

Is Japan irrelevant?

by

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Is Japan irrelevant? To merely ask the question is to suggest an answer. Yet, to phrase it as a question – rather than a definitive statement – implies that the outcome isn't determined and that consequences follow from the particular response. In other words, buried in the question is the presumption – or the hope – that Japan could and should matter: if it didn't, no one would care. That kernel of hope may be one of the most important life preservers to which Japan should cling. But I get ahead of myself. This paper begins with a look at the ways in which Japan matters, then turns to the basis for the claim that Japan is irrelevant, tries to explain why people make that case with a straight face, and concludes some thoughts about how Japan can ensure its relevance in a rapidly changing world.

Indices of relevance

Is Japan irrelevant? On its face, the question seems absurd. Japan has the world's second largest country economy, with a GDP of \$5.1 trillion, and a GDP per capita of \$33,800 (1). It is the third largest country economy, behind the U.S. and China, when using purchasing power parity.

According to the UN Development Program's Human Development Index, Japan ranks eighth, just behind Sweden and Switzerland, first among Asian nations, ahead of most European countries, and four places ahead of the U.S (2). During the early years of the Cold War, Japan averaged 8 percent growth. In 1960, the government deemed that insufficient and announced a plan to double income within a decade. The target was achieved – with 10 percent annual growth – within 8 years – a stunning economic performance that propelled Japan into the ranks of developed

nations, earning it a seat in the G-7, the group of leading industrialized nations (the name says it all) and providing an example for developing (especially Asian) nations and a model they could follow.

While Japan stagnated for a decade, it seems to have righted itself. The country recorded 1.8 percent growth in 2003, 2.3 percent in 2004, 2.6 percent in 2005, and 2.7 percent in 2006. Japan Inc. remains formidable. Japanese companies own some of the best brands on the planet. Toyota has overtaken General Motors as the world's biggest vehicle manufacturer. After "the lost decade" of the 1990s, Japanese corporations restructured and have come back leaner and hungrier than before.

Accordingly, Japanese exports grew 8.2 percent in 2006, to reach \$647.3 billion, as imports expanded 11.7 percent to \$579.3 billion, the fifth consecutive year of export increases and the fourth consecutive year of import increases. Exports topped \$600 billion for the first time ever and 2006 was the first time since 1995 that Japan enjoyed five straight years of export growth. The country's foreign exchange reserves now exceed \$1 trillion, having expanded 8.7 percent in 2008 and trail only China.

Japan continues to be a creative and industrious country, continually adding to the world's stock of knowledge. It was number one in the number of patents filed in 2005, outpacing even the U.S., and more than double the number of patents filed by China. Japan is either number one or number two by every measure of patent intensity (3). Spending on R&D as a percentage of GDP ranks it third among OECD nations, surpassed only by Finland and Sweden, and it is fourth in investment in knowledge (as a percentage in GDP) (4).

Japan's foreign direct investment continues to grow, increasing 10.3 percent to \$50.2 billion in 2006. This tops the previous maximum, \$48 billion, recorded in 1990. Portfolio investment grew \$11.7 billion to \$90.1 billion in 2006. Unlike the go-go '80s and '90s, Asia, rather than North America, is the investment destination of choice, claiming \$17.2 billion, and increasing 6 percent from 2005 to 2006 to constitute 34.2 percent of Japan's direct investment. Direct investment in the ASEAN 10 increased 38.4 percent year-on-year to \$6.9 billion (5).

Japan has much more than economic clout. It is the second largest contributor to the United Nations, providing 19.5 percent of the budget (equal to about \$1.08 billion

in 2008) (6) making it second behind only the U.S. In 2007, Japan was the World Food Program's fifth largest donor with \$119 million; it provides 10 percent of UNICEF's budget, and roughly 20 percent of the UN peacekeeping budget.

