

Challenges Facing Japanese Soft Power

Its Value Added Needs Proper Evaluation

By Yasuyuki KOMAKI

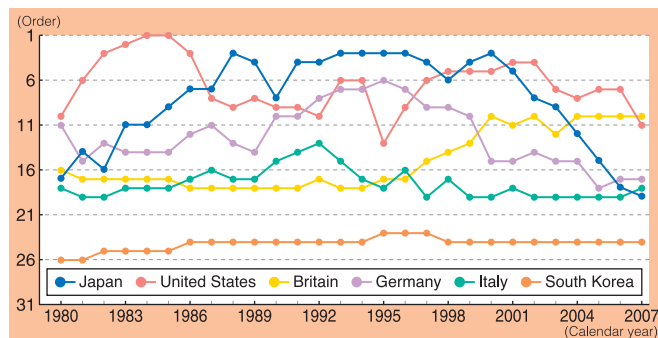
The Japanese economy has remained stuck in a state of stagnation since the collapse of the asset-inflated bubble economy in the 1990s. Moreover, Japan's presence on the international scene has weakened due to the remarkable rise of emerging economies such as China and India. Under these circumstances, a deep sense of frustration pervades Japanese society as a whole. Particularly, Japan's income level has dropped in recent years. In terms of gross domestic product (GDP) per capita, Japan has plummeted in the rankings of member nations of the Organization for Economic Cooperation and Development (OECD) since 2000 (Chart 1). Therefore, the Japanese economy is now faced with the crucial need not only to improve its international competitiveness, but also to expand domestic demand and boost economic growth.

It is against such a background that the soft power sector is currently attracting keen attention in Japan. This essay is intended to focus the spotlight on the present state of and challenges faced by those industries which are hopefully expected to generate soft power in Japan.

Soft Power & Industry

Harvard University Professor Joseph S. Nye, the first-ever proponent of the concept of soft power, explains that soft power is "the ability to get what you want through attraction rather than coercion." It is the ability to win over other countries without using coercive force. That is, it is the ability to have other countries understand and sympathize with the culture, sense of value and policies of one's own country without recourse to "hard power" – coercive economic and military power – and thereby win the trust and support of the international community. Industrial sectors related to the creation of values peculiar to Japan – such as content (including animations, cinema, music, computer games and books), fashion design and cuisine – which generate soft power may well be defined as soft power industries (Final Report, Study Panel on Global Content Strategy, 2007).

CHART 1
Trends of nominal GDP per capita



Note: OECD Annual National Accounts Database for figures of countries other than Japan; estimates of Economic & Social Research Institute, Cabinet Office, for Japan's figures
Sources: "Annual Report on System of National Accounts (SNA)," Economic & Social Research Institute, Cabinet Office, Japanese government

Macroeconomic Effects of Soft Power Industries

Let us take a look at the weight of soft power industries in the Japanese economy. The content industry, which forms the core of the soft power sector, boasts a market scale of 14.1 trillion yen (2.8% of nominal GDP in 2008), which makes it comparable to the steel industry (18 trillion yen) and the electronic parts/device industry (19 trillion yen), both leading sectors of Japanese industry. The economic spillover effects of the content industry on non-content industries are estimated at 10.5 trillion yen, based on the input-output table (Table 1), bringing the overall economic impact of the content industry to a whopping 24.5 trillion yen or as much as about 5% of GDP.

Moreover, the trends of Japan's exports (88 trillion yen in 2008) and the inflow of foreign tourists and students will conceivably be influenced by soft power industries, assuming that the effects of soft power are brought into full play to arouse a keen desire to buy made-in-Japan goods among overseas consumers who, attracted to Japan's soft power sector, including the content industry, have become Japanophiles. There is thus a great possibility that soft power will rouse Japan's domestic demand. Accordingly, relevant measures are being studied by an expert group on content and Japanese brands of the government's Intellectual Property Strategy Headquarters and elsewhere as part of economic policy.

Nevertheless, Japan's soft power industries, impacted by the stagnation of the Japanese economy, have also remained sluggish in recent years (the annual growth rate of the content industry as a whole was minus 0.4% in 2007 and minus 0.8% in 2008). Moreover, from a viewpoint of maximizing the effects of soft power, the degree of reliance on the overseas market becomes an important factor. This degree of overseas reliance may be regarded as a proxy variable of the extent to which goods and services, exported from Japan, are accepted by other countries. However, Japan's reliance degree stands at only 1.9% or far smaller than 17.8% of the United States. It may thus be presumed that the effects of soft power have yet to be fully demonstrated.

Structure of Soft Power Industries

In many cases, Japan's soft power industries have a pyramid-type tiered structure, with major firms at the top, followed downward by numerous mid-size and small subcontracting firms. In the case of the animation industry, for instance, as much as about 70% of the firms involved are subcontractors working for principal contractors within the framework of limited production budgets, according to a 2009 report by the Fair Trade Commission. Small-scale firms employing fewer than 10 workers are considered to form the bottom of this tiered scale. Upper-ranked firms' superior position is thus firmly established between major firms and their principal contractors, and between principal contractors and subcontractors. This

has given rise to diverse problems, including the question of copyright ownership, low wages for subcontractors' employees and a shortage of talented personnel. In almost all cases, it is said, copyright does not belong to production firms.

