



Can Japan Thrive—or Survive?

By Michael Auslin

To the casual observer, Japan looks battered. Its sclerotic political system is incapable of producing a strong government or attracting popular support; after years of deflation and sluggish growth, it is now suffering from the most severe global economic contraction since the Great Depression; and its population is both aging and declining, with little prospect for increasing the birth rate or opening up to immigration. But there is reason to hope that Asia's oldest representative democracy will thrive again. The Japanese are changing their view of their country's role in the world but maintaining their high-quality education system, armed forces, and humanitarian agenda. And despite demographic changes, Japanese society remains cohesive.

In the early 1970s, when Japan was battered by the oil shock, a global downturn, and political scandals, the national mood was summed up by a blockbuster disaster film called *Japan Sinks*, in which volcanoes, earthquakes, tidal waves, and—yes—plate tectonics conspire to submerge the Japanese home islands. Today, as the Japanese economy collapses and national politics is paralyzed, a new film might be entitled *Can Japan Survive?*¹

The year 2009 may transform Japan both politically and economically. Not only is the half-century political dominance of the Liberal Democratic Party (LDP) at risk, an increasingly severe recession may also permanently cripple some of Japan's leading export industries. There is a real danger now that a sinking Japan may drag other economies down with it. Yet Japan's current problems are also being driven by long-term social, economic, and political changes. So far, the Japanese social fabric has been strong enough to absorb these changes, but what type of country it becomes, and how the Japanese will react, is still very much an open question. The Japan that eventually emerges from this downturn may be

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very different from the partner the United States has come to rely on.

An Economic Crisis

No one should dismiss the perfect economic storm facing Japan today. For nearly twenty years, the country has struggled to recover the magic of the postwar economic growth model. That policy was based on the export of consumer goods, driven by an artificially weak yen, a moderately successful government approach to identifying and supporting technological breakthroughs, low worker wages

Key points in this *Asian Outlook*:

- Recent changes in the fortunes of the long-ruling LDP and its prospects in the next election
- The sources of Japan's long-term economic stagnation
- The twin demographic dangers of an aging population and declining fertility
- Japan's gradual acceptance of a less prominent global role

in exchange for nearly lifetime employment and a social safety net, and a high household savings rate that was plowed back into investment.

That model came crashing down in 1991. Land and asset values, which had been propped up by excess cash stemming from a permanent account surplus, collapsed. At the same time, Japanese exporters saw their share of the market shrink as other Asian countries—including South Korea, Taiwan, and China—became major exporters. Over the next decade, Japan would suffer from tentative reforms, failed stimulus packages, and constant shrinking of its share of global output.

Relief came only when financial and regulatory reform was undertaken in the early 2000s, leading to a steady but moderate economic recovery.

The nation finds itself once again facing economic troubles: export markets have collapsed, the yen has skyrocketed, and reform has stalled. Japan's blue chip companies, such as Toyota, Hitachi, NEC, and Panasonic, are each cutting tens of thousands of workers, and thousands more working at suppliers to these mammoth corporations will soon lose their jobs too.² Exports plunged nearly 50 percent in February year-on-year, and the spiral is only deepening.³ The government has frantically tried to stanch the bleeding, passing a \$53 billion stimulus package and now considering another \$100 billion plan.⁴

The shock and trauma of this recession—Japan's worst since the end of World War II—mask structural weaknesses in its economy. For instance, the economic recovery of the early part of this decade did not result in the creation of stable, permanent jobs. In fact, much of the job creation occurred through the hiring of temporary workers. Close to 30 percent of Japan's workforce—nearly 18 million people—are temps.⁵ They receive less pay (helping to account for income stagnation this decade) and fewer benefits and are the first to feel the axe. The job cuts at Japan's major corporations have caused the bankruptcy of more than four hundred temporary placement services and an increase in homelessness in Tokyo and other metropolitan centers.⁶

Not only are Japan's labor fundamentals at risk, but the country has also struggled to increase foreign direct investment, which has languished due to still-complex regulatory laws and the reluctance of Japanese corporations to open themselves up to outside investors. Income disparities between rural and urban areas continue to

grow, though at much lower levels than in China or the advanced economies of the West. Structural reform undertaken by Japan's popular former prime minister, Junichiro Koizumi, has ground to a halt under his weak and ineffective successors. Indeed, much of the blame for Japan's ineffective economic policies can be placed on its politicians.