Overseas Development Assistance (ODA) has been a pillar of Japanese foreign policy. In 2006, ODA totaled \$11.6 billion, making Japan the world's third largest donor (after the U.S. and the UK). In October 2008, the Japan International Cooperation Agency (JICA) will merge with the Japan Bank of International Cooperation to form the world's largest bilateral development agency with financial resources of \$8.8 billion, a staff of more than 1,600, and operations in some 155 countries. In May 2008, Tokyo hosted the fourth international conference on Africa, the Tokyo International Conference on African Development (TICAD IV), to discuss ways to spur growth across the continent. Japan had previously pledged to increase funding by \$10 billion over a five-year period starting in 2005, particularly in Africa (7).

Finally, there is Japan's soft power. This is created several ways: the attractiveness of its economic model (admittedly, this has diminished in recent years), the appeal of its culture, particularly manga and anime, the stability and safety of its society, its environmental consciousness and its cutting-edge "green" technologies, and its "pacifist" orientation, evidenced by Article 9 of the peace constitution, its emphasis on peaceful solutions to problems, and the self-restraint it has practiced in regard to its military capabilities.

This long list of achievements has conferred upon Japan considerable standing in the world. A 2006 BBC poll of 33 countries found that Japan was the country most widely viewed as having a positive role in the world, with 31 of the countries surveyed giving Japan high marks. However, its closest neighbors, China and South Korea dissented and gave Japan a negative assessment (8).

A recent Foreign Ministry sponsored survey of six ASEAN nations (Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam) found that more than 90 percent of respondents in each country considered "friendly" or "somewhat friendly," and more than 90 percent said they considered Japan a "trustworthy" friend or "trustworthy with some reservations." In addition, 93 percent welcomed Japanese companies' business in their countries, and 87 percent were positive toward Japan's active role in the development of Asia (9).

And yet...

Nonetheless, here we are pondering if Japan still matters. Throughout Asia and the rest of the world -- even in Japan -- the question continues to be asked. The skeptics point to Japan's shrinking share of the world economy: totaling 18 percent in 1980, it fell to 15.4 percent in 2004 and is projected to reach 4 percent in 2050 (10).

Or they highlight Japan's anemic birthrate and its shrinking population: the country's population fell in 2005 for the first year since World War II and, excluding the war years, the first time since the country began collecting data in 1899. Japan has the grayest population in the world -- a ticking fiscal time bomb. After peaking at 127.5 million in the last year, the population will slowly decline to somewhere between 92 million and 100 million by 2050 (11). According to IMF projections, "Japan's current demographics imply that the level of real GDP will fall by a cumulative 20 percent over the next century compared with a baseline simulation with a stationary population" (12).

A stagnant or slowly growing economy denies Japan the revenue needed for its once-munificent overseas development assistance. The world's largest aid donor from 1990 to 2001 is now ranked number five, and experts expect it to fall farther. Net ODA totaled \$11.2 billion in 2006, a 9 percent drop from the year before (13).

Typically, the word "irrelevant" comes up in conversations among investors. They look at Japan's abysmally low level of foreign investment -- 2.2 percent of GDP, in contrast to 13 percent in the U.S., 18 percent in Germany, and 37 percent in the UK -- and see a country on the margins of international business decision making (14).

For others, the flip side of Japan's pacifism is its irrelevance in an increasingly menacing world. The inability to protect national interests overseas or to assert national prerogatives in an increasingly "realist" world renders Tokyo a spectator when dealing with many vital issues. Japan's seeming reliance on the U.S. for its defense and security as well as the subordination of its foreign policy that appears to follow, compounds the perception that Japan doesn't matter when it counts.

The image of irrelevance has been compounded by the failure of Japan's two biggest diplomatic campaigns in the last decade: the bid for a permanent seat on the United Nations Security Council and the failure to move forward in the normalization of relations with North Korea. Both have been stymied by Tokyo's

tactical and strategic mistakes and factors beyond Japanese control, but the high profile of the two efforts has meant that failure reinforces the image of a weak Japan, incapable of engineering desired outcomes.

Finally, ironically, Japan's assertion of its own uniqueness has contributed to its marginalization. Japanese cultural (and some economic) theorists have insisted on their country's distinctive characteristics. While societies could try to emulate features of the Japanese model, there is also an inherent Japanese quality that defied replication. This identity helped promote the image of Japan as a bridge between East and West. But when the Japanese model faltered and other Asian tigers and dragons roared, that uniqueness distanced Japan from the core concerns of other Asian nations. *Sui generis*, Japan could be marginalized with little to teach (15).

