchange rate (Katada, 2009). However the objectives of developing Asian bond markets conveyed by business leaders in the ABS meetings (i.e. 2012, 2014b, 2015) have been associated with the development of infrastructure programmes (Keidanren, 2012, 2014b, 2015). In other words, it is evident that the *Keidanren'*s support for bond market developments is merely on the aspect of investment opportunities in a certain type of overseas business activity (i.e. project finance), rather than the aspect of managing risks.

Moreover in the 2014 and 2015 summit meetings, these joint statements have placed the promotion of the ABMI under the policy agenda of infrastructure development rather than the previous regional monetary/financial cooperation category (Keidanren, 2014b, 2015). This not only diverges from the original purpose of developing Asian bond markets (i.e. providing stable and medium-to-long term source of corporate finance), but can also be regarded as the organisation's short-term interest rather than a long-term policy objective.

Recent ABS meetings confirms that the organisation's call for developing Asian bond markets was indeed short-lived. When referencing to the 2016 ABS joint statement, bond market developments have been completely omitted from the document (Keidanren, 2016). In the section that previously mentioned the necessity of bond market developments under the ABMI framework (i.e. infrastructure developments), the paragraph now elaborates on objectives such as reducing the operational obstacles of infrastructure programmes (e.g. enhance transparent domestic regulations, reduction of customs duties on equipment/materials) (Keidanren, 2016). The 2017 ABS joint statement is similar to the 2016 statement. For instance, the importance of developing bond markets in Asia was again completely omitted from statement, whilst the significance of regional infrastructure developments was still indicated by participating business leaders (Keidanren, 2017n). Yet even if the *Keidanren* only focuses on the aspect of investment opportunities, does this not affirms the government's ability to conduct economic statecraft? The short answer is no.

There are two reasons why I argue against this statement. The first is that the majority of the *Keidanren*'s policy proposals are concerned with the aspect of signing EPA/FTAs rather than initiatives related to Asian financial regionalism. The second is that these policy proposals are not region-specific, and hence, do not exhibit any geo-political considerations vis-à-vis China as suggested by realist political economy. With regard to the first, although there has been an increased emphasis of the importance to develop Asian bond markets after 2009, the *Keidanren'*s proposals are not as vocal and consistent in comparison to the promotion of signing EPAs/FTAs with trading partners. In addition to the aforementioned policy proposals, there were also voiced supports to engage in bilateral FTA negotiations with Canada, Turkey, and the European Union (EU) in years of 2011, 2012, 2013 (Keidanren, 2017k). Another instance that demonstrates the consistency of pursuing market access is exemplified in the joint statements of the ABS meetings. To begin with, in the 2009 policy proposal where the *Keidanren* proposed the 7 action plans for sustainable growth in Asia, the first and prioritised action plan was promoting regional economic integration via signing economic partnership agreements (Keidanren, 2009b). In turn, although deliberation on the development of Asian bond markets under the ABMI framework began to surface during the ABS meeting's first commencement in 2010, the reoccurring theme over all the past summits were deepening Asian regional cooperation via the signing of free

trade agreements. In particular, since the 2011 ABS meeting strengthening regional economic integration has become an independent section that stresses the importance of sustaining growth though the signing of EPAs/FTAs in the Asia-Pacific region (Keidanren, 2011; 2012; 2013a; 2014b; 2015; 2016). These instances all demonstrate that the development of Asian bond markets are not prioritised objectives of the *Keidanren*. Instead, the organisation's economic aim has been achieving market access via signing EPAs/FTA since 2000.

With regard to the second, not only is it evident that the *Keidanren*'s main economic interest is in market access, but its voiced opinion about signing EPAs is also not region-specific. This indicates that policy proposals are made according to its economic interested rather than political contemplations. For example in December 2011, the *Keidanren* put forward the policy recommendation entitled *Call for Economic Integration in the Asia-Pacific Region: towards FTAAP in 2020* which included three policy recommendations:1) participating in the Trans-Pacific Partnership (TPP) negotiations; 2) completing the ASEAN+6 EPA; and 3) launching the Japan-China-Korea FTA negations (Keidanren, 2011b). The consistency of the *Keidanren*'s economic interest in market access without regional bias is shown in the 2013 policy statement when the organisation expressed its interest in regional economic integration based on Regional Comprehensive Economic Partnership (RCEP) during the ASEAN-Japan Commemorative Summit Meeting (Keidanren, 2013b), and released the policy proposal to pursue conclusion of the TPP in 2014 (Keidanren, 2014a). In the 2017 ABS meeting, the *Keidanren* along with other regional business communities also stated that they will 'make efforts in cooperation on an early realisation of the Free Trade Area of the Asia-Pacific (FTAAP) [50]and the [RCEP]' (*Keidanren*, 2017n).

In addition to the aforementioned policy proposals that are concerned with market access, the joint statement of the 2017 ABS meeting also demonstrates that geo-political consideration is not a main factor of concern when it comes to pursuing the organisation's economic goals. For instance, in the joint statement business leaders stated their support of enhancing regional infrastructure developments through promoting initiatives including China's Belt and Road Initiative (*Keidanren*, 2017n). More importantly, regional business leaders also committed to take 'active role' in

[50] The FTAAP is a policy initiative of member economies under the Asia-Pacific Economic Cooperation (APEC).

public-private partnership (PPP) and call on their respective governments (including Japan) to support and implement infrastructure projects through shared risks, resources, and decisions (*Keidanren*, 2017n).

These aforementioned examples make it apparent that although there may be some resemblance of the state's effectiveness in mobilising the *Keidanren*'s support when its economic interest aligns with government initiatives, this does not indicate these business decisions are shaped by the state.

2. Japan Foreign Trade Council

Turning to the discussion on the case of the JFTC, the organisation's preference and behaviours are similar to the *Keidanren*. Hence this begs the assessments of two aspects: 1) whether the JFTC's actions support the case of effective economic statecraft?; 2) whether the shared preferences and tendencies between the JFTC and the *Keidanren* exemplify a long-term working relationship similar to under the *keiretsu* system?. Once again, I argue that this is due to regional financial initiatives including the ABMI are policies that align with the JFTC's economic interest rather than the governments effective economic statecraft. In addition, the two private sector actor are able to form a coalition due to their shared economic interests. Yet the cooperative relation is not long-term based.

i. Pre-2009: Emphasis on Market Access

In this time phase, I argue that economic statecraft has not been effective, whilst the seemingly shared interests in pursuing market access does not exemplify a long-term working relationship between the two actors. In regard to the first, the effectiveness of economic statecraft is put into question for two reasons. Firstly the shared emphases on promoting market access via signing FTA/EPAs is shared by both the JFTC and the *Keidanren.* For instance, the JFTC has been a great advocate of conducting EPA/FTA negotiations with important trading partners. These attempts are demonstrated in the case of the organisation's support of EPA negotiations with Mexico in 2000, 2002, and 2003 (see JFTC, 2000, 2002, 2003a), as well as Thailand in 2003 (JFTC, 2003a). Although member firms of the JFTC have cooperated with Japan Bank for International Cooperation (JBIC) in 3 cases such as the collaboration between JBIC and the subsidiaries of Mitsubishi Corporation (i.e. Tri Petch Isuzu Sales) and Sumitomo

Corporation (i.e. P.T. Summit Oto Finance) in the ABMI (JBIC, 2004; 2006b; 2007a), the fact that there were no policy proposals released by the organisation concerning regional financial cooperation in this time phase, this shows its lack of interest in bond market developments (please refer back to Table 6.4).

Secondly, the voiced opinions concerning the selection of trade partners for signing FTAs also do not exert any geopolitical considerations. For instance, the JFTC also shares the same perspective with the *Keidanren* insofar as not upholding a specific regional grouping between ASEAN (i.e. RCEP/ASEAN+6) and APEC (i.e. TPP, FTAAP). This is evidently shown in the Chairman's statement in 2008 where he pointed out the importance of an 'open' trading bloc, and voiced its support to join the Trans-Pacific Strategic Economic Partnership Agreement (predecessor of TPP) negotiations that was then signed by Brunei, Chile, New Zealand, and Singapore in 2005 (JFTC, 2008). In the subsequent year, the JFTC released the proposal entitled *Toward Further Development of East Asia*. Interestingly, this statement also stressed the importance as well as called for 'speedy realisation' of economic integration based on ASEAN+6, and completely omitted any discussions on the TPP (JFTC, 2009). These instances demonstrate that the JFTC's support of both ASEAN and APEC groupings are similar to the approach of the *Keidanren*, and the reason for this is due to signing FTAs with both regional groups align with its economic interests. The aforementioned examples put the effectiveness of economic statecraft in question.

Turning to the second assessment, given the two organisations share similar interests and tendencies in this time period, does this indicate the long-term based cooperative and working relationship between the two micro-level actors still exists? Empirical evidence suggest that this is not the case. For instance although when referencing the orientations of the JFTC's policy proposals from 1999-2016[51], it tentatively suggest that the organisation also exerts a domestic-orientated tendency similar to the *Keidanren*. However although there seems to be a misbalance between the amount of policy proposals related to overseas and domestic affairs in 2005, 2007, 2009, the general trajectory between domestic and foreign affairs have been relatively balanced (see Graph 7.2). Specifically in 2005 when there were in total of 27 proposals

[51] JFTF distinguishes its policy proposals into 8 categories: 1) International Cooperation; 2) FTA, EPA, Investment Agreements; 3) Accounting and Taxation; 4) Security Trade Control/Export Control; 5) Foreign Trade Insurance; 6) Efficient Foreign Trade Logistics/Procedures; 7) Social Security Agreements ; 8) Others.

(i.e. domestic affairs: 21; overseas affairs: 6), 8 of the policy recommendations were concerned with issues on how to reduce the logistical barriers for foreign trade such as custom duties and import/export procedures of airport/harbours (see JFTC, 2017b).