The Politics of Indecision

Japan's economic struggles parallel the unraveling of its postwar political system since 1993. The LDP has ruled

Japan since 1955 almost uninterrupted, though scandals throughout the 1970s and 1980s chipped away at its veneer of competence. For several months in 1993–94, it lost power to a fleeting coalition of so-called reform parties, many of which were established by disaffected ex-LDP members. By working with erstwhile enemies, such as the Socialist Party, the LDP cobbled together coalitions

throughout the 1990s until it was again in sole control of the government by 2005, under the leadership of the maverick Koizumi.

Koizumi's popularity was tied in equal parts to his charisma and to his championing of regulatory and structural reform. Many of the building blocks that made the economy stronger under Koizumi had been laid in the previous decade, notably the 1996 "Big Bang" financial deregulation policy.⁷ However, Koizumi was the first prime minister to articulate a compelling case for changing the way Japan worked. Under his watch, the Bank of Japan became more independent of the Ministry of Finance, the government encouraged greater market access for foreign investors, and the country's financial system was put on a sounder footing.

All that came to a halt once Koizumi stepped down in September 2006. His successor, Shinzo Abe, was supposed to seal the emergence of the new, pragmatic, innovative LDP. Instead, scandal and unformulated policies beset his administration, and the main opposition party, the Democratic Party of Japan (DPJ), took control of the upper house of the National Diet in July 2007. The DPJ is headed by Ichiro Ozawa, a former LDP heavyweight who split from the party back in 1993 and has been attempting to destroy its majority ever since.

With the upper and lower houses of the Diet controlled by different parties for the first time, Japan entered into a new political era in 2007. The result was

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not a strengthening of a viable two-party system, but rather political paralysis. The DPJ used its position to block LDP appointments and initiatives, ultimately driving Abe to resign his position a mere two months after the July election. His replacement, Yasuo Fukuda, was a compromise placeholder who also failed to come up with a reform plan or vision that addressed Japan's needs. He, too, resigned within a year, leading to the appointment of Taro Aso, a former foreign minister, as premier.

What the Japanese call the "twisted (or knotted) Diet" has lasted for eighteen months, and the country is anxious for general elections to be called.⁸ Aso has until September of this year to hold elections, but he may have to do so sooner with approval ratings at under 10 percent and calls from within the LDP for getting the election over with. The level of public frustration with Japan's politicians is palpable, as is anger that the reforms and progress of the Koizumi years have been wasted. Japan's political leaders are seen as increasingly out of touch and incapable of running the country. The problem is that few voters believe anyone in the political world, including Ozawa, can successfully reinvigorate the legislative process and turn Japan's fortunes around. Voter cynicism is deep, and the DPJ's victory in 2007 was seen more as an anti-LDP vote than a measure of DPJ support. Decades of internal backbiting, scheming, corruption, and ineffective policies have eroded the authority of nearly all politicians in Japan.

At some point, the old guard of LDP and DPJ king-makers will retire, but the generational shift may not lead to more transparent politics and policies focused on voters' concerns. But many of the younger LDP and DPJ politicians, even those holding seats inherited from their fathers or grandfathers, seem more responsive to voters, more knowledgeable about economic matters, and more savvy about Japan's global role. Many have received education overseas and have networks of foreign friends and colleagues upon whose expertise they can draw. The weakening of the traditional faction system in Japanese politics over the past decade may allow these younger leaders to come up with more innovative policies and even work with counterparts across the aisle—perhaps even leading to the formation of new parties. Even if they

succeed in doing so, however, they will be dealing with a society much different from that of the postwar period.

Social Change and Disquiet

The economic crisis, along with ongoing political ineffectiveness, has engendered significant levels of public concern. Fears that the once-praised Japanese model is breaking down—or was a fluke in the first place—are discussed by elites and ordinary citizens alike. Because Japan

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is still an extremely homogeneous and generally well-off society, it is unlikely that the problems of today will result in destabilizing dramatic outbursts. Most Japanese still remember when their country was much poorer than it is currently, and they continue to take considerable pride in the achievements that made it the world's second-largest economy. Their society has far lower crime and poverty rates than other industrialized nations, and the country's universal literacy rate is still but a goal for many nations in Asia.