According to a survey by the Japan Animation Creators Association (JAniCA), the average annual income (including income from sources other than animation) is about 1,050,000 yen for animators, about 2,320,000 yen for original picture artists, about 3,330,000 yen for producers and about 4,950,000 yen for directors. By age, the annual income averages about 1,100,000 yen for 20- to 29-year-olds, about 2,130,000 yen for 30- to 39-year-olds and about 4 million yen for 40- to 69-year-olds. This shows wide gaps from the all-industry national average of about 2,450,000 yen for 20- to 24-year-old males, about 2,280,000 yen for 20- to 24-year-old females, about 3,430,000 yen for 30- to 34-year-old males and about 2,760,000 yen for 30- to 34-year-old females (*Basic Survey on Wage Structure*, Ministry of Health, Labor and Welfare, 2008). Such low wages have brought about a shortage of able personnel and the inadequacy of nurturing talent, making it impossible to anticipate creative work. As a consequence, "offshoring" – entrusting work to overseas productions – has increased in some sectors.

Soft Power Sector's Value Added Given Improper Rating

Then, how efficient is the soft power sector as an industry? Evidently, Japan's productivity (labor productivity) has remained low compared with that of the United States. Given the standard of 100 for that country, Japan's productivity was only 39 for the information service industry on the 1995-2005 average, far lower than 132 for the automobile industry (*Table 2*). However, this trend is witnessed not only in soft power industries, but also in service industries as a whole. In recent years, moreover, the growth of productivity has slowed down, with a decline of about 6 percentage points in 2004

compared with 2000, attesting to the deterioration of the industrial structure (*Chart 2*).

Nonetheless, the low productivity does not necessarily indicate the inefficiency of Japan's soft power industries. Labor productivity indicates the ratio of real output value to the number of workers and means the per capita value added of workers. However, is the value added of soft power industries (especially regarding product quality) evaluated properly? Although this applies to service industries as a whole, I think that the evaluation of created value added – namely, the determination of product/service prices – is not proper more often than not. This is considered ascribable to the impact of the aforementioned pyramid-type industrial structure.

In many cases, product/service prices of soft power-related industries are limited to low levels (also spelling the low levels of workers' wages). The reason is considered to be that evaluation standards have yet to be established regarding service quality. For instance, when viewed from an angle of the entire economy per se, production activities in the service sector also have the implications of devoted service to society and entertainment of guests. It is thus suspected that such activities are regarded as something that need not be taken up as value added. In particular, it appears, the recipients of services tend to have such expectations.

The value of service is proportional to the amount of the customer's opportunity cost (how much of the time and expense that would have been required of the customer in the absence of the service in question has been eliminated by the service received). But the value of service is mostly evaluated in terms of prices based on the actual man-days and cost of production. This makes it impossible to earn enough profit to match the value added and undertake corporate management in such a way as to improve the earnings environment. It is thus considered that the created value of soft power industries is not sufficiently evaluated, which leads to the underestimation of the real output value. As a result, the productivity of soft power industries is calculated to be at a low level.

TABLE 1

Economic ripple effects of content industry on other industries

(in 100 million yen)

	Component ratio	Direct effects	Indirect effects			Ripple effects	Soft power effects
			Industry	Coefficient	Value		
Video	34.2	48,080					
Cinema production/distribution		1,523	Video software	1.83	39,906	87,986	
TV program production/distribution		2,016	Broadcast program production	1.77	1,180	2,703	
Video (DVD) production/sales		2,029	Retailing	1.66	1,337	3,353	
Animations		1,269	Video software	1.46	928	2,957	
Music & audio	12.9	18,130					
Music software production		1,751	Software (for PC)	1.77	983	2,253	
Music distribution sales		342	Information supply service	1.71	12,872	31,002	
Games	9.1	12,857					
Game software		5,999	Game software	1.69	1,208	2,959	
Books, newspapers, images, text	43.8	61,642					
Book sales		3,886	Publishing	1.73	251	593	
Magazine sales		3,353	Publishing	1.54	6,943	19,800	
Internet advertisement		1,642	Advertisement	1.58	3,461	9,460	
Total	100.0	140,709			104,104	244,813	?

Note: The sums of industry-by-industry inverse coefficients, given in the industrial sector of "2001 Data Related to Information & Communications Industries," Ministry of Internal Affairs & Communications are used to calculate ripple effects. However, coefficients in the report of the Digital Content Association of Japan (p. 63) are used regarding video, music, games, and books/newspapers/images/text.