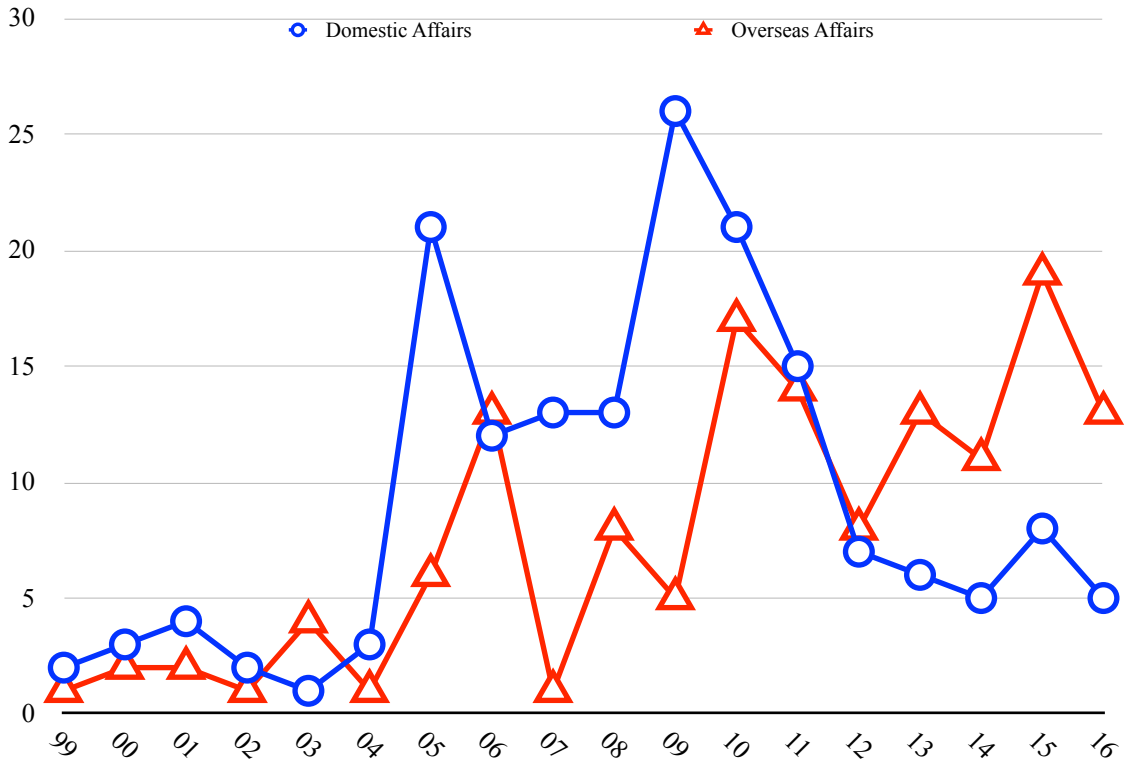
What describes this relatively balanced policy orientation? The most important factor is because the financial big bang was not closely associated with business transactions of general trading firms as well as its jurisdictional authority (i.e. Ministry of Economy, Trade and Investment (METI) and Ministry of Foreign Affairs (MOFA)). Hence, for the JFTC's member firms their collective interest was not affected by these meso-level dynamics. Although the policymaking system of the core business transaction of general trading firms, namely official development assistance (ODA), does conventionally involve the MOF[52], the research of Abe and Koppel (1992: 191) finds that the Ministry only serves as a consulting party. In addition, after the Central Government Reform in 2001 the MOFA was identified as the centre bureaucracy for the coordination of the government's overall ODA planning (Library of Congress, 2015). As demonstrated in the policy proposals in 2004 and 2009 (JFTC, 2017c), the JFTC's emphasis on ODA projects has been persistent. I will elaborate more on this aspect later on.

In addition although both organisations have the shared preference in promoting market access, this does not indicate that they cooperate in pushing for EPA negotiations with the same trading partners. For instance, both organisations began to emphasise their relations with ASEAN and its respective members in the first half of the 2000s. However in the case of the *Keidanren, the* organisation pressed for an agreement with ASEAN in 2002 (Keidanren, 2002), yet the JFTC proposed to sign an EPA with ASEAN in 2005 (JFTC, 2005). Additionally, the JFTC voiced its support to negotiate EPAs with Thailand, Indonesia, and Malaysia in 2003, whereas the *Keidanren* proposed negotiations with Brazil in 2004 and India in 2006 (JFTC, 2017d). This divergence is much associated with their different business transactions. For instance, whilst the *Keidanren* have been pushing for EPA negotiations with the EU and the US, the JFTC has been focusing on Latin American countries and the Arab nations due to business transactions on securing natural resources such as minerals and crude oils

[52] The decision making system of aid policies is known as the 'Four-Ministry System'. This is due to it involves the METI, the MOF, the MOF, and Economic Planning Agency (see Abe and Koppel, 1992).

(JFTC, 2010a; 2010b, 2011).

Graph 7.2. Japan Foreign Trade Council's Policy Proposals (1999-2016)



Source: JFTC (multiple sources)

These assessments confirm that not only should one question the effectiveness of economic statecraft in this time phase, but also the shared emphasis on promoting market access cannot be considered as a close working relationship between the JFTC and the *Keidanren*. Once again, this demonstrates that the collapse of the main-bank system which began to unfold in the 1970s, did shape the behaviours of the two private sector actor (see Chapter 3).

ii. Post-2009: A Case of Increased Interest in the Development of Asian Bond Markets

The micro-level dynamics between the two actors in the post-2009 time phase affirms the aforementioned assessment. In terms of the effectiveness of economic statecraft, there are some instances that seemingly suggest that the government is able to involve both the JFTC and the *Keidanren* to be more active in engaging in bond markets developments in Asia. For instance, both the JFTC and the *Keidanren* changed their

focus on infrastructure programmes and bond market developments in 2008. This timing coincides with the release of the 2008 ABMI roadmap which indicated that promoting structured finance instruments such as debt instruments for infrastructure financing as one of the prioritised policy objectives to achieve under Task Force 1 (ADB, 2008).

Furthermore, when the Democratic Party of Japan (DPJ) replaced the Liberal Democratic Party as the ruling administration, the business community had to reorientate and, to certain extent, begin to cultivate their relationships with the DPJ. This meso-level dynamic increased the probability of a change in power relation. For both organisations this was proven to be a pressing issue, given that they were both losing significant political clout after the DPJ's decision to 'end public distrust on politics' via banning political donations from corporations and organisations (Hoshiro, 2015: 20). Hence when Prime Minister Hatoyama put forward arguably his most prominent foreign policy agenda to build an 'East Asian Community' in November 2009 (Cabinet Office, 2009), both the JFTC and the *Keidanren* voiced their supports to appeal to the new administration. For instance in the case of the *Keidanren,* the organisation's 2009 paper was put forward on 17 November, just two days after Prime Minister Hatoyama's speech in Singapore. In the case of the JFTC, Chairman Mr. Katsumata Nobu also stated in his 2010 new year's remarks that 'the development of Asia will ultimately be in Japan's best interest' when 'looking forward to the future of realisation of the "Asian Community" concept' (JFTC, 2010b).

As much as these meso-level dynamics have seemingly increased the government's leverage over private sector actors which enabled it to conduct effective economic statecraft, subsequent developments prove that this is not true. For instance, if there is indeed a change in power relation between the newly incumbent DPJ and private sector actors, what explains the lack of cooperation between the JBIC and JFTC's member firms. As identified, member firms of the JFTC have cooperated with JBIC in 3 cases prior to 2008. Yet, since 2008 JBIC has not act as the underwriter for any bond issuance in Asian local currencies (see Table 6.4). This is in contrast to Hatoyama's idea of an East Asian community which is modelled upon the EU experience (Brown, 2009). The inconsistency of the two private sector actors' moving in tandem with the states's promotion of bond market developments is also exposed when assessing the developments of the East Asian Community concept. Although the

East Asian Community idea was upheld by Prime Minister Hatoyama, it was not long before it became an outdated political slogan. This is largely due to the short-lived Hatoyama Cabinet (i.e. roughly 10 months). The idea was eventually dropped when the succeeding Prime Ministers Kan and Noda exhibited a lack of interest of the concept *per se* (Hoshiro, 2015). Given the political push for further regional integration under the flag of a East Asian Community idea had became an outdated political slogan, the interest of private sector actors should exhibit a similar tendency. Nevertheless, this contradicts with the overall trajectory of both the JFTC and the *Keidanren's* increased interest after 2008.

I argue that the reason why both the JFTC and the *Keidanren* have increased interests in bond market developments and focused on infrastructure programmes is because it aligns with their economic interests. However although the two organisation's have increased interests in bond market developments which allows for coalition formation (see Chapter 2), this does not depict a long-term based working relationship under the *keiretsu* system (see Chapter 3).

In the case of the JFTC's member firms (i.e. general trading firms), economic infrastructure projects from Japan's ODA project have long been their core business segment. The lucrative and profitability of these projects can be attributed to two features. Firstly, given the scale, length and complex planning processes for economic infrastructure projects, this provides the greatest obstacle for new market entrants and firms that do not possess sufficient capital or labour capacity. For instance in the case of Mitsui & Co., the corporation is involved in business segments such as the construction of dams, ports, road building as well as machineries. In this specific case, Mitsui has a dedicated in-house research facility known as the Economic Cooperation Department devoted to coordinating ODA projects. In the green-field phase, Departmental personnel will search for 'potentially' profitable projects in different regions/countries and inform this to their local network facility/branch. Subsequently the local network facility will attempt to acquire further information, for instance the tendencies/ preferences of local government officials on past projects and planned projects, attain suitable local construction and business partners, as well as yearly reports, budgets and more (see Söderberg and Berg, 1996). These preparations merely serve the purpose of preparing an original bid for the project. Evidently undertaking these actions does not guarantee the successful bidding of the project which increases the opportunity costs.

These elements in the planing process all contribute to the obstacle for new market entrants, which enables economic giants such as general trading firms to monopolise the economic profits of these projects.

Secondly, ODA projects have substantially lower levels of market risks for general trading firms. For instance, Söderberg and Berg (1996: 85) denotes that although ODA projects are overseas investments for general trading firms, the payment of these business projects were already secured due to their clients (i.e. recipient countries) receiving money in forms of loans (i.e. project loans) from the Japanese government.

As for the case of the *Keidanren*, supporting economic infrastructure programmes benefit their long-term business transactions. As clearly illustrated in the organisation's policy proposal (i.e. *Promoting Regional Infrastructure Development for a Prosperous Asia*), promoting economic infrastructure projects can benefit manufacturing corporations in aspects of trade expansion, market expansion, investment expansion, and reduction of transaction costs (Keidanren, 2010d). This overall strategy has its precedent. In fact, the support of Japanese ODA, and its enhancement of Japanese foreign direct investments had been significant in ASEAN- 4 countries (i.e. Thailand, Indonesia, Malaysia and the Philippines) since the 1980s (see Blaise, 2009). This was further reinforced after the 1985 Plaza Accord which resulted in the appreciation of the yen.

