

A New Agenda: Might Japan Matter Again?

Can Japan Once Again Claim Relevance in the World?

By Michael ZIELENZIGER

This is the most daunting challenge that faces a new, untested party and its leader, Prime Minister Yukio Hatoyama, as Japan enters a new decade confronting economic and diplomatic challenges the nation has often been painfully reluctant to debate in the open.

Hatoyama and his fractious Democratic Party of Japan (DPJ) must lead a national dialogue that deliberately broaches provocative questions: Does Japan want to remain a sheltered and isolated island, a nation that keeps at bay the sweeping forces of globalization? Does it seek, instead, to become more fully integrated into global trends, even as it tries to protect its unique cultural legacy? Should it protect the weak and uncompetitive or hasten the sort of “creative destruction” propelled by market fundamentals that might allow a new sort of Japan to flourish outside the mandate of a powerful government, even if it means the death of an old order?

Unable for years to address or resolve these questions, a Japan that once seemed destined to become the world's economic leader has languished. New leadership must help the nation sort out for itself what sort of Japan it wants to become, an overdue debate that would embolden democracy as well as individual initiative.

It is high time for such a candid conversation with Japan. After all, the fall of 2009 did not just mark the 20th anniversary of the collapse of the Berlin Wall, signifying the end of Communism as a force in Eastern Europe, and of the Tiananmen massacre in China, which demonstrated the resolve of the Chinese Communist Party to resist any attempts to “destabilize” the country through democratic action.

Less widely noted, 2009 also marked the 20th anniversary of Japan's sudden economic meltdown, which came after the Bank of Japan raised interest rates, squeezed credit, and triggered a sudden

reversal of Japan's frothy equity and property markets.

The bursting of the infamous bubble signified the demise of a big government – a big business system that rejuvenated a war-ravaged Japan and propelled it to a short period of global economic leadership. However, this system strengthened large corporate institutions to the detriment of individual initiative. It starved the nation of entrepreneurship. And it penalized individual initiative for collective security. Such a system worked well in the era of mass industrialization, but functions far less effectively in a 21st century powered by global supply chains, instant global communications and the transparency of the Internet.

A System in Need of Transformation

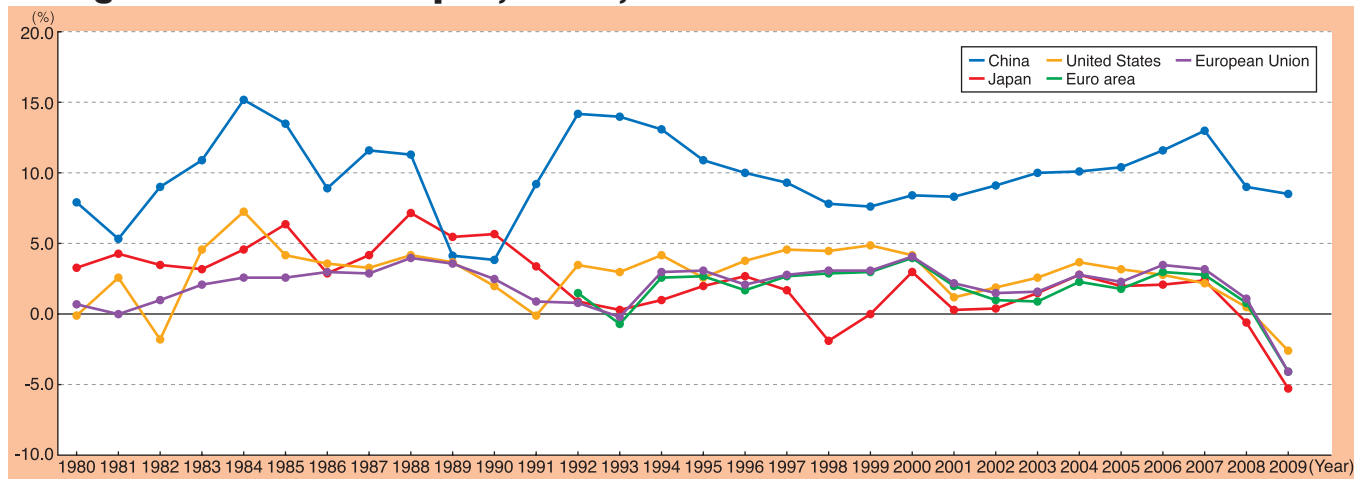
Today, fully two decades later, Japan is still seeking to reinvigorate and transform a system that no longer delivers the rewards or meets the expectation for prosperity its people had long grown accustomed to.

