

Has Japan Had Its Day?

By Prabhu Gupta

Every country which has ever risen to greatness has eventually fallen. Babylon, Persia, Egypt, Greece, Rome and Britain all have the same story. We live in a period of history when the U.S. has been ascendant, but overtaken by Japan in 1993 as the world's largest manufacturer in financial terms (though not yet as the world's largest economy). However, American dominance has been gradually declining over the last decade or more and Japan observers are asking, after Japan's momentous rise since the end of WWII, has Japan's rise peaked? Is Japan now headed downward as well?

The eighties "bubble" has burst. Domestic demand has not recovered in spite of three governmental programs "to get things going," and the apparent "hollowing out" of the Japanese economy due to cheaper manufacturing costs abroad continues.

But to accept such apparent, almost intentional, facts is to be totally taken in by appearances. The fact is that the "bursting of the bubble" was actually

stage-managed by Japan's Ministry of Finance. The government programs to "get the economy moving" are the sort of impression-management in which every present-day government indulges in, and the apparent "hollowing out" of the Japanese economy is more for looks than real. Japanese investment abroad is clearly secondary to the continuing achievement of full domestic employment (or as close to that as possible), on the basis of lifetime employment, at least in the larger companies.

Japan misunderstood

Japan, with its usual modesty and tendency of extreme self-criticism, certainly does not focus on its strengths while it does publicly decry its own weaknesses. The Japanese have in fact been accused of pantomiming "exaggerated anxiety" because they have found it a "good strategy" simultaneously "to spur Japanese workers to ever greater efforts" and to "foster complacency among foreign rivals." I remain unconvinced that it is correct to describe it as

a strategy; it is simply part of the culture to focus on whatever is wrong, or whatever may conceivably go wrong, and to worry about that. As a consequence, Japan tends to understate the profitability of its corporations, the productivity of its workers, the living standards of its consumers and the strength of its financial system.

Another thing to consider is that most Westerners do not understand the difference between *tatema* and *honne* (what is said in public or for appearances, as distinct from what one really believes). Even when explained to them, Westerners find this difficult to understand. Accepting this distinction seems to them too much like institutionalized hypocrisy. The result has been a systematic underestimation of Japan. Most Western observers, particularly American, gleefully seize on almost any evidence, however threadbare, that "proves" Japan's decline. The Western press, now mostly owned by people who wish to impose "pure capitalism", generally takes the self-deprecatory comments of Japanese leaders at face value.

Only a few Western observers of Japan see that reports of Japan's imminent demise are greatly exaggerated. The view that Japan's rise is unstoppable has probably been best put recently by Eamonn Fingleton in his book *Blindside* (Simon & Schuster, UK, 1995). He argues that Japan's tradition of regulated trade has a track record of over some 140 years, creating new types of knowledge-required jobs—which is unmatched in history—and would be particularly hard to match in individualistic cultures such as the UK and the U.S.

Why do some people think that Japan's economic fortune has reached its apex? Their argument is that Japan has managed mass manufacturing very well, and that the very qualities which make that possible militate against the next step in the worldwide economic



A row of banks. During the "bubble" period interest rates soared.

transition—to an information-based economy. But why ever should it be doubted that Japan can make the transition? It has been argued that mass manufacturing requires a conformist culture, which Japan is, whereas the information-oriented future depends on creativity, imagination and dissent, which Japan is said not to have.

There is some evidence that Japan is not totally lacking in creativity and imagination. Japan overtook the USA over a decade ago in the number of patents filed, and Japan's economic success has been based on consistent organizational and social creativity for a century and a half. Besides, nowadays no country or company needs to have creativity or imagination—if it has the money, it can buy more than enough creativity and imagination from the world market.

Moreover, their argument is only a variation of the argument that has been heard since the sixties, that Japan may have a competitive advantage as a producer of cheap and entertaining products, but it has no capacity for quality. In the seventies, when quality had manifested itself, these critics then said that Japan might well be able to produce "copycat" quality, but did it have a capacity for technical and product innovation? Now that Japan has been producing technical and product innovations for a convincing period of time, these doomsayers have switched their argument to Japan's supposed inability to compete in information technology. There is not much one can do for people who refuse to see.

So what has been responsible for Japan's economic success since the end of WWII? Many factors have contributed. Prime among them must be the overwhelming desire to "catch up" with the rest of the world and, consequently, the willingness to make enormous sacrifices in terms of enforced savings and limited consumption. No doubt incidents in history, such as the timing of the Korean War (when Japan became the production center for the entire war



What future is in store for Japan?

effort), played their part. No doubt the craftiness and determination of the Japanese bureaucrats who were assigned to help General MacArthur also helped lay the foundations for the rise of Japan.

But all that is history. What of the future? With half of America's population, Japan now has fully three-fourths that of America's manufacturing workforce. Japanese corporations invest two to three times as much into each worker as their American counterpart, so it is hardly surprising that Japan has surpassed America in manufacturing output. Not only has Japan become self-sufficient in most manufactured goods, it has also established global monopolies in a rapidly expanding range of vital products. With the possible exception of the aerospace industry, which has not yet been fully developed in Japan, there is not a single sophisticated industry in which Japan does not have a lead in at least the crucial components.

Though Japan has only one fifth of all the world's scientists and engineers, the way it organizes its research and development will enable it to harvest a disproportionately large share of all the world's future technological breakthroughs. Japan systematically minimizes research overlaps, and focuses research budgets almost entirely on creating new products and production technologies, while the West spends heavily on fundamental research. According to Fingleton, 30% of all the world's economically significant research is being

done in Japan and corporate Japan has established 150 research and development (R&D) facilities in the USA alone. In the EU, Japan has 192 R&D facilities. Even if Western companies were to develop breakthrough technologies, Japan has repeatedly demonstrated that it has mastered the exploitation of new manufacturing technologies by having business systems which ensure that they can move rapidly to global leadership in almost any area.