In the case of the coalition formation between the JFTC and the *Keidanren* on the issue of supporting bond market developments, the two organisations are able to cooperate due to the shared economic interest but it is only short-termed. To reiterate what I have identified in Chapter 2, Mahoney and Thelen's idea of coalition alignment does not denote that actors involved have shared purposes of inducing change (Mahoney and Thelen, 2010). Instead, it merely requires actors to have a shared interest to initiate change. This is an accurate depiction of the *Keidanren* and the JFTC in pushing for bond market developments. It is important to point out that for the *Keidanren*, the economic benefits of manufacturing firms are not immediate and can only be reaped in the long run. Hence this explains why the *Keidanren* has been less persistent in putting forward policy proposals in comparison to the JFTC. For instance as shown in the previous discussion, the *Keidanren*'s advocation of bond market developments was eventually omitted from the ABS meetings from 2016, whereas the

organisation's policy proposals that pushed for increasing market access has been consistent.

Nevertheless, although the *Keidanren* and the JFTC have different levels of interests in bond market developments, they were able to cooperate on promoting the initiative. The major reason for the two organisations to cooperate and draw the linkage between infrastructure projects and developing Asian bond markets since 2009 is due to their recognition that the required finances for these ODA projects can no longer be single handedly supported by the Japanese government. For instance, although Japan had long been the largest aid donor via ODAs in the 1990s, after 1995 when the net disbursements surpassed and peaked at US$14.5 billion[53] (Muldavin, 2000), the total amount of aids has been in decline for the bulk of the past two decades (Ohno, 2014). The fundamental reason for this decline is directed to the prolonged economic recession of the Japanese economy. This forced the government to become more stringent upon its ODA budget, which was once regarded as sacred (Ohno, 2014). As a matter of fact, the revision of the ODA charter in 2003 added the point 'assuring Japan's security and prosperity' in its aid objective (Takayanagi, 2014). This not only reflects that the everlasting austerity measures on the general budget, but also affirms the concern that the conventional norms of aid *per se* (i.e. developmental and humanitarian objectives) have became profit-orientated (Katada, 2002a; Blaise, 2009). In addition in 2009, the Asian Development Bank Institute (ADBI) issued a report that estimated the amount of US$8 trillion of overall national infrastructure investments needs between 2010 to 2020 for Asia (ADBI, 2009). Recently the Asian Development Bank (ADB) published an updated report, and revised the total estimated amount to US$26 trillion from 2016 to 2030. This indicates that developing Asia will need to invest US$1.7 trillion per year to maintain growth momentum (ADB, 2017c). The ongoing fiscal constraint, and the substantial increase of demand for infrastructure investments across Asia all contributes to their search for new ways to demand the government to support their overseas activities.

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[53] Japan became the largest aid donor in 1991 after surpassing the United States. Although Japan remained the largest donor of aid in 1996 and 1997, the total amount of aid decreased from US$14.5 billion to US$9.4 billion in both years (see Muldavin, 2000). After Japan lose its top donor status in 2001 to the US, it has also trailed behind Germany, United Kingdom, and France since 2007, making it the 5th largest donor in the world (Ohno, 2014).

Developing Asian bond markets is a viable way that the government can support the private sector, given it significantly reduce the aspect of risk when engaging in overseas investment activities. For instance in the case of the *Keidanren*, the organisation's 2010 policy proposals indicated that they hope for an "effective alliance for public private funding through public-private partnerships,…[and continue] calls for the enhancement of Asian bond markets are part of this" (Keidanren, 2010b). In the same document, the *Keidanren* indicated that one of the necessary actions the Japanese government should act upon is to expand the credit guarantee functions for the issue of bonds by Japanese businesses in overseas markets, namely the mandates of JBIC and the Nippon Export and Investment Insurance (NEXI) (Keidanren, 2010b). This differs from the *Keidanren*'s previous proposals in regard to the government's ODA policies which focus on increasing the scope and scale of ODA fundings/projects (i.e. grants, yen loans) (Keidanren, 2001, 2007, 2009a). Although in the *Keidanren*'s 2007 policy proposals, the organisation did request in one of the sections that the government should issue bonds denominated in US dollar or local currencies through the newly established Japan International Cooperation Agency, the paragraph did not illustrate concrete steps nor have the same amount of word devotion in comparison to the 2010 proposal (Keidanren, 2007).

Similarly, the JFTC also shed light on the importance of the Japanese government in strengthen their credit guarantee functions. For instance in December 2010, JFTC realised a five point policy proposal in regard to the reinforcement of public finance functions on overseas package-type infrastructure (JFTC, 2010c). In this proposal, two policy requests were devoted to reduction of risks when raising the necessary corporate finance in local currencies. For instance the third point regarding the NEXI, it demands the government to strengthen its risk taking function (i.e. insurance coverage), especially when Japanese businesses engage in infrastructure investments by means of raising corporate finance locally (JFTC, 2010c). The other instance is associated with the JBIC's functions (i.e. fifth point). On this matter, the JFTC expressed its expectation that the government should establish/design a system that would enable locally-based businesses (e.g. water businesses) from Japan to increase the proportion of their corporate finances via raising funds through local markets for their overall investment activities (JFTC, 2010c).

In addition, the 2012 JFTC proposal not only reemphasised its demands to the government on enhancing risk assumption functions insofar as increasing the coverage of the JBIC's loan facilities in local currencies, it also requests the enhancement of the NEXI's overseas united loan insurance (JFTC, 2012). The importance of the NEXI's overseas untied loan insurance is that it supports the development of bond markets in a different manner. For instance, the two segments of the policy (i.e. insurance for loan of business funds or bond purchases, insurance for guarantee of obligation) both aim at covering the foreign exchange risks, market risks, as well as political risks which prohibit the foreign entities (including overseas subsidiaries) to honour their debt facilities (NEXI, 2015). Enhancing this insurance facility is expected to increase incentives for Japanese companies to purchase bonds issued by foreign government of companies, and extend guarantee of the borrowings by local market actors.

All these instances exemplify the shift of the JFTC and the *Keidanren*'s perceptions toward how the government should support overseas investments from the conventional method of increasing ODA budget, to reducing the aspect of risk via the provision of insurance coverage/credit guarantee functions to raise corporate finances locally. This is not to say that their interests in increasing ODA budgets have been phased out. In fact both policy proposals of the JFTC and the *Keidanren* identify that it is imperative to increase the amount of ODA budget (Keidanren, 2009a; JFTC, 2010c).

Yet, it is evident that both organisation have changed their perceptions on the role of the state (i.e. reduction of risks), which the issuance of local-denominated bonds is a significant component. Once again, the different ways the JFTC and the *Keidanren* benefit from promoting the development of Asian bond markets, have also resulted in the divergence in their levels/persistencies in supporting the initiative (i.e. JFTC: strong and consistent; *Keidanren*: mild and inconsistent). Hence, this shows that although the two organisations have cooperated, their working relationship is not a revert to their long-term working relationship under the *keiretsu* system.

III. The Engagements of Private Sector Actors in the Development of Asian Bond Markets: An Assessment of Collective Actions of Suppliers of Corporate Finance

Both the JBA and the JSDA are important market actors to consider in this chapter, given that the development of Asian bond markets represents a potential departure of

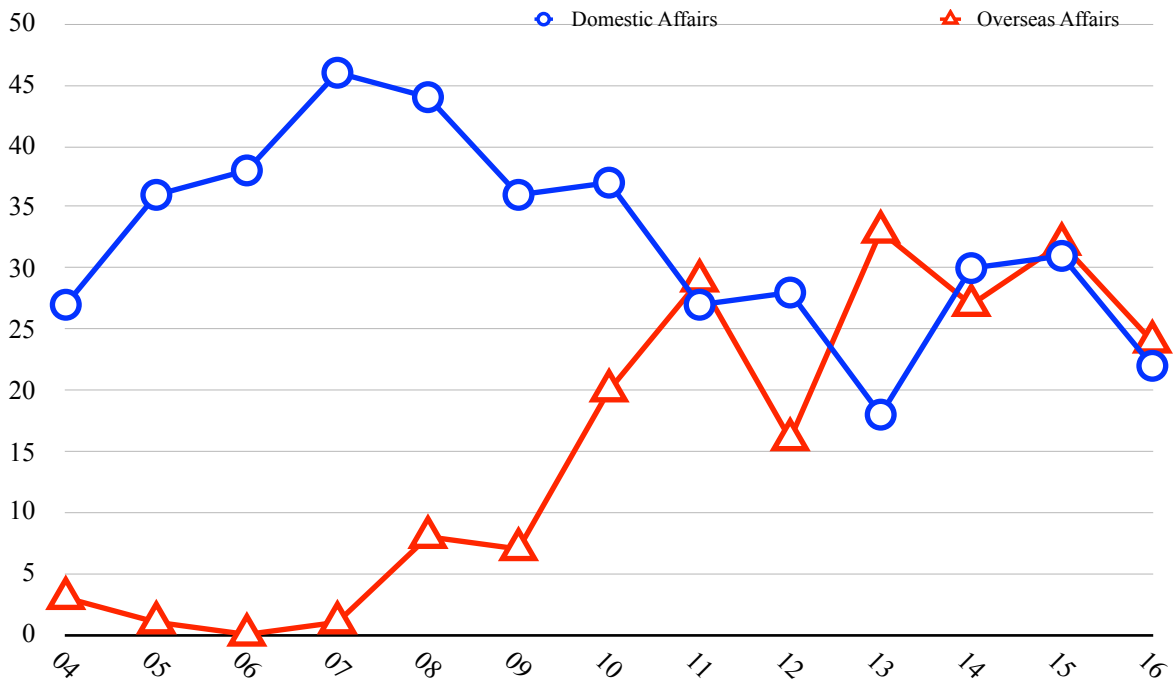
raising corporate finance via indirect financing. This indicates a potential shift in power relation between the two suppliers of corporate finance. Hence, this makes it an interesting case to investigate the interactive dynamics between the two micro-level actors as well as their interactions with the state in these processes (i.e. economic statecraft). I begin with the discussion of the JBA's responses to the development of Asian bond markets.

1. The Japanese Bankers Association

The JBA makes an interesting case for investigating the effectiveness of economic statecraft given the investment opportunities entailed in bond market developments is against the JBA members' traditional business transaction of loan provision. Hence, if economic statecraft were to be considered as successful, this should indicate some signs of supportive stance from the JBA due to the mobilisation of the government.

I posit that in the case of the JBA, the effectiveness of economic statecraft is once again undermined. According to the available policy proposals of the JBA (i.e. 2004-2016), there were no mentioning of the development of Asian bond markets (JBA, 2017b-n). In addition, when further categorising the policy proposals into those associated with domestic affairs and others related to overseas affairs, it is evident that prior to 2009 JBA has been exceptionally domestic orientated (see Graph 7.3). As illustrated in Graph 7.3, policy proposals that were concerned with overseas affairs began to surge in 2008, and finally surpassed proposals on domestic affairs in 2011, 2013, and 2015. Based on the JBA's policy proposals, this engenders two discussions. The first discussion is why banks have been domestic-orientated in the period from 2004 to 2007. In other words, why has the state failed to mobilise the support of the banking sector prior to 2008. The second debate is whether the surge of policy proposals after 2009 demonstrate the banking industry's increase interest in bond market development. If so, can one argue that this is evidence of successful economic statecraft?

