

Globalization and Divergence
in Japanese State-Industry Relations:
Comparing Institutional Changes
in the Telecom and Financial Service Sectors

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An assumption frequently appearing in the globalization literature advances the view that Japan's cooperative state-industry relations are under transformation into more arm's length relations in which state interventions are strictly limited to its jurisdictions and transparent rules. Domestic institutionalism, by contrast, tends to argue for continuity of Japan's cooperative relations and predict more gradual, path-dependent changes. Both of these theoretical frameworks, however, assume a single coherent model of Japanese capitalism, and therefore fail to capture sectoral diversity within Japan.

This article examines the reform process of state-industry relations in Japan's telecommunications and financial service sectors, revealing divergent responses to globalization. In the telecom sector, the bargaining power of the state has gradually decreased without violating the original relations, called 'the order in telecommunications,' in which the Ministry of Internal Affairs and Communications and NTT cooperatively maintain their favorable balance between monopoly and competition. In finance, by contrast, the well-known 'convoy system' in which the Ministry of Finance guaranteed the safety of even the least efficient bank was transformed into a legalized, market based system. As such these sectors began to diverge despite facing similar pressures of globalization. Why did a radical 'third-order change' occur in the financial sector, but not in the telecom? The key factors are found to be highly visible policy failures such as the bankruptcy of a large international bank and scandals involving bureaucrats in the financial sector. Those failures enabled

ambitious politicians, called 'political entrepreneurs,' to intervene in policy making processes previously dominated by bureaucrats and to pursue policies conforming to the neoliberal injunctions within globalization.

Thus a combination of international and domestic institutional factors explains the causes and patterns of institutional change in the two sectors. While globalization pressures prescribe general directions for institutional changes such as liberalization and deregulation, the timing and extent of changes are largely determined by domestic factors.