

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