Graph 7.3. Japanese Bankers Association's Policy Proposals/Comments by Issue Area (2004-2016)



Source: JBA (2017a-m)

iii. Domestic Orientation: JBA as the Insurrectionary

In regard to the first discussion, the main reason that explains the banking industry's domestic orientation prior to 2008 is due to the JBA was preoccupied with dealing with the aftermath of the bubble economy and the effects of the financial big bang. To reiterate the discussion in Chapter 5, the financial big bang proposed by the Hashimoto Cabinet was aimed at rejuvenating Japan's financial market. One of these political reforms is the total abolishment of entry restrictions for all financial institutions in their respective business areas (MOF, 2000). This indicates that commercial banks no longer obtained the competitive advantage in the domestic financial market vis-à-vis other financial institutions and securities firms both domestically and internationally. Against this background, two micro-level dynamics are crucial to explaining the JBA's domestic orientation. The first micro-level development is the altercation between the JBA and JSDA. The second micro-level dynamic is the concerned with another dyad-relation, that is the JBA and the Japan Postal Savings. Given I have already discussed the first micro-level dynamics, I will only address the issue concerning the JBA-Japan Postal Savings dyad relation in this section.

In regard to the JBA-Japan Postal Savings dyad relation, it is important to point out that although I identified in Chapter 5 that the JBA is the power-privileged actor in the JBA-JSDA dyad relation, this is not applicable to the case of the JBA's relationships with other deposit-taking financial institutions. This is especially shown in the competitive relation between commercial banks and the Japan Postal Savings.

In this dyad relation, the JBA is evidently the power-deficit actor. In fact when comparing the financial capital of commercial banks and Japan Postal Savings, the aggregated amount of all commercial banks in individual/household deposits is even lower than the Postal Savings (Scher and Yoshino, 2003). There are three reasons that contributed to this misbalanced relationship. The first reason is that commercial banks were late entrants to the household deposit business. Under the institutional arrangement of Japan's compartmentalised financial system (see Chapter 3), commercial banks were restricted to receiving corporate deposits. It was only after the collapse of the institutional arrangement and the departure of their main corporate clients in the 1980s that led commercial banks to venture in the household sector (see Hoshi and Kashyap, 2001, Robinson, 2017). The second reason that makes commercial banks less competitive vis-à-vis the Japan Postal Savings is given they are under the jurisdictions of two different regulatory authorities (i.e. commercial banks: MOF; Japan Postal Savings: Ministry of Posts and Telecommunications). This privileged the Postal Savings in the aspect of interest rates as well as the outreach of its branches (see more in Brown, 1999; Scher and Yoshino, 2004).

The final reason is the lack of market confidence in the outlook of Japan's economy. Notably when the public perception that a given country's financial market or economic conditions are exposed to great uncertainty is formulated, this affects financial consumers' behaviours. Frequently, this results in financial consumers becoming more risk averse and influence their decisions to place their assets in financial institutions that they consider as 'safe and sound.' The Japan Postal Savings acts as a prime example of this phenomenon. A major factor that enabled the organisation to become the most favourable financial institution since the 1990s is that the public entity was conceived as bearing the implicit guarantee of the government, and thus less prone to risks (Scher and Yoshino, 2004; Imai, 2009; Robinson, 2017).

How did this process unfold? Applying the analytical framework denoted in Chapter 2, the JBA's actions resembles an *insurrectionary* that seeks to *displace* the

existing institutional arrangement. More importantly, the JBA's actions in this process also demonstrates how insurrectionary forms alliances with other actors to challenge the existing institutional arrangement (see Mahoney and Thelen, 2010: 30). In this particular case, the JBA's formed a coalition with then Prime Minister Koizumi. For instance as early as 2002, JBA already expressed their explicit opposition concerning the government's policy to transform the Postal Savings into a public corporation in April 2003 (JBA, 2002). After the failed attempt, the JBA issued a follow up policy proposal with 5 key emphases including reducing the scale of the institutions by halting its ability to accept time deposits, and redefining the Japan Postal Savings as a 'narrow bank' and limiting its business transactions to providing payment/settlement functions such as taking ordinary savings, and making investments in safe assets (e.g. Japanese Government Bonds) (JBA, 2003b).

In order to affect the socio-economic and political context that is favourable to induce change, the JBA chairman also persistently expressed the organisation's collective opinions regarding the importance of privatising the Postal Savings. This is evidently shown in new year's addresses from the JBA's chairmen between 2003 to 2007, in which privatisation of Japan Postal Savings was one of the two main reoccurring tasks proposed by the organisation (JBA, 2003a, 2004-2007). In addition to the consistency demonstrated in these new year's statements, the JBA's chairmen have also been very attentive to the way they give these open remarks. Notably in the 2005 statement, the issue of privatising the Japan Post was framed as ensuring the 'fair competitive business environment' (JBA, 2005a). This resonates with one of the three main principles for the financial big bang (i.e. free, fair, global) (MOF, 1997). More importantly, it echoed with Prime Minster Koizumi's renewed call for reforming the Japan Postal Savings after the privatisation bill was defeated in the House of Councillors in August 2005(see Noble, 2005; Hiwatari, 2006).

Under the political maneuverers of then Prime Minster Koizumi against his LDP counterparts and locally-based post masters (see Imai, 2009; Robinson 2017), the privatisation bill was passed in October 2005, and Postal Savings began the process of privatisation since October 2007. Given the privatisation of the Postal Savings was a complexed issue, one cannot argue that the JBA's *insurrectionary* behaviours is the main reason that contributed to the successful financial reform. For instance, Noble (2005) has demonstrated how the Japan Postal Savings act as the 'front door' to the

MOF's 'second budget' known as the Fiscal Investment and Loan Programme (FILP) (see also Suzuki, 1987; Cargill and Sakamoto, 2008). The work of Hiwatari (2006) also identified the strategic considerations of the DPJ that aligned the party with the 'Old LDP' in its altercation with Koizumi. These discussions indicate that there are more stakeholders (i.e. MOF, DPJ, Old LDP faction) than just the JBA, Koizumi, and the Japan Postal Savings in this micro-level dynamics. Yet what is unquestionable in this process is that the JBA's opinions constitute as one of the sources that fuelled in the socio-economic and political context in which allowed Koizumi's power to eventually prevail.

Returning back to the point concerning why the government failed to mobilise the support of the banking industry to the development of Asian bond markets prior to 2008, it is evident that micro-level dynamics of the JBA's alterations with the JSDA (see Chapter 5 for this discussion) and its *insurrectionary* actions against the Japan Postal Savings for *displacement* were the prominent factors. What accounts for the surge of the JBA's overseas policy proposals from 2008? Can this development constitute as evidence of successful economic statecraft?

ii. Surging Interest in Asian Financial Cooperation and Bond Market Developments? A False Alarm.

I argue that the JBA's shift of orientation towards overseas affairs after 2009 does not demonstrate the organisation's increased interest in the development of Asian bond markets. Hence, this affirms the argument against the effectiveness of the MOF's economic statecraft in bond market developments. As shown in Graph 7.3, since 2009 the number of policy proposals concerned with overseas affairs has significantly increased. With the gradual recovery of the banking industry's financial position roughly around 2006 and the end of the two micro-level developments, the surge in overseas affairs policy proposals tentatively suggest that economic statecraft may have become effective in this time phase. Moreover beyond the JBA's policy proposals, the organisation also accommodates research activities under two separate in-house research wings, which are the Research Group on the Financial System (金融調査研究会) and the Research Group on Financial Law (金融法務研究会).

Notably, the Research Group on the Financial System released a research report in September 2012 that was devoted to study the role of Japanese financial institutions in further developing financial and capital markets in the Asian region. The report included 9 policy recommendations that were directed to: 1) Japanese financial institutions; 2) the Japanese government; and 3) Asian governments (JBA, 2012). In the third point of the policy recommendations to Asian governments, it stated that 'for the purpose of stable and long-term corporate finance in Asia.., [regional governments] should continue their endeavours in fostering and the development of Asian bond markets' (JBA, 2012:9). The policy recommendation remains to be the most explicit statement publicised by the JBA in support of the development of Asian bond markets.

As much as these empirical evidence show that the JBA has increased interests in developing Asian bond markets, there are two reasons that counter this argument. In regard to the first reason, it was shown in Chapter 5, most of these policy proposals put forward by the JBA were directed to international organisations (e.g. Basel Committee on Banking Supervision, Financial Stability Board, International Accounting Standards Board) for the purpose of influencing international rule-making. In fact, amongst all the policy proposals that were publicised by the JBA from 2009-2016 (i.e. 188), only 8 documents were concerned with affairs related to neighbouring countries, which makes it accounts for approximately 0.4% (see Table 5.1).

In regard to the second reason, although the research reports produced by the Research Group on the Financial System (especially in the case of 2012 report) does support the development of bond markets in Asia, when probing into how these research reports are produced it is apparent that one can not regard these reports as representing the JBA's official policy stance. For instance, the Research Group have released in total of 53 reports from 1984 to 2014 and merely 2 reports were devoted to the discussion of the 2008 global financial crisis, and 1 report (i.e. JBA 2012 report) on regional financial cooperation in East Asia (JBA, 2014: 140). This clearly demonstrates that regional financial cooperation is not even marginally one of the prioritised themes of the Research Group. In addition, with close observation of the Research Group's member composition, it is evident that most of these participants are not permanent nor affiliated with the JBA. Hence although the 2012 report did include the promotion of the development of Asian bond markets as a policy recommendation, the fact that participants were not JBA personnel and the memberships of the Research Group

change swiftly, it is questionable to consider the report as a representation of the JBA's policy orientation.

Finally, if the research report and the included policy recommendations were to represent the JBA's official stance, the document should be publicised as the institution's policy proposals to either the Japanese government or foreign entities. This was not the case. For instance the policy proposal included in the 2014 report (i.e. proposal for new development in financial regulations) was not publicised as its policy proposal in 2014. The 2012 report on East Asian financial cooperation and the developments of Asian financial/capital markets was also not listed in the JBA's policy proposals. Accordingly, it is evident that it is problematic to consider the 2012 JBA report as evidence of the organisation's support for the development of Asian bond markets.