Although Japan is often romanticized as an exotic, timeless land, fast-running currents have been changing the social seabed for years. That, too, is adding to the sense of unease of late. Some of these changes are economic in nature; others, purely social. The aging of the country is a well-known phenomenon. Beginning in 2006, Japan began losing population year-on-year. The number of citizens aged sixty-five and older is increasing, now accounting for 20 percent of the population.⁹ This is already putting strain on the country's social services, and it will only get worse in coming years. In addition, the government is facing a dramatic shrinking of the tax base just at the time when entitlements are expanding. This has led to years of debate over how to raise Japan's birth rate or whether to loosen immigration restrictions. Yet fears over the influx of foreign cultures, especially if abetted by government policy, have thus far hindered meaningful immigration reform.

Troubles abound among the younger generation in Japan as well. The cause of the demographic decline is a combination of fewer children per marriage and a much later marriage age for Japanese women. Japan's birth rate actually fell below replacement rate nearly forty years ago, in the early 1970s. In 1975, the fertility rate for women was 1.91 babies; in 2007, it had dropped to 1.34.¹⁰ This

has led to a natural increase rate of -0.1 percent, according to the latest statistics. But it is not merely numbers that are decreasing; the average age of women having their first child rose from 25.6 in 1970 to 29.4 in 2007. More dramatically, in 1970, half of all babies born in Japan were to women in their mid- to late-twenties; today, fully 38 percent of babies are born to women in their early thirties.

Such statistics tell only part of the story. Long-term visitors to Japan soon recognize the enormous cohort of unmarried women in their thirties, something that was unheard of a generation or two ago. The average age of marriage in Japan is steadily increasing, up to 28.3 for women and 30.1 for men.¹¹ This has led to an entire generation of women marrying later, if at all. In the early 1970s, over 1 million couples wed annually—300,000 fewer couples marry today.¹²

Those who remain unmarried are referred to as “parasite singles,” often living at home with their aging parents.¹³ They purchase fewer durable goods than their predecessors, since they are not buying houses, major appliances, or (often) cars. Still, they account for a significant segment of consumer spending on goods like clothing and accessories and services like travel, dining, and entertainment. At both ends of the demographic spectrum, single-person households are increasing rapidly in Japan, from just 600,000 in 1975 to over 4 million today, with the majority of these households being single, elderly women.¹⁴

Demographics are not the only current of social change in Japan today. A trend of young people essentially opting out of education and careers is beginning to attract notice. There is the strange if minor phenomenon of “shut-ins,” usually young men, who spend months if not years inside their parents’ homes, watching videos and reading *manga*.¹⁵ More serious is the problem of “NEETs” (no education, employment, or training).¹⁶ These are young people in their late teens and twenties who are not enrolled in any academic program, hold no jobs, and are undergoing no vocational training. The government several years ago estimated that there were at least 640,000 NEETs in Japan.¹⁷ The proportion of young people working in low-skilled jobs in the service industry has also risen steadily through the past decade. With an aging and slowing economy, any segment of the

working-age population not engaged in productive activity or failing to gain advanced skills is of concern to policymakers.

A New Japan?

This recitation of statistics and overview of Japan’s situation today leave a gloomy impression. Many around the world have written Japan off, seeing it in the midst of a gradual decline into second-class status; others advise Japan to embrace a “middle power” strategy.¹⁸ In recent decades, economic observers have bounced back and forth between calling Japan a failed power and celebrating its comebacks.¹⁹ To many, it is baffling that the country has been unable to solve its problems for nearly two decades. The current American economic crisis, moreover, raises fears that the United States will follow Japan’s path of permanently depressed property and stock values.

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A longer historical perspective, however, suggests that Japan is not suffering from some inherent defect in its socio-economic system, but rather that it is in the midst of working through the post-Cold War phase of its history. The growth rates of the 1960s through 1980s were unsustainable once the costs of Japan’s protected production system were undermined by the rise of low-cost producers, the introduction of floating exchange rates, and the greater global economic interdependence fostered by globalization in the 1990s. The political relationships that supported this economic system also came under attack and have been reshaping themselves since the early 1990s.

Yet, during this extended, two-decade period of flux, the country has remained remarkably stable. Social structures may well be changing, as noted above, but on the whole, Japan remains a highly cohesive, low-crime society. National growth on average since 1990 has been a lackluster 1.3 percent. But the crime rate for all crimes has edged upward only modestly to 1,493.6 per 100,000.²⁰ The murder rate continues to be astoundingly low at 0.5 per 100,000, and the majority of those are among family members or acquaintances.²¹ Similarly, Japan’s academic system continues to turn out literate, well-educated adolescents. There are many legitimate critiques of Japan’s schools, from their focus on conformity to their lack of emphasis on critical-thinking skills, but the country has

a near-universal literacy rate, and Japan compares very favorably against other nations in educational rankings.