Future of continued growth

So, to continue growing, Japan needs only three things; new technologies, capital and access to world markets. In each of these, Japan has a staggeringly large lead. Japan is inventing new technologies at a rate never before seen in history. The Japanese now hold 56% of the world's savings and their access to world markets, thanks to GATT and the WTO, is as secure as it has ever been.

What, then, might cause Japan to falter? The older generation of Japanese was prepared to sacrifice their personal well-being and indeed their identity for the good of their families, companies and country. But post-WWII generations have known only success and wealth. Will they be willing to continue paying the price for success when it has already been achieved?

And what of non-financial and non-economic factors? The new Japan wants a clean government and a life worth living. Most Japanese workers and even company directors feel quite miserable, because old-fashioned militarism and new-fangled democratic ideas co-exist in their minds and lives. It is uncertain if the present arrangements in politics, bureaucracy and business can deliver anything like the quality of life which ordinary people seek. Older Japanese generally regard their country as nothing less than an earthly paradise, but the younger generation often regards Japan as a gilded cage. Japan may be set on course to become the world's largest economy by the year 2000, but it has huge cultural and lifestyle questions to resolve.

Groupism vs. individualism

The key questions for Japan's future

are not only economic, but social too. So far, the country's cohesiveness and progress has depended on a modified Confucian "groupism" where the needs of the group take precedence over the needs of the individual. But groupism, like tribalism, has the disadvantage that it squeezes individual rights. The driving necessity for groupism has now gone, and the social institutions which reinforce groupism are weakening, so there could be an explosion of individualism, such as the West saw after the Second World War.

The balance between extreme individualism and extreme groupism can be, as proven in the West, provided by what has come to be called "civil society" that is, free individuals voluntarily accepting group responsibility in small-scale, local and regional associations. There are only two foundations for individual freedom in a modernizing society—the Judeo-Christian tradition and unfettered individualism. In the West, the creation of civil society has been the result of the influence of the Bible; unhampered individualism provides no compelling motivation for the creation of civil society. Traditional societies can preserve social cohesion only as long as they remain unreformed and unmodernized. In modernizing non-Western societies, a certain proportion of the middle classes have imitatively supported the work of individual organizations (e.g., Rotary and Lions Clubs), but this has not happened in numbers sufficient enough to create civil societies. This should not surprise us. There is in fact no compelling motivation for the creation of civil society outside of the Biblical tradition. With the decline of Biblical influence on the West has come the decline of civil society. It remains to be seen whether the recent resurgence of Biblical influence in the West will be sufficiently widespread to result in a revitalization of civil society.

There is one other contribution which the Bible has made for the potential self-renewal and rise of the West. The Bible insists on the need to make up one's own mind, and to not only speak the truth as one sees it, but to speak it with love (rather than in arrogance or

contempt), and yet, be willing to submit to authority. This is what created the balance between being willing to speak the truth, however unpalatable, to people in power while equally willing to live under their authority. One has to oppose injustice, to fight for human rights, but to do it with love, and to be willing to take the consequences in personal loss and even physical hurt and death; blow the whistle on wrong because you love the wrong-doer, and to believe that loyalty means not pandering to the basic aspects of those you follow, but to challenge them to reach for the highest moral stature they can. These were the revolutionary, yet balanced, values which eliminated the need for civil war and revolution in modernizing societies such as the UK, Germany, Switzerland, and the Nordic countries, nations which were heavily influenced by the Bible.

Truth-telling in Japan is still regarded as fit only for *ao nisai*—children and other immature people. *Otona*—adults—are expected to be *wake ga wakaru hito* (reasonable people, people with understanding). What does that involve? Doing whatever is necessary to make the most profit for companies, and to fulfill the desires of your boss or bosses, which includes telling lies and covering up for them. Heroes in Japanese tradition are beyond the law, existing only for the benefit of ordinary people.

No wonder we discover major scandals in corporate and political life from time to time. It is routine for political and corporate heroes to make admirable pronouncements on morality, ethics and management philosophy and at the same time demonstrate their own freedom from the principles they have enunciated. Being high priests of a god which is the company, they are of course not required to practice any of their principles, though they may want their subordinates to practice their precepts—except of course where their subordinates need to violate them in order to protect their company lords. The greatness of the West, conversely, was built on the Biblical concept of the Rule of Law. Not only were kings,

nobles and heroes subject to the same laws as ordinary people, they had to pay larger penalties if they broke it.

Ultimately, economics alone provides an inadequate framework for building a whole society, as former state capitalist societies are discovering. And today, of course, the question is wider than that of building a society; it is that of rebuilding the world in such a way as to have sustainable growth. Unfettered capitalism will undoubtedly, sooner or later, destroy the world. It is uncertain whether the world has the political will, the social organization and the personal commitment required to rebuild on a sounder basis than is provided by old-fashioned capitalism. Japan has led the way in demonstrating the inadequacies of "pure capitalism" with its new style of social capitalism or corporatism or whatever name observers and scholars wish to give it. But Japan can help us to rediscover that relationships are more important than money (as pointed out by World Bank economist Michael Schluter in his excellent little book, *The R Factor* (Hodder, UK, 1994). Japan can help us rediscover that usury is the root of economic problems in the modern world and that the difference between disaster and outstanding success lies not in so-called objective circumstances but in the choices which each individual makes.

Japan, I have no doubt, will continue to drive forward in the foreseeable future. But will Japan discover a larger role for itself in the world and so drive itself and the world to a successful future? Or will Japan, having achieved its goal of "catching up," once again fade into obscurity like so many other nations in history? The future of humanity depends at least partly on Japan's answer to these questions. ■

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