The final point I will address in this section is the most obvious question: why commercial banks responded poorly to the developments of Asian bond markets? This is due to bond market developments contradict with their preferred business transaction of loan provision. The resistance of the banking industry to develop corporate bond markets in Japan is a well-known fact, and this has been publicly denoted by officials from the BOJ (see Nishi and Vergus, 2006). Hence when the financial positions of mega banks recovered approximately between 2005 to 2007, they began to develop the syndicated loan market. On top of that, the endeavours of mega banks coincided with the BOJ's support of developing the syndicated loan market. These examples include the BOJ's publication of the *Statistics on Syndicated Loans* provides investors with detailed data, as well as the Bank's acceptance of syndicated loans as collateral for open market operations (see Ichiue, 2006).

On the basis of the two discussions, it is evident that although regional financial cooperation initiatives were actively pursued by the two meso-level actors in this period of time, they were not able to successfully mobilise the banking industry to support these initiatives. The banking industry was overwhelmed with resolving its own problems, and the investment opportunities entailed in bond market developments contradicts its business transactions through loan provision. These micro-level factors demonstrate why Japanese banks have exerted no interest to engage in any of the regional financial initiatives to date.

2. The Japan Securities Dealers Association

In regard to the JSDA's responses to the MOF's active promotion of developing Asian bond markets, this should be the most easily mobilised private sector actor given it aligns with its business transactions. Hence this contributes to one of the key arguments proposed by Grimes in his 2009 monograph concerning the MOF's financial statecraft (see Chapter 2). The argument I put forward here is that the JSDA's support for the ABMI cannot be considered as the MOF's effective economic statecraft. Instead, the two main factors that shaped the JSDA's behaviour are the micro-level dynamics and market condition.

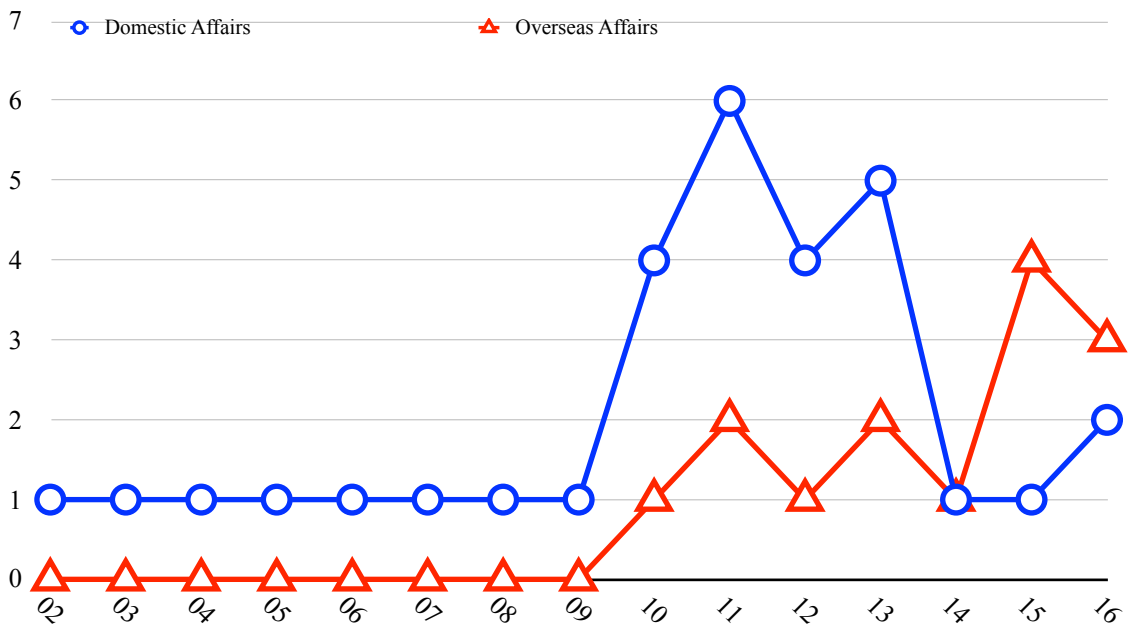
i. A Case of Effective Economic Statecraft?

Upon assessing the policy proposals released by the JSDA from 2002 to 2016, it is evident that since 2009 there is a substantial increase in policy proposals concerned with overseas affairs (see Graph 7.4). Notably after the ASEAN+3 Bond Market Forum (ABMF) was launched in September 2010, the JSDA began to participate in the Sub-forum 1 (ABMF SF-1) member which focuses on how to harmonise the legal framework of different national jurisdiction under the ABMI framework (JSDA, 2012). To date, these collective endeavours have resulted in the releasing of the ABMF SF-1 Phase 3 report in August 2015 (i.e. *ASEAN+3 Multi-Currency Bond Issuance Framework*) (ADB, 2015). In addition, the JSDA along with other participating members under the ABMF-Japan grouping have also recently released the second edition of the *ASEAN+3 Bond market Guide 2016: Japan*. The document is written in English and aimed at providing comprehensive information to international investors about Japan's domestic bond market (ADB, 2016). Does this prove that Grimes's argument that the Ministry has successfully mobilised the support of the JSDA and effectively conducted economic statecraft is correct? Once again, I disagree.

Referring back to Chapter 6, I denoted that I agree with Grimes's argument that the JSDA has worked closely with the MOF in promoting the ABMI. Yet, I disagree with him on the underlying reason that shaped the JSDA's behaviour. As mentioned in Chapter 2, one of the key strengths of historical institutionalism is that its treatment of history focuses on 'processes over time' rather than 'instances in the past' (Pierson and Skopol, 2002: 698). As demonstrated in the aforementioned examples, the MOF has indeed worked closely with the JSDA especially in the ABMF. Yet, how does one

distinguish whether the collective efforts between the MOF and the JSDA is effective economic statecraft (i.e. top-down process) or simply fulfilling its economic goals (i.e. bottom-up process)? Consistency is key to this assessment. Hence in order to evaluate the effectiveness of the government's economic statecraft, the locus to investigate is when the MOF fails to mobilise the JSDA's support.

Graph 7.4. Japan Securities Dealers Association's Policy Proposals/Comments (2002-2016)



Source: JDA (2017a)

One evident example is shown in the policy proposals released by the JSDA prior to 2009. As shown in Graph 7.4, the JSDA shared the same tendency of the JBA insomuch as they both exerted limited interests in overseas affairs in this time phase (see also Graph 7.3 for comparison). The lack of interest from the JSDA's part is intriguing when referring to the Chairman's Press Release on the Asian Bond Markets Initiative in 2003. In the statement, ASEAN+3 finance ministers recognised the importance of private sector engagements in improving the infrastructures for bond market and had '[seek] the active participation of the private sector' in the working group meetings. (MOF, 2003). Moreover in the paragraph on future steps for the development of the ABMI, finance minsters' also restated that '[working groups] will consult regularly with a wide range of market participants to ensure their deliverables meet the requirements of the private sector and investors' (MOF, 2003). These

statements display the willingness of finance ministers to include private sector actors in the development of the ABMI (see also Amyx, 2004b: 19). Yet based on the lack of policy proposals released by the JSDA in support of the ABMI in this time phase, this shows that economic statecraft is not the reason why the JSDA has actively engaged in the initiative post-2009.

Instead, what is consistent in the JSDA's behaviours is the factor of the alignment of economic interest. For instance in the time phase prior to 2009, the JSDA was passive in these engagements due to there were no economic interest to develop into new markets. As illustrated in Table 7.1, for the predominant time period from 2000 to 2007, the securities industry was performing significantly well. Notably there were setbacks in fiscal year 2001 and 2002, which resulted from the September 11 terrorists attack and affected the global economy (JSDA, 2002a). However, the securities industry was evidently in better financial position in comparison to the banking industry during this time phase. In addition to the favourable market conditions for securities firms in this time phase, the other factor that contributed to its passive attitude towards these developments is its attempt to *displace* the indirect finance structure of the country (see Chapter 5 for this discussion). What is noteworthy in the micro-level dynamics is the JSDA's contrasting level of support between the MOF's policy objective of internationalising the yen (i.e. active) and bond market developments (i.e. passive) also shows that JSDA's actions are based on pursuing economic benefits rather than the state's mobilisation.

Table 7.1.The Operating Revenue of the JSDA's Member Securities Firms (2001-2010)*

FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
3213.2	2505.7	2386.8	3294.2	3388.7	4911.5	4686.4	4582.9	3156	3381	2918

***Unit: Billion**

Source: JSDA (2008, 2011)

The consistency of the factor of profit-pursuing is also demonstrated in the second time phase. Notably the securities industry began to encounter with substantial decline of profits in this time phase, and they respond by searching for potential investors beyond Japan. For instance, as shown in Table 7.1, the operating revenue of

the industry started to decline from 2007. The decline is mostly due to the credit crunch resulting from the eruption of the sub-prime mortgage loan crisis, and the ensuing 2008 global financial crisis (JSDA, 2009: 2010a). Consequently, this has institutional investors to reduce their investments in securities, which have long been the most important client of the securities industry. For instance according to the JSDA (2007b), life and non-life insurance companies, pension funds reduced their securities investments to 5.1 trillion yen in 2007, which was 5.8 trillion yen shorter than 2006. The reduction of securities investment from the three mentioned financial institutions ensued in fiscal year 2008 with a cut of 2,163.7 billion yen (JSDA, 2008a). With substantial losses from the reduction of investments by institutional investors in Japan, the JSDA began to look outwards for potential investors and investment opportunities.

Focusing on the development of Asian bond markets was one segment of the JSDA's attempt to search for overseas investors and investment opportunities. For instance prior to the launching of the ABMF in September 2010, the JSDA already established the Study Group to Vitalise the Corporate Bond Market in July 2009 to conduct research on how to promote the development of Japan's corporate bond markets under the existing ABMI framework (JSDA, 2010b). Including the meetings held by the sub-committee of the Study Group (i.e. Working Group for the Study Group to Vitalise the Corporate Bond Market), the Group held 17 meetings and put forward a final report. Interestingly in the third point of Section 3 which concerns the ABMI, the report included suggestions such as 'fully [opening] the Japanese corporate bond market to the global participants' and 'actively [conduct] promotion activities and exchange opinions…to make Japanese corporate bond market easy to use by foreign issues and investors' (JSDA, 2010b: 17). Based on these passages, it is evident that the Study Group came to the conclusion that supporting the ABMI would enable Japan to benefit from not only the increase of demand of trading in regional bond markets, but also acts as a method that would further internationalise the Japanese corporate bond market. This evidently would make Japan's market more attractive to foreign investors.