China's long shadow

It is tempting to blame China for the tendency to dismiss Japan. That country has enjoyed blistering growth since 1992 while Japan staggered through "the lost decade" of the 1990s. As Japan grappled with a rapidly changing regional environment and a transformed global order, China was increasing engagement with and outreach to the world. China's leadership evinced growing confidence and a hearty embrace of the future; Japan's seemed indecisive and lost.

Finally, China seems to be involved in virtually every major regional and global issue: Japan is rarely seen as a key player in resolving global and regional issues, and when it is involved, it is cast as a mere spectator. All these contrasts have contributed to the image of the eclipse of Japan.

Of course, the Chinese have nurtured that perception. The government in Beijing was vocal in opposing Japan's view of history, claiming that visits to Yasukuni Shrine were an international offense, and lead opposition to Japan's bid for a UN Security Council seat.

Alternatively, it is sometimes whispered that Japan is merely the handmaiden of the U.S., the junior partner doing its bidding in Asia. On other occasions, it is suggested that China and the U.S. do the burden sharing in Asia, handling – and sometimes dividing – responsibility for regional security concerns between them.

Are the Japanese paranoid?

But the group most responsible for spreading the view that Japan is irrelevant is, and it is ironic, the Japanese themselves.

When Japan first faltered in the 1990s, the response was measured: shift happens, pendulums swing. Japan had been ascendant in the '80s and the correction of the '90s would be temporary. But as the recession dragged on, it became clear that the post-Cold War world was profoundly different from that which preceded it. Markets were changing in fundamental ways; new threats and security challenges had emerged. Plainly, old solutions were no longer as effective as before (16). Japan had to adjust on a variety of levels but its leadership and its people were slow – if not reluctant – to respond.

This determination to cling to the known was understandable, but it came with a price: not only did Japan under perform compared to its potential – by some estimates, Japan's economy would have been 25 percent larger if it had embraced reform in the early 1990s – but it looked even weaker when contrasted with China's dynamism.

I'm not sure whether the Japanese weighed the equities and decided to opt out of competition with China, but in numerous discussions and documents, the Japanese make the comparison and conclude that their country does not look good. The mood is darkened by other factors: China's huge population, its nuclear arsenal, its permanent seat on the United Nations Security Council, and, most significantly, its confidence. For Japan that has long seen itself as the leader of Asia, a standard bearer for the region, and a spokesperson for its interests, this new status is especially painful.

Meanwhile, Japanese lament their country's reactive diplomacy. China's energetic outreach to Southeast Asia has been matched by Japan's economic partnership agreements. Yet the efforts to ensure that those deals do not offend powerful domestic constituencies, in particular the agriculture and the medical lobbies, has limited their impact, highlighted the very issue they were intended to solve – China's successful engagement with the region.

In recent months, an unprecedented political situation in Tokyo has darkened the gloom. The opposition victory in the July 2007 Upper House elections divided control of the Diet, and the result has been a determined effort by the opposition

Democratic Party of Japan (DPJ) to force a general election and virtual legislative paralysis.

Japan strategists bemoan the situation, knowing that inaction threatens to further marginalize Japan. Yet the leadership refuses to muster the political will to act on controversial issues, either because it refuses to risk offending the public or, in a tactical move, refuses to blame the opposition for undermining the national interest. Either way, it compounds the image of an ineffectual leadership (17).

Insecurity – sometimes a synonym for irrelevance – in Japan is magnified by a fear of neglect by the United States. Japanese accuse the U.S. of betrayal as Washington moves forward in its negotiations with North Korea.

There is a worry among Japanese strategists that the Bush administration is so eager to cut a deal with Pyongyang that it will overlook North Korean cheating and may even turn a blind eye to a nuclear-capable North Korea. Even more likely in Japanese eyes is the possibility that the U.S. will take North Korea off the list of state sponsors of terrorism before Japan resolves the problems of its abductees. Abandonment by its ally would be taken as yet more proof of Japan's irrelevance.