Twenty years after the fall, look at how rapidly other regions of the world have changed. A new European Union has created a single currency, and linked France, Germany, Spain and Italy to the smaller players of the region. Travel and trade restrictions among member nations have almost completely disappeared, rewriting the rules of commerce and culture on the Continent. Brussels has emerged as a major center of bureaucratic action, and Europe, as a unified entity, has become a strong diplomatic actor in the Middle East and Africa.

In China, the economic takeoff has defied gravity. The “opening up” of market forces has allowed China to overtake Japan as the eco-

CHART

GDP growth trends in Japan, China, United States & EU



Source: World Economic Outlook Database, October 2009, International Monetary Fund

conomic locomotive of Asia. Its trade surpluses will soon overtake those of Japan, as have its foreign currency reserves, and its new wealth is allowing China to buy up both natural resources and former market rivals across the world. Moreover, the impressive pace of its diplomatic “learning curve” has turned Beijing into a serious player on issues ranging from global climate change to the question of whether Iran can be forced to abandon its effort to develop nuclear weapons. In Washington today, serious hours of planning and conversation are devoted to developing a better partnership with China.

And what of Japan? In 20 years, Japan’s population has shrunk along with its self-confidence. Its economic output has not kept pace with its chief rivals. The nation’s ability to create sustainable growth has been tested by long bouts of deflation, a zero interest rate policy that kept moribund firms from being forced from business, and growing joblessness among the nation’s younger generations now that the lifetime employment system has lost traction and companies are loathe to invest in overpriced Japanese manpower. Much of what Japanese used to think only it could produce has been rapidly “outsourced” to lower-wage, more competitive countries. Even in such mainstream items like automobiles, semiconductors and home electronics, Japanese firms are being pushed aside by South Korean or Chinese rivals.

Yet, remarkably, the Japanese people have for years failed to demand better. The same government, managed by the same ruling clique of the Liberal Democratic Party (LDP), ran the country throughout the enervating and unending economic slump. While the rest of the world dashed forward, Japan seemed to stand still – until last September, when a new party and a new prime minister were finally handed the reins of power.

Is Japan Ready for Reform?

Is Japan now, finally, “ready for reform” under Hatoyama? And what should that reform look like?

First, Japan needs to establish a sense of urgency about its current situation. Japan no longer boasts an outsized savings rate and room for more deficit spending. The nation’s debt ratio is soaring, and the aging of the population and the rise of unemployment mean many more Japanese are spending away their savings. Yet without government stimulus, and a weaker yen, there is little hope of growing domestic demand.

Moreover, the subprime credit debacle of 2007-2008 – which deeply wounded Japan’s exporters, even though almost no Japanese banks were caught up in the credit derivative swap imbroglio – clearly showed a nation too dependent on exports as an economic balm. Japan must find ways to spark domestic consumption and innovation, without resorting to the public works boondoggles that routinely characterized LDP fiscal stimulus.

So the first plank for economic reform must involve massive deregulation of the land and housing markets. Imagine if land in Japan could be more liquid, more easily bought and sold at readily discoverable market prices? If a mechanism existed so that the hun-

dreds of dormant, decrepit warehouses along Tokyo and Osaka bays could be turned into large and fashionable apartment blocs in which young city workers could raise their children?

Now that land prices have fallen to more reasonable levels, a massive revolution in the land tax and transfer system, along with incentives for new residential construction, would allow Japanese to gain larger and better-built housing and help stoke domestic demand for electronic and consumer goods to fill those new residences.

The Young & the Old

Another major reform must be undertaken in education. Most Japanese now recognize that a system built around rote memorization and rigid testing is not creating the imaginative, questioning, flexible workforce the 21st century demands.

The new administration talks about decentralizing government. It should start first by blowing up the Education Ministry. Throw out most of the entrance exam system that rigidly determines which students are accepted in the nation’s best universities. Allow students – even in junior high school – to gain proficiency in the subjects they most enjoy, whether it be mathematics or history or drawing and art. Let young people become deeply engaged in the subjects that attract their imagination because it is from those seeds that great ideas, great corporations and reinvention will grow.

The role of women in Japanese society must also be revolutionized, or else the “womb strike” that has caused the collapse of the nation’s birthrate cannot be overcome. The Hatoyama government has properly called for ending the system by which couples who marry must share only one family name. This may help spur a higher rate of marriage, which in turn could lead to more children. But unless women are effectively guaranteed the right to return to work after maternity leave without penalty, and can be assured they can still have the same career trajectory within the firm as their male colleagues, more and more educated and sophisticated women will prefer life as so-called “parasite singles” who spurn family formation for career advancement and an independent life free of the burden of child-rearing. Just establishing more child care facilities will not on its own reverse the declining birthrate.