In addition to underscoring the development of Asian bond markets, the JSDA also began to host the Japan Securities Summit on an annual basis, as a way to inform international investors the investment opportunities in Japan (JSDA, 2008b). The intention of attracting international investors to Japan/Tokyo is evident by looking where the Summits had taken place over the past years (i.e. London: 2008, 2013, 2015,

2017, 2019; Hong Kong: 2009; Singapore: 2010; New York: 2011, 2014, 2016. (JSDA, 2017b). Based on the aforementioned examples, it is evident that JSDA has become more outward looking after 2009, whilst promoting the development of Asian bond markets constitute as one segment of the JSDA's outward looking strategy.

ii. Coalition Formation Amongst the JSDA, the Keidanren, and the JFTC

The final question I want to discuss in this section is concerning the implications of a coalition formation amongst the *Keidanren*, JFTC, and the JSDA. The first implication is that institutional arrangements is an important variable that has shaped the actions of these micro-level actors. This is evident when comparing the contrasting members of the coalition. To reiterate what I identified in Chapter 3, the *keiretsu* system depicts a close working relationship of different corporations with a commercial bank as the nexus. Notably, securities firms were outcasts of these business groups, and their business transactions were suppressed due to the conscious decision of the MOF for achieving economic growth during the post-war era (see Johnson, 1982; Brown, 1999). Hence, under the *keiretsu* system the close and long-term based working relationships amongst general trading firms, manufacturing companies, and their main banks have prohibited the likelihood of these private sector actors to cooperate with securities firms.

Nevertheless the three micro-level actors' positive responses to the government's endeavours to fostering Asian bond markets show that the alliance amongst *keiretsu group* members has collapsed. More importantly, under the new institutional arrangement in which micro-level actors merely focus on pursuing their individualistic economic gains, this has made the banking industry more vulnerable to their actions. Once again, it is noteworthy that supporting bond market developments is against the interest of the JBA due to its main business transactions of loan provision.

In addition, the relationship between manufacturing firms and commercial banks has arguably become most contentious. For instance, the work of Katada and Solís (2010: 12-15) shows that it was the manufacturing industry that lobbied against the AMF concept which would have benefited the banking industry of gaining liquidity such as in the case of the first Miyazawa Initiative during the second Latin American financial crisis in 1988. Another notable example is demonstrated in the discussion of Chapter 5 in which the *Keidanren* also voiced their support for capital account

liberalisation when the JSDA was attempting to *displace* the existing indirect financial system. The aforementioned examples all show that institutional arrangement do shape actors behaviours.

The second implication is that collation formation is not static but under constant change. After identifying the how the three micro-level actors have formed a coalition, this engenders the question of whether the collapse of the main-bank system has created a new form of close and long-term based working relationship amongst these actors. Empirical evidence suggest that this is not the case. For instance, I have shown in the previous discussion that there is a divergence between the JFTC and the *Keidanren*'s support of bond market developments. The same rationale also applies to the JSDA-*Keidanren* dyad relationship in which the *Keidanren*'s inconsistent support of bond markets developments after the 2016 ABS meeting shows that the alliance is also not long-term based.

Moreover, there are also incidents that demonstrate a contentious relationship between the JSDA and the *Keidanren.* One notable example is shown in the *Keidanren's release* of its *Charter for Good Corporate Behaviour* in September 1991. Although one can argue that the *Keidanren*'s decision to release the Charter is predicated on shaping its public image and cultivating a positive public relation with the general public, the micro-dynamics at the time shows that this was a direct attack on the securities industry. For instance in the *Charter*'s introduction section, the *Keidanren* not only identified the importance of 'keeping moral standards high' and how the change of corporate social environment requires 'corporations to co-exist with consumers and the public', but also attributed the necessity for good corporate behaviour to the 'recent series of incidents relating to the securities and financial industries' (Keidanren, 1991). Certainly, what the organisation is referring to is the infamous compensation scandal when more than 17 securities firms secretly paid back in excess of 225 billion yen (roughly US$173 billion) to their favoured clients for their trading losses (Char, 1993: 173).

Based on the aforementioned instances, it is evident that although the collapse of the *keiretsu* system has changed the relationship between corporations and commercial banks, this does not suggest the emergence of a new long-term based working relationship between corporations and the securities industry. Instead, the new

institutional arrangement has induced a more complex and fluid relationship amongst these micro-level actors.

IV. Conclusion

The main focus of this chapter is on how private sector actors in Japan have responded to the government's active promotion of bond market developments. Given developing Asian bond markets provides new investment opportunities, this discussion is closely associated with whether the government has the ability to conduct economic statecraft and mobilise the private sector support to achieve its means. The assessments also allows one to refer back to the central thesis argument that the state is not a power container. I argued that the effectiveness of government's economic statecraft in shaping the behaviours of the four private sector actors (i.e. *Keidanren*, JFTC, JBA, and JSDA) is questionable. Instead, the most important factor that shaped their behaviours is whether they perceive bond market developments favourable and align with their economic interests. This factor shows consistency when assessing the seemingly increased interest on bond market developments from the *Keidanren*, the JFTC, and the JSDA since 2009. As for the case of the JBA, the organisation's lack of interest in developing bond markets in Asia throughout the investigation period not only demonstrate the state's inability to mobilise its support, but also corresponds to the argument that the alignment of economic interest is the main factor that shape its behaviour.

In the first section, I began with the discussion on the two recipients of corporate finance, namely the *Keidanren* and the JFTC. Upon assessing the two organisations' publicly released policy proposals, I found that both actors have expressed limited interests in the development of bond markets prior to 2009, but collectively became more concerned with overseas affairs after 2009. Two questions arose from this shared trajectory. Firstly, is the increase interest in bond market developments an outgrowth of economic statecraft post-2009? Secondly, does this shared tendency exemplify a partnership that resembles the working relationship during the height of the *keiretsu* system?

Upon critical analysis, it is evident from two factors that the seemingly increased interests in the development of Asian bond markets is not due to effective statecraft (e.g. ABS meetings for the *Keidanren*). Firstly, the two organisations' policy

preference for bond market developments were not consistent in the surveyed time period. Instead both organisations showed more consistency in the policy preference for market access and infrastructure developments (i.e. ODA). Secondly, both organisations' trade partners and proposed FTA negotiating partners do not exert geopolitical consideration. This is not only shown in the equal preference for the RCEP and the TPP, but also echoing support of China's Belt and Road Initiative (i.e. *Keidanren*). As for the second question, although the two organisations shared similar tendencies in favouring market access and infrastructure development projects and were able to form a coalition, the working relationship between the two actors was not long-termed. This is evidently shown in the two organisations' support for signing EPAs were with different countries/regions at varying time periods, as well as the eventual omission of promoting bond market developments of ABS meetings from 2016 onwards.

In the second section, I undertook the assessment on why the JBA and the JSDA have both exerted limited interests in the development of Asian bond markets. In the case of the JBA, the organisation was preoccupied with dealing with the aftermath of the bubble economy and the financial big bang prior to 2008. As identified, in this time phase the JBA was focusing on its battle with the Japan Postal Savings. In this case, the JBA acted as an *insurrectionary* and pursued the *displacement* of the existing institutional arrangement that favoured the Postal Savings. This was achieved by fuelling in the socio-economic and political context which eventually allowed Prime Minister Koizumi to successfully put through the privatisation bill in 2006. Although the financial positions of financial institutions have recovered from the mid-2000s, the misalignment of economic interest between the JBA's loan provision business transaction and bond market developments explains why the organisation continues to exhibit limited interest in these regional financial cooperation initiatives. Once again, the effectiveness of economic statecraft is put into question.

As for the case of the JSDA, although bond market developments align with the business transactions of its member firms and the organisation has been working with the MOF in promoting the ABMI post-2009, this was not due to the government's effective economic statecraft. This is demonstrated in the organisation's lack of interest in the ABMI prior to 2009 when ASEAN+3 finance ministers' already agreed to incorporate more private sector actors and investors in bond market development.

Instead, the consistency of the JSDA's behaviours is in its pursue of economic gains. In the first time phase, favourable market conditions for securities firms as well as its varying levels of support between yen's internationalisation and Asian bond market both display its reluctance to support these developments. After market conditions deteriorated for securities firms in the second time phase, the JSDA began to adopt an outward looking strategy in search for foreign investors as well as investment opportunities abroad. Its support of developing Asian bond markets is one segment of this outward looking strategy. On the basis of this discussion, it is evident that the consistent factor that shapes the JSDA's behaviour is whether it perceives bond markets developments are economically rewarding rather than the state's mobilisation. Hence this validates the central thesis argument that the state is not a power container.

Finally, I identified how the collapse of main-bank system has changed the relationship amongst the four micro-level actors. Given these actors have become market actors that pursue their individualistic economic gains under the new institutional setting, this has enable the coalition formation between corporations and the JSDA. Yet, the coalition amongst the three actors does not indicate the emergence of a new long-term based working relationship. Instead, their relationships are under processes of constant change.

Chapter Eight. Conclusion

I. Review of Central Research Question, Three Research Sub-questions, and Key Arguments of the Thesis

Japan's involvement in regional financial cooperation initiatives makes an intriguing case study for the literature on Asian financial regionalism, because numerous actions of the government appear to contradict what many mainstream IR scholars have conceptualised as the phenomenon of Asian regionalism. For instance, the government's pro-activism in proposing the AMF and its subsequent active involvement in developing the short-term liquidity support mechanism and fostering bond market development evidently depart from the country's 'reactive' foreign policy approach (Calder, 1988). Japan's engagement in the ASEAN+3 finance ministers' process and the EMEAP framework both excluded the membership of the US government. These actions also appear to be anomalies in comparison to its conventional emphasis on Japan-US bilateral relations over other plurilateral and multi-lateral regimes (Hook *et al*., 2002). This case study is further complicated when one considers that Japan was one of the few countries in Asia that was not directly affected by the Asian financial crisis. Hence, the functionalist logic that the crisis created the demand for Japan to actively engage in regional financial cooperation also seems inapplicable to the country's circumstances.

These contradictions set the scene for the central research question of whether Japan's involvement in Asian financial regionalism is a response to the structural factors of power rivalry and economic interdependence. Deriving from the central research question are three research sub-questions, which are '*to what extent*', '*why*', and '*how*' Japan has engaged in Asian financial regionalism. For the purposes of this investigation, I adopted a historical institutionalist approach and applied the analytical framework of gradual institutional change theory proposed by Mahoney and Thelen (2010) to unveil the interactive dynamics within and outside of Japan. The main focus of the thesis was on the interactions amongst meso-level actors and micro-level actors, between meso- and micro-level actors, and to a lesser extent macro-level interactions (please refer back to Figure 1.1).

