Japan, Crisis and Nationalism

Japan's stock market is signalling that the crunch time is approaching for several of its largest banks. Despite a rebound yesterday, the share price of UFJ Holdings, Japan's fourth biggest bank by assets, is down 50% this month, and Mizuho Holdings, the world's biggest bank, is down 40%. There are fears that with a new banking minister, Heizo Takenaka, pressuring them to admit to the size of their nonperforming loan problems, next week's first-half earnings reports could contain some nasty surprises.

If the banks are nationalized, as many market participants are starting to bet will happen, this would give the Japanese economy a severe shock. While the measure may prove necessary and positive in the long term, not only would the banks' shareholders lose their investments, but the many companies which are being propped up by these banks with an endless stream of easy credit would also collapse. That would cause further losses to investors as well as a spike in unemployment. All told, the blow to Japan's economic confidence at a time when growth already seemed to be fizzling could send it back into recession. And that's still the best-case scenario. Nobody can rule out the possibility of a domino-effect systemic crisis in the banking system.

At such times, the ordinary worker is naturally going to ask who is to blame for the mess. As Anthony Miller writes nearby, Japan's vested interests have already managed to deflect the attention away from their own disastrous policies onto a scapegoat: the Americans. The declines in stock prices are the result of foreigners selling Japan short, the thinking goes. And reformers in the government who are trying to dismantle the economic system which seemed to serve Japan well for so many decades must be in the employ of vulture capitalists who want to wreck Japan Inc. so they can pick over its bones.

It's not a very sophisticated story, and so far not many Japanese seem to be taken in by the tabloid newspapers and even respected newsmagazines that are purveying it. But it bears thinking about. Two months ago the U.S. State Department quietly convened a group of Japan experts to look for signs that the country could recapitulate the history of the 1930s, when militarists exploited the rise in unemployment and a sense of thwarted national pride to take over the government. The U.S. academics didn't see much sign of that happening today, thankfully. But then the last decade of stagnation in Japan has been unusual in the sense that so far it hasn't had much effect on living standards. If economic hardship were to increase, the mood could change rapidly.
There are a few worrying developments that deserve mention. One is the rise of Shintaro Ishihara, a best-selling writer turned politician who captured the governorship of Tokyo partly on the strength of voters' frustration with Japan's usual pork-barrelling politicians and partly because of his fiery anti-American and anti-Chinese rhetoric. Also, last month a member of parliament known for fighting corruption, Koki Ishii, was stabbed to death by a fanatic nationalist. Extremist groups which worship the emperor and deny Japan's wartime atrocities have a limited following, but more disturbing than their continued existence is the fact that mainstream politicians don't seem to have the backbone to stand up to them.

Nevertheless, the possibility that the fear and confusion created by an economic crisis could shake Japan's democratic underpinnings must still be rated extremely small. The population is not only better educated and more cosmopolitan today than it was in the 1930s, it is also extremely cynical about its own leaders and increasingly willing to say no to them. The 1990s effectively destroyed the myth of the bureaucracy's infallibility, and any effort to pin the blame for any collapse on outside forces would have to counter the obvious fact that the bureaucrats ran Japan into the ground despite all manner of offers of support from abroad. The U.S. consistently kept its markets open to Japanese goods, unlike in the 1930s; this time Japan's economic problems stem entirely from domestic policies.

However, despite the fact that Japan's crisis is of its own making, it demands a concerted global response for both economic and political reasons. As the world learned in the case of the Asian financial crisis, a meltdown in one country can quickly have a contagion effect on others, even when their interconnections are relatively minor. In the case of Japan, the world's second largest economy, the effects on the world's financial system could be catastrophic.

Moreover, the solution to Japan's problems is likely to involve strengthening the role of foreigners in the domestic economy. Already two ailing pillars of the Japanese economy have been taken over by foreign management and restored to health, an indication that an injection of fresh thinking from outside could be just what is needed. On Tuesday, Nissan Motor reported record first half profits, just three years after Renault executive Carlos Ghosn took the helm of the automaker as it was on the verge of collapse and began a program of radical cost cutting and new product development. Likewise, the insolvent Long-Term Credit Bank, now renamed Shinsei Bank and under the control of the international Ripplewood consortium, is showing how with a rigorous approach to credit risk banks can still make money in Japan.

Such instances of foreign participation in Japanese public life already unsettle the country's nationalist elements. But that may be in part because they have a powerful demonstration effect, showing that foreigners are not vultures, trying to profit from Japan's destruction, but builders of value who help make Japan stronger. The true destroyers of value are Japanese vested interests that have always tried to hide behind nationalist arguments. The sooner they are overcome, the sooner Japan can get past this crisis and enlist the world's assistance to rebuild its shattered economy.