While revolutionizing life for the young, the new government should also develop economic opportunity in transforming care for a society that is rapidly aging. Though much of the nation’s wealth is now held by those aged 70 and over, few within this demographic feel confident that they will be well-attended as they age. Fewer children want to be saddled with nursing responsibilities for aging parents.

Despite this, the government and private nursing groups have so far failed to form innovative new partnerships that would build new community-based retirement facilities, or cooperative housing and care options to create social engagement, offer meals and provide top-flight professional care for aging adults. Such facilities would create thousands of skilled and sorely needed jobs in remote regions of the country where the elderly have been “left behind” and where younger Japanese are so desperately seeking work.



Now that a maverick, Naoto Kan, will oversee the powerful Finance Ministry, the new government must create tax incentives for job creation and risk capital for corporate formation. Japan's environment for entrepreneurship has remained weak for years, in large part because it remains so difficult for young dreamers with good ideas to find backing for their projects. Risk-takers need to be rewarded, or the nation will become stagnant. And government funds could help even small companies with innovative products, in areas like fashion, computer games and industrial manufacture, to find greater access to foreign markets and international customers.

More Independent Abroad?

The challenges in foreign policy are equally intimidating. After years of quietly deferring to American judgments on the critical question of defense and national security, the Hatoyama government suggests it wants to be more independent.

But the Japanese people have yet to engage themselves in a deeply serious and thoughtful conversation to ascertain the kind of nation they seek to become in the 21st century. Does Japan sincerely trust the intentions of China, and is it eager to create a deeper alliance with Beijing? Is it ready to teach its children more fully the history of its war in the Pacific and modify its immigration policies? Ready to create energetic zones of free trade and mutual defense compacts with its Southeast Asian neighbors? Does becoming a "normal nation," as DPJ kingmaker Ichiro Ozawa uses the phrase, mean the Democrats want to modify the postwar constitution to rein-vigorate Japan's own military infrastructure and capabilities to project greater power across the Pacific?

Or does Japan sincerely believe that the US-Japan defense alliance, the cornerstone for a peaceful region over the last half cen-

tury, remains its best strategic tool for the foreseeable future? I have little doubt that most Japanese citizens believe their best interests were not served by being enablers and supporters of the US invasion of Iraq, even after the United Nations refused to sanction the conflict. (Many Americans share these misgivings.) But without the defense umbrella held up by American naval vessels and fighter jets, there is little Japan's Self Defense Forces could do to stave off North Korean nuclear missiles or a provocative attack by China.

These serious questions have been obscured by the political debate over the Futenma airbase on Okinawa – a debate that has been left to fester, unresolved, since then President Bill Clinton and then Prime Minister Ryutaro Hashimoto signed off on its relocation to a more isolated part of the island in 1996. It should not be surprising that the Americans are frustrated that 14 years later, the realignment of the US Forces in Japan remains only a "work in progress," that the new DPJ government now wants to abrogate an old commitment, and that the long history of mistrust between Tokyo and Naha, the island prefecture's capital – which is at the root of this contro-

versy – has never been ironed out.

The lack of resolution over Futenma demonstrates, once again, the lack of candor and leadership among the nation's political elite. Japan seems to want the benefits of robust defense against a potential foreign attack without having to bear any of the costs. They want US planes to defend Japan's liberty, as long as Japanese citizens never have to see American soldiers. That is not a credible, or realistic, solution.

A New Conversation

Created as a jumbled alternative to the LDP's "status quo" and political failings, the new ruling party must face up to its own, internal contradictions as well. Part of its leadership wants to be financially prudent; others want to bust the budget to create jobs. Some want to "cut loose" from Washington and grow the nation's Self Defense Forces. Others are doves happy to shelter themselves in Washington's suffocating embrace.

To finally take important steps towards becoming a "normal nation," the new DPJ government has to become more straightforward with itself as well as with its constituents, the Japanese people. No longer should the DPJ think of the electorate as subjects, but as citizens who are capable of debating and clearly delineating the ideological issues of the day.

In 2010, Japan is in need of a frank conversation with itself. And the impetus for that conversation needs to start at the top. **JS**

Michael Zielenziger is visiting scholar, University of California, Berkeley. Author of "Shutting Out the Sun: How Japan Created Its Own Lost Generation," he is former Tokyo bureau chief for Knight Ridder Newspapers and winner of the Abe Fellowship.