Strategists in Tokyo are equally keen to discern a shift in U.S. attentions from Tokyo to Beijing. This phenomenon was first noted in 1998, when then U.S. President Bill Clinton flew from Washington to Beijing without stopping in Japan on either leg. Thus, the Japanese discovered something even worse than Japan bashing -- "Japan passing" – and have been vigilant ever since to its reappearance. China's central role in the Six Party Talks, U.S. attempts to enlist Beijing to deal with a wide range of regional and global issues, and Beijing's preference for "great power relations" all trigger alarms in Tokyo. Despite U.S. assurances, Japanese are quick to see U.S.-Japan and U.S.-China relations in zero-sum terms (18). Every U.S. overture threatens to distance Japan from its ally. Again, Japan's irrelevance is the explanation.

Making a virtue of necessity

Trends are against Japan. The country is aging, the population shrinking and no radical change is in sight. Its economy is mature and lacks the dynamism of its neighbors; there is virtually nothing Tokyo can do to return to the go-go days of the Bubble (and it probably shouldn't try to relive them).

On the other hand, the trends shouldn't matter. Japan is still extraordinarily rich by virtually any standard. Japan doesn't have to be number one or even number two to be relevant or to make a huge difference in the world. Indeed, a focus on the quantity of Japan's international contributions, rather than their quality, is a mistake.

Japan should do more to make the most effective use of its increasingly limited resources. That requires a grand strategy, which Japan has been lacking in recent years (19). Tokyo must embrace a more creative diplomacy that plays to Japan's strengths: creative, highly skilled individuals, innovative technological solutions, and skilled and patient diplomacy. Japan should emphasize its global interests, its unflinching support for peaceful resolution of conflicts, its contributions to reconstruction, and its support for good governance.



Brad Glosserman's notes

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- 1.- CIA World Fact Book, www.cia.gov/library/publications/the-world-factbook/geos/ja.html
 - 2.- 2005 figures. Available at <http://hdrstats.undp.org/indicators/9.html>
 - 3.- World Intellectual Property Organization, World Patent Report: Statistics on Worldwide Patent Activities, 2007 edition, www.wipo.int/export/sites/www/freepublications/en/patents/931/wipo_pub_931.pdf
 - 4.- OECD
<http://stats.oecd.org/wbos/viewhtml.aspx?queryname=470&querytype=view&lang=en>
 - 5.- All figures Japan External Trade Organization.
 - 6.- <http://www.un.org/News/Press/docs/2008/sgsm11433.doc.htm>
 - 7.- <http://www.jica.go.jp/english/about/pres.html>
 - 8.- http://www.globescan.com/news_archives/bbc06-3/index.html
 - 9.- http://www.mofa.go.jp/announce/announce/2008/5/1179528_1010.html
 - 10.- Joi Ito, "Japan and its GDP," joi.ito.com/archives/2008/01/16/japan_and_its_gdp.html
 - 11.- http://www.glocom.org/special_topics/social_trends/20030128_trends_s25/index.html
 - 12.- *ibid.*
 - 13.- "Japan number 5 ODA donor: OECD," Kyodo News, April 3, 2008.
 - 14.- <http://www.jetro.go.jp/en/jetro/activities/fdi/>
 - 15.- I thank Carl Baker for this argument.
 - 16.- There are many explanations for this behavior, but the one I prefer is that, being a very conservative society, the Japanese opted for stability rather than potentially wrenching

change. For more, see Brad Glosserman, "Japan's 'Swiss' option," *PacNet* 11, March 15, 2002.

17.- See Brad Glosserman, "False Choices for Tokyo," *PacNet* 3, Jan. 10, 2008

18.- See for example, Joseph Nye, "Japan fears marginalization as U.S. turns to China," *Taipei Times*, May 17, 2008, p. 9.

19.- Brad Glosserman, "Japan as a 'Normal' State: Implications for the Region," The Asia Pacific Roundtable Series, Institute of Strategic and International Studies, Malaysia, 2008, p. 14.