Sources: "2001 Data Related to Information & Communications Industries," Ministry of Internal Affairs & Communications; "Survey of Selected Service Industries," Ministry of Economy, Trade & Industry; "Survey & Research Report on Scale of Digital Content Market & Structural Change in Content Industry," Digital Content Association of Japan

TABLE 2

Relative productivity of selected industries in Japan & Britain

(based on US standard of 100)

	Japan		United States		Britain	
	1980-1995	1995-2005	1980-1995	1995-2005	1980-1995	1995-2005
Information service	52	39	100	100	86	59
Amusement	110	89	100	100	80	88
Other services	57	60	100	100	50	40
Legal/technical/advertisement	59	87	100	100	49	64
Dining/lodging	42	45	100	100	73	74
Telecommunications	41	74	100	100	54	109
Manufacturing	54	53	100	100	64	55
Automobile sales	197	132	100	100	108	110

Source: EU KLEMS, March 2008

For Sustained Development of Soft Power Industries

(1) Overseas Activities

Stimulated by generally successful government measures abroad to assist soft power-related industries, Japan is now devoting full energies to supporting its own soft power sector. Needless to say, because the understanding of soft power itself in Japan has so far left much to be desired, soft power industries have been accorded rather low evaluation, and little has been done to maintain and enhance the overall sense of value regarding soft power industries. Therefore, the ongoing efforts to introduce Japanese culture to other countries deserve full support.

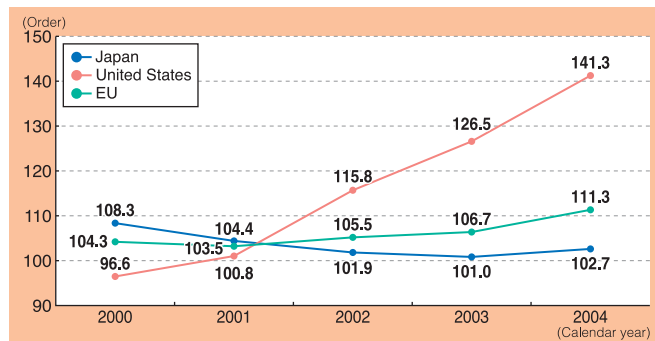
For instance, if the efficacy of transmitting information via Internet is considered, what needs to be done with great vigor is to fully amplify the spread of information by such means as websites. The Agency for Cultural Affairs opened the portal site "Japanese Culture and Art Online" with a directory of Japanese culture and art websites on a test basis in 2009. If this is intended as a source of international transmission of information, the current use of only the Japanese and English languages for this site cannot be deemed sufficient. It is considered essential to also set up other foreign-language versions, not only in French – used as the official language of international organizations – but also in such Asian languages as Chinese and Korean if the portal site is also intended to send out soft power information to Asia, which is bound to assume immense importance in the future.

It is also considered important to acquire lovers of things Japanese. For instance, there is a great possibility that foreigners living and studying in Japan will become Japanophiles upon returning to their homelands. Therefore how best to increase such foreign students constitutes a key policy issue. However, the ratio of foreigners to the student enrollment of higher educational institutions is low at about 3% (actual number: 110,000) in Japan as against 6.5% (586,000, as of 2002) in the United States and 18.5% (243,000, as of 2001) in Britain. It is also essential to provide policy support to the promotion of foreign enrollment at Japanese schools.

Nevertheless, what is needed is not government support simply to gain an ascendancy over other countries. Even if Japan lags behind in this respect, this is not the kind of matter that should be regretted. Essentially, soft power is the ability to captivate other people, according to its definition. That is, what is important is that Japanese creations are attractive enough to non-Japanese. Accordingly, top priority should be given to steady efforts to support soft power industries in Japan.

CHART 2

Internationally compared productivity of information service industries



Source: EU KLEMS, 2008

(2) Sustained Fostering of Able Personnel

Although the importance of soft power industries is gaining widespread recognition, we find out afresh the scarcity of relevant information, such as accurate statistics, when we try to analyze the current situation in soft power industries. Of course, the fact that those industries comprise only small- and medium-sized enterprises makes it difficult to set up an adequate statistical system. However, the confirmation of actual conditions is the starting point for the proper settlement of the problems involved. Based on such accurate information, the establishment of policy infrastructure, including copyright and other practical legal systems and an improved environment for fostering talent, may well be termed a task of prime importance, especially for industries in an incipient stage.

To cite as an example the content industry such as animations and cinema, superbly talented creators can be turned out in succession by enhancing young creators' abilities, supporting their production process and properly evaluating their final creations. In fact, the high quality of Japanese animations, including stories and depiction, is creating such great value that they are regarded as typical content and, as such, described as "Cool Japan," according to the Study Panel on Global Content Strategy report cited before.

However, as pointed out by this report as well, the Japanese animation industry is now confronted with a serious problem in the supply of talent as instanced by the overseas outflow of excellent producers and creators at a time when the growth of the pie in the domestic sector as a whole tends to stagnate. As noted by the aforementioned Fair Trade Commission report, the reason is that creators are forced to work within the framework of limited production budgets. As a result, animation creators' wages are very low compared with those of other workers of the same generation. It is not hard to imagine how difficult it is to engage in sustained creative work under such circumstances.

Japan's soft power industries boast great potential. Therefore, it is considered important to generate a common perception between producers and consumers that will enable the proper evaluation of product value – namely, "value-based pricing." Once a well dries up, we cannot expect to see affluent water gush out again in a short time.

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