The central argument of the thesis is that given the state is neither a power container nor a cohesive entity, Japan's involvement in Asian financial regionalism cannot be regarded as a response to the structural factors of power rivalry and economic interdependence. Hence, the thesis challenged mainstream IR approaches of neo-realism and neo-liberal institutionalism that have hitherto been adopted to investigate Asian financial regionalism. I argued that rather than the factors of power rivalry and economic interdependence, it is domestic institutional setting that is the main underlying variable that shapes how actors in Japan have engaged/disengaged in the three regional financial cooperation initiatives. These domestic institutional arrangements encompass the *1998 Bank of Japan Act* at the meso-level, and the collapse of the financial segmentation system at the micro-level. Consequently, this has both affected how different actors in Japan perceived the development of Asian financial regionalism and contributed to their varying levels of engagements in these processes.

There are two key elements underpinning the decision to conduct a critical analysis via adopting a historical institutional approach and applying the analytical framework of the gradual institutional change theory. The first element concerns the treatment of history as 'processes over time' rather than individual instances. This approach benefited the research in three ways. Firstly, it allowed for a greater time continuum to acquire a larger sample size to identify which meso- and micro-level actors in Japan have engaged and/or responded to the developments of the short-term liquidity support mechanism and bond markets in Asia. The assessments, therefore, allowed for problematising the notion of the state as a power container and addressed the first research question of '*to what extent'* have actors in Japan actually taken part in the development of Asian financial regionalism. In the case of meso-level actors, I identified in Chapters 4 and 6 that the MOF and the BOJ are the main meso-level actors that engaged in regional financial cooperation initiatives, whilst private sector actors that positively responded to these developments at different time junctures included the *Keidanren*, the JFTC, and the JSDA (see Chapter 5 and 7).

Secondly, the approach's emphasis on history also enabled the research to understand the power relations amongst meso-level actors, as well as micro-level actors leading up to the Asian financial crisis in 1997. Most of this discussion occurred in Chapter 3, where I pointed out the respective power relations of the MOF-BOJ dyad

and the MOF-LDP dyad in regional financial policymaking at the meso-level, whilst at the micro-level I focused on the long-term working relationship between corporations and their main-banks under the *keiretsu* system. The importance of this discussion is that it provides extensive background information for readers, which will enable them to understand why certain actors are more prominent than others, hence, demonstrating the enabling and constraining effects of institutional arrangements for shaping actors' actions. For instance, I demonstrated in Chapter 3 that one of the unintended consequences of the *1998 Bank of Japan Act* was that the Bank was empowered by the institutional setting in monetary policymaking, yet constrained in regional financial cooperation policymaking.

Thirdly, considering history as interconnected events also allowed chronological assessments of the actions of meso- and micro-level actors in these developments. The strength of this is that it enabled the doctoral thesis to investigate both '*why'* and '*how'* Japan has engaged in Asian financial regionalism. The aspect of consistency was paramount in the analysis of the *why* question, as it made a stronger case to exhibit the underlying reasons that shape actors' behaviours. For instance, it was shown in Chapters 5 and 7 that the *Keidanren* only began to voice its support of the government's efforts in developing the CMI/CMIM and the ABMI after 2009. On the other hand, the organisation's support of signing free trade agreements with other countries has been consistent since the early 2000s. The consistency of the *Keidanren*'s actions demonstrates that the organisation preferred market access to the two regional financial cooperation initiatives.

A further example is that although the Ministry ostensibly proposed and was involved in various regional financial cooperation initiatives (e.g. AMF, CMI/CMIM, ABMI), what remained consistent was the MOF's emphasis on and attempts to internationalise the yen. As a result, one can trace the consistency of the MOF's actions in terms of promoting the policy objective back to the early 1990s, when the socio-economic and political context in Japan demanded the Ministry's active management of exchange rate risk (see Chapter 4). Hence the Ministry's pro-activism in achieving its organisational goal (i.e. exchange rate risk management) through the promotion of the policy objective (i.e. yen internationalisation) cannot be regarded as Japan's relational response to the structural factor of China's rise, nor can it be regarded as response to the occurrence of the Asian financial crisis.

As for the analysis of the *how* question, at first glance the Ministry's AMF proposal and Japan's subsequent engagement in the ASEAN+3 financial ministers' process appeared to deviate from its conventional foreign policy under the Yoshida Doctrine, whilst its pro-activism also signalled a departure from the Fukuda Doctrine which underscores equal partnership. Yet, if one evaluates the government's actions from the early 1990s to 2017, then it becomes evident that there is no contradiction.

The contradiction can be solved if one separates the *why* and *how* questions. In other words, one must distinguish between 'reason', 'means' and 'presentation'. In the prior discussion, I explained that the 'reason' why Japan actively engaged in Asian financial regionalism is due to the socio-economic and political context that demanded the Ministry's active engagement in exchange rate risk management. From the Ministry's perspective, yen's internationalisation was the 'means' to fulfil the organisational goal of currency risk management, but the 'presentation' of the yen's internationalisation came in different iterations of policies such as the AMF, the CMI, and the ABMI. With the exception of the AMF, *how* Japan has attempted to present yen's internationalisation was achieved via the foreign policy approach of 'quiet diplomacy'. This proved that Japan's engagements with ASEAN did not deviate from the Fukuda Doctrine.

As for the case of the Japan-US bilateral relation, if one considers the exclusion of the US government's membership in the AMF proposal and the ASEAN+3 financial ministers' process as evidence of Japan's deviation from the Yoshida Doctrine, then how can one explain Japan's insistence to include the IMF link within the CMI (Grimes, 2009) and subsequent engagements in the Manila framework (see Chapter 4). Instead, what is most evident about the aspect of 'presentation' is shown in the contrasting attitude of the Japanese government between holding a suspicious and reserved stance towards Mahathir's EAEC concept, and being pro-active in establishing the EMEAP framework via quiet diplomacy in the same year of 1990. The consistency of the Ministry's quiet diplomacy to develop Asian financial regionalism is demonstrated in its attempt to promote bond market developments by underscoring the importance of a coordinated exchange rate regime as being a prerequisite(see Chapter 6), as well as its collaboration with the IIMA to promote the idea by conducting research in the ASEAN+3 Research Group Studies from 2003 to 2014 (see Chapter 4).

In addition to the element of treating history as processes over time, the second element that enabled the critical assessment of the three research questions was the analytical framework provided by the gradual institutional change theory. This analytical framework allowed the doctoral thesis to evaluate how uneven power distribution amongst meso- and micro-level actors manifested themselves in the making of regional financial cooperation policies via identifying a typology of agents for change, the strategies adopted by these agents, as well as concepts of unintended consequences and coalition alignment/formation. For instance, I demonstrated how the BOJ reinforced the MOF-BOJ dyadic relation in regional financial cooperation policymaking by acting as a *mutualistic-symbiont,* whereas the MOF undermined the LDP-MOF dyadic relation through acts of *layering* (see Chapter 6). In terms of micro-level interactions, although the JSDA and the *Keidanren* are different types of agents of change (i.e. JSDA: *insurrectionist*; *Keidanren*: *opportunist*) and attempting to induce change for different purposes, their shared interests have allowed them to form an alliance to promote yen's internationalisation and bond market developments against the interests of the JBA (see Chapter 5 and 7). Therefore, this critical assessment has allowed readers to understand *why* the JBA has consistently disengaged from the development of Asian financial regionalism, and also makes apparent how the collapse of the main-bank system shaped the interactive dynamics amongst these actors.

II. Main Research Contributions and Findings

In the process of investigating the central research question and achieving this through critically assessing the three research sub-questions, the doctoral thesis successfully makes five major contributions to scholarships on Asian financial regionalism, Japanese political economy, Japanese foreign policy, as well as the broader literature on varieties of capitalism.

With regards to the first research contribution, this thesis set out to investigate Japan's involvement in Asian financial regionalism from 1997 to 2017 with the intent of reframing the research question from '*why*' countries engaged in Asian financial regionalism to '*to what extent*' have countries actually engage in this development. As I have demonstrated over the course of this thesis, existing scholarship on Asian regionalism would benefit from moving beyond discussions of what constitutes effective cooperation and integration for the region, as well as whether state

preferences are pre-determined (i.e. neo-realism, neo-liberal institutionalism) or can be shaped (i.e. constructive approaches). Specifically, it enables researchers to avoid the prevailing issue of comparing Asia's regional experience with other regional integration models in their investigation (see Breslin and Higgott, 2000; Breslin, 2010). By problematising the state as a power container wholly capable of determining regional financial cooperation policies, it rejuvenates the scholarship insofar as it forces scholars to revert back to critically assess the state *per se*. This would afford a more rigorous consideration of which actors are the important stakeholders in Asian financial regionalism, the underlying reasons as to why they had varying levels of interest to these developments, the processes via which these policies are put forward, and why certain actors' preferences are materialised. As I have demonstrated in this thesis, these processes and the enabling or constraining factors that institutional arrangements have on different actors in Japan are imperative for understanding Japan's behaviour in Asian financial regionalism.

Second, this research also contributes to the existing literature by demonstrating how one can investigate this research question through utilising a historical institutionalist approach. As mentioned in the previous section, the approach provides readers with a new analytical angle to assess these regional dynamics based on the factor of consistency. In addition, historical institutionalism also enables observers' to identify the power relations between different actors at different levels, as well as how they interact in different institutional settings (see Chapter 2).

Third, the thesis also makes contribution to the scholarship on Asian financial regionalism and Japan's foreign policy by identifying a method of assessment when analysing macro-level dynamics. For instance, many existing studies do not make distinctions between the dynamics taking place in ASEAN+3 finance ministers' process and those occurring in the East Asia Summit when assessing countries' involvement in Asian financial regionalism (e.g. Acharya, 2006, 2010; Hook *et al.* 2012; Terada, 2010). This method of assessment is problematic given the state actors involved in the two regional regimes are different (i.e. East Asia Summit: METI; ASEAN+3: MOF and BOJ). I have demonstrated in this thesis that adopting a historical institutionalist approach allows more nuanced assessment of these macro-level dynamics. For instance, upon recognising the two main policymakers of Japan's regional financial cooperation policies are the MOF and the BOJ, the thesis was able to focus on

analysing how these actors interact with their counterparts (e.g. BOJ-People's Bank of China)(see Chapters 4).

Fourth, in tandem with identifying important stakeholders in regional financial cooperation initiatives via a historical institutionalist approach is acquiring new primary data hitherto not surveyed in existing studies. Specifically, I collected new primary data by interviewing important private sector actors from general trading firms, banks, securities firms, and industrial associations (i.e. JSDA, JBA). Moreover, new primary data was also collected by surveying published documents of the four industrial associations, as well as firm-level archives of the three financial holding groups in both English and Japanese languages. These new primary data contributed to greatly to the originality of the thesis's investigation.