The changes occurring in Japan seem in many cases to have been absorbed by the social system with less shock than might have been expected. People are clearly frustrated with the lack of economic growth; worried about the future; and angry at a self-absorbed, ineffective political system. Yet, it is not accurate to say that the Japanese are giving up on their political system. On the contrary, elections and political issues are heatedly debated by professional and ordinary citizens alike. Statistics show that voter participation in general elections held for the lower house has remained steady in the upper sixtieth percentile over the past fifteen years.²² Voting patterns in the past decade reveal a deep desire for change, which may result in a remaking of the political system sometime this year. The Japanese are neither despondent, drinking themselves to death like the Russians, nor so outraged at inequality that they riot, as the Chinese do several thousand times each year.

The changes Japan is undergoing could result in new political parties and a more fluid economic system. Its citizens have already produced a society in which individuals are not automatically following the marital and child-bearing patterns of their forebears. To some, that may indicate younger Japanese are “opting out” of society by avoiding meaningful work and raising families. This is an argument that should not be discounted, though it is just one part of a larger picture. Other observers worry that the problems Japan faces will result in the country reducing its global role, having less international influence, and becoming a less reliable ally of the United States. As with their adaptation to domestic changes, however, the Japanese of 2020 may be completely comfortable with their nation playing an important, yet relatively smaller, global economic and political role, as long as they have jobs, income stability, and some growth. They may also be comfortable with the costs of a shrinking population and permanently smaller families, though hard choices will have to be made about entitlements, national defense, and economic activity.

Quality versus Quantity

If one is skeptical that the public will embrace such reduced expectations, then consider that few Japanese today talk about their country being a great power in the way they did throughout the 1980s. The national accommodation to new conditions has already taken place with

minimum disruption. Japanese citizens today recognize that Japan will not be the leading power in the world, but they are also comfortable with an international role that is in certain ways more active than during the bubble years of the 1980s.

Criticisms of Japan turning inward and becoming more parochial have salience, depending on which factors are being measured. By most yardsticks, Japan still plays a significant role in global affairs through its foreign aid programs, participation in international organizations, and security cooperation with the United States. Furthermore, Japan will continue to play an important role in maintaining stability in the Asia-Pacific region and be a primary forward base for U.S. forces. Its highly capable Self-Defense Forces will maintain a role in overall planning for operations ranging from humanitarian relief to defending the freedom of the seas. Japanese intellectuals often talk about contributing to transnational issues like global health or climate change, and they believe that Japan’s experience, technology, and policies provide an example for other nations to follow.

Given the size of Japan’s economy, as well as the benefits it gains from the international trading system, many analysts inside Japan and out (including the author) applaud its decision to expand its global role gradually and hope for continued and intensified activity along these lines. In today’s interdependent world, it is impossible for any major state to isolate itself, and fears of Japan turning inward are overblown. However, given its declining population, continued political uncertainties, and economic stresses, Japan will likely reassess which international activities are most beneficial to its national interests. It will be the job of U.S. policymakers to maintain the U.S.-Japanese relationship as a core of Washington’s Asian strategy in light of Tokyo’s policy choices.

Throughout their history, the Japanese have responded to domestic and international conditions with pragmatic and sometimes far-reaching policies. They have transformed their society numerous times and often moved far beyond the hesitant policies of neighbors large and small. While history provides no assurance of a similar response to the changes sweeping Japan today, it is difficult to conceive of a global future in which Japan fails to play an important (if not dominant) role or to predict a domestic future in which its political and economic systems continue to fail to answer the needs and desires of the Japanese people.

Japan’s future matters deeply to Asia, as well as other parts of the globe. Thus, political, social, and economic

analysts need to continue to pay attention to the ways in which Japan's leaders and citizens are (successfully or unsuccessfully) responding to the challenges their country faces. Democracies throughout Asia will automatically look to some degree to the path chosen by the region's oldest representative system, even if they do not pattern their own electoral mechanisms after it. Businesses throughout the world will continue to study the successes of Japan's global export companies, while educators in the Asia-Pacific region will remain interested in how Japan continues to provide high-quality education for its citizens. In short, the choices made by Japan, both to pull itself out of the current economic slump as well as to deal with the deeper changes in its society, will reverberate throughout Asia and help determine the future of the most dynamic region on earth.

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