Fifth, both the incorporation of new primary data and approaching the central research question via a historical institutionalist approach has allowed the thesis to critically assess the key propositions of scholars working in both neo-realist and neo-liberal institutionalist theoretical traditions. In the case of neo-liberal institutionalism, I identified four micro-level actors with large presences in Asia and discussed how this made them more prone to the negative effects of financial crises. Subsequently, I provided empirical evidence that these actors did not demand that the government supply regional financial cooperation policies such as the CMI/CMIM, ABMI, and ABFs. On the basis of this empirical evidence, I thus expose the limitation of the functionalist logic of neo-liberal institutionalism. With respect to neo-realism, I utilised the newly acquired primary data to show that the state's ability to conduct economic statecraft was questionable due to the varying levels of responses from micro-level actors in the time period under investigation. I also proved that the MOF's recent signing of local-currency bilateral swap agreements was not a relational response to China's actions after the global financial crisis. Rather, the MOF's actions were consistent when one evaluates the organisation's policy objective of promoting yen's internationalisation after the socio-economic and political context demanded it to actively manage exchange rate risk in the early 1990s (see Chapters 4). This constitutes the fifth contribution of this thesis.

Finally, the sixth research contribution made by this thesis is that it moves beyond solely focusing on the scholarship on Asian regionalism. As the doctoral thesis challenges mainstream IR approaches' emphasis on structural factors via adopting a

historical institutionalist approach, I engaged with three bodies of literature to identify the relations amongst meso-level actors, micro-level actors, meso- and micro-level actors. These bodies of scholarship comprised Japanese political economy, Japan's foreign policy, and varieties of capitalism. As I have shown in the investigation, studying the power relations between these actors are imperative for understanding what shapes Japan's actions in relation to Asian financial regionalism.

Given I have engaged with these bodies of scholarship, the research findings thus also contribute to these research fields. To begin with, the first and main research finding is that 'continuity' and 'cohesiveness' do not necessary indicate a state of inertia. Instead, I have demonstrated that the two meso-level actors have actively and persistently promoted the development of Asian financial regionalism. However, both the MOF and the BOJ have adopted different strategies in these processes. For instance, in the MOF-LDP dyad relation, the MOF have conducted the act of *layering* to induce incremental changes that allowed the MOF to remain at the forefront of regional financial cooperation policymaking. On the other hand, the BOJ's decision to participate in the EMEAP framework for developing bond markets in Asia when the MOF attempted to embed yen's internationalisation into the ABMI, as well as the Bank's decision to focus on enhancing market infrastructure when involved in regional financial cooperation initiatives all testify to its contribution to the cohesiveness and continuity of the government's policy.

Second, the evaluation of the MOF-LDP dyadic relation also proves that the action and inaction of both actors had significant implications for regional financial cooperation policymaking. To reiterate the discussion in Chapter 6, although one could argue that the MOF's act of *layering* was the main reason why the organisation was still able to remain at the forefront of regional financial cooperation policymaking, the LDP's inaction, or act of *drift*, was also a factor that cannot be overlooked in this assessment. Factors that have contributed to the inaction of politicians include the existing margin of financial expertise between the two organisations (see Chapter 3), the adherence to both the Yoshida and Fukuda Doctrines (see Chapters 3 and 6), as well as the relative short tenures of Japan's Prime Ministers between the first and second Abe governments (i.e. 2007- 2012) (see also Dobson, 2013: 87).

Third, problematising the notion that the state is a cohesive entity and investigating the interactive dynamics between meso- and micro-level actors confirms

two conceptual arguments. First, it confirms the argument that the dichotomy between state and markets is not true. As the leading Japanese political economy scholar Steven Vogel has consistently argued in his monographs (1996; 2006; 2018), capital account liberalisation does not indicate the retreat of the state. Rather, it demands another form of active involvement in the economy by the state, centred on making the necessary market infrastructures (i.e. rules) to ensure the well-functioning of business transactions (Vogel, 1996, 2006, 2018). This is demonstrated in Chapter 7 where it was identified that the promotion of bond market developments by the *Keidanren* and the JFTC post-2009 underscored the importance of the state to assume risks via acting as an underwriter (i.e. JBIC) for bond issuance. This research finding also confirms the argument made by scholars working in the field of regulatory regionalism, in which state transformation is foregrounded. For instance, Rethel and Sinclair's work (2014) on the changing role of the state from allocating credit to market creation is evident in the BOJ's emphasis on fostering the necessary market infrastructures to promote bond market developments and yen's internationalisation. Hence this research finding contributes to existing scholarship in Japanese political economy, as well as varieties of capitalism.

The third research finding is that institutional arrangement is a crucial variable that must be taken into account when theorising about the phenomenon of Asian financial regionalism. As I have shown by demonstrating the consistency in the state's actions as well as the responses of private sector actors toward regional financial cooperation initiatives, their actions have been shaped by the respective institutional arrangements at the meso-level and the micro-level.

Fourth, problematising the state as a cohesive entity makes an empirical contribution to scholarship on Asian financial regionalism and varieties of capitalism. As mentioned, by observing how the four private sector actors responded to regional financial cooperation, it supplements the empirical evidence for examining the effectiveness of the state in mobilising support for their regional endeavours. The empirical contribution to the literature on varieties of capitalism is achieved by demonstrating how changes in Japan's corporate society are projected on foreign economic policymaking. For instance the convergence-diversity debate revolves on aspects of corporate finance and governance and labour relations (Hall and Soskice, 2001; Gotoh and Sinclair, 2017; Gotoh, 2019), whilst one aspect includes the

discussion of the *keiretsu* relation (Vogel, 2006). It was shown in this investigation that the *keiretsu* relationship has changed if one observes the coalition formation between the JSDA, the JFTC, the *Keidanren* on fostering bond market developments, as well as the JSDA and the *Keidanren*'s collective promotion of yen's internationalisation.

Fifth, the research findings that the BOJ is also an important policymaker of regional financial cooperation policies also contributes to the scholarship on Japan's foreign policy and Asian financial regionalism. Regarding Japan's foreign policy, given that the existing literature overlooks the role of the BOJ in foreign economic policymaking, this makes the research finding of the BOJ's 'active yet reticent' approach to Asian financial regionalism a significant empirical contribution. For instance, one of the most comprehensive study on Japan's IR is a monograph of Hook *et al*. (2012). The distinctiveness of this monograph is that authors not only investigate Japan's foreign policy with three regions (i.e. US, Europe and Asia), but also conduct an in-depth analysis of three policy areas (i.e. security, political, and economic) (Hook *et al*. 2012). However although authors do assess the MOF's role in formulating regional financial cooperation policies (e.g. AMF, the New Miyazawa Initiative, CMI/ CMIM, ABMI, ABFs) and the organisation's engagement in the ASEAN+3 finance ministers' process, the have left out the discussion of the BOJ in these processes. Similarly, incorporating the BOJ in the investigation conducted in this thesis also contributes to scholarship on Asian regionalism, because the Bank's role in these processes has also been overlooked in existing debates (e.g. Katada, 2002a, 2002b, 2008; Grimes, 2009; 2011; 2015; Terada, 2010; Lee, 2006).

III. Limitations of the Thesis and Areas for Future Studies

Like any other research, the doctoral thesis also has certain limitations. I will outline these limitations and propose some avenues for future research that I believe will be beneficial for the scholarship on Asian financial regionalism.

The first limitation of the thesis stems from the fact that, although I underscored the dyadic relationships of the MOF-LDP as well as the MOF-BOJ, I did not debate the BOJ-LDP dyadic relationship. Doing so would have allowed one to probe into the interplay between monetary policymaking and regional financial cooperation policymaking for the Bank. As demonstrated in Chapters 4 and 6, the *1998 Bank of Japan Act* allowed the cooperative working relation between the MOF and the BOJ in

promoting yen's internationalisation, fostering the CMI/CMIM and the ABMI/ABFs. Nevertheless after the BOJ gained its central bank independence status in 1998, its contentious relationship with the government over monetary policymaking increased. For instance under the governorship of Hayami Masaru, Prime Minister Koizumi made public statements about the need to 'replace' the retiring governor with a 'deflation fighter' in March 2003, whilst some Diet members suggested to restrain the BOJ with an inflation target framework (see Cargill, 2005: 315). Interestingly, after the current Prime Minister Abe came into office in 2012, and the former Vice Minister of Finance of International Affairs Mr. Kuroda took up the BOJ governorship in 2013, the two state actors have work closely together under the three arrows of '*Abenomics*' (i.e. monetary easing). Hence, the research question of 'to what extent' have the tensions between the two state actors over monetary policymaking affected the BOJ's engagement in regional financial cooperation policymaking will be a fascinating theme to explore further.

The second limitation of the thesis is that, although I incorporated Japan's private sector actors into the debate, I was not able to thoroughly assess whether the organisational settings of the four industrial associations may have constrained their actions. For instance, I identified how the one-year tenure of the JBA chairmanship may impose constraints on the organisation's ability to put forward cohesive policy proposals vis-á-vis the Keidanren, the JSDA, and the JFTC (see Chapter 5). Yet, ongoing changes of Japan's financial landscape after the launching of the three financial holding groups (i.e. Mitsubishi-UFJ, Sumitomo Mitsui and Mizuho) made the member compositions of these industrial associations more diverse. This is directed to the inclusion of securities firms as core group member firms of financial holding companies (e.g. Sumitomo Mitsui Financial group includes Daiwa Securities SMBC Co.). Hence, how can one claim that the JSDA represented the collective interests of the securities industry when one of its core members is also a member firm of the banking industry? This is not limited to the case of the JBA and the JSDA. In fact, the dual stances of the *Keidanren* over the promotion of free trade, but opposing to western-style labour relations has also been demonstrated in the recent work of Gotoh (2019). These were variables that could not be fully explored in this doctoral thesis.

The final limitation of this research is it solely focuses on the case of Japan. As much as this has provided insight into Japan's engagement in Asian financial

regionalism, the narrative cannot be applied to other case studies due to differences in the historical and political context. However, what the doctoral research has achieved is that it demonstrated how one can adopt historical institutionalism and apply the analytical framework of gradual institutional change theory to unveil the interactive dynamics within and beyond the state. Therefore, I believe that the successful case study of this doctoral thesis will encourage more scholars to adopt a historical institutionalist approach to study Asian financial regionalism other regional countries such as China, Korea, and ASEAN member countries. Subsequently, the increased body of work will allow for future research on comparative regionalism.

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