

# Introduction: Japan's Possible Futures

*Frank Baldwin and Anne Allison*

Japan was in economic trouble long before Lehman Brothers collapsed in September 2008. The bursting of the real estate and stock market bubble in the early 1990s brought the Lost Decade (now two Lost Decades) of deflationary retraction, unemployment, and shattered dreams. Paradoxically, Japan weathered the acute financial shock relatively well; financial institutions were not heavily invested in subprime mortgage-backed securities. Yet as the world's third-largest economy, Japan could not dodge the global recession that damped its economic growth and undermined social institutions designed to provide security and predictability. By February 2011 trade surpluses were falling and the suicide rate had been on the rise for a decade. A sluggish economy translated into abandoned plans for marriage and a family, national budget deficits, and underfunded social security programs. Japan was becoming a precarious society.

To these woes was added a staggering natural disaster. At 2:46 p.m. on March 11, 2011, a 9.0 earthquake off the northeast coast triggered a tsunami that battered three coastal prefectures, killed 15,891 people with 2,579 missing, displaced about six hundred thousand, and caused damage estimated at ¥16.9 trillion. The meltdown of three reactors at the Fukushima Daiichi nuclear plant caused radiation leakage that continued in 2014. About eighty thousand nearby residents were evacuated, and for a time Tokyo was at risk of airborne contamination. The government has earmarked up to ¥35 trillion for reconstruction over a five-year period. Journalists and scholars have written extensively about the triple disaster.<sup>1</sup>

Unlike earlier volumes in the Possible Futures series, this book is centered not on the global financial crisis but on an array of systemic and structural issues that determine a country's well-being. Adapting the series' guidelines, we considered how "past history and current challenges shape possible futures." Would recovery mean a retrofitting of earlier patterns or portend genuine change?<sup>2</sup> Assuming that long-range forecasts have limited utility, we set the time in the near future—three to five years. The papers presented here are not predictions or prescriptive blueprints (except perhaps for the chapter on demography); authors were not expected to hazard scenarios of the future, a fool's errand. They were asked to use their analytical skills and knowledge of Japan and East Asia to look over the horizon. Participants gathered at a conference in Hayama, Japan, March 30 to April 1, 2012, to discuss preliminary papers. As the papers were under revision, the Liberal Democratic Party (LDP) came to power in December 2012 with an ambitious policy agenda to change Japan's course. The LDP strengthened its mandate with successes in the House of Councillors election in July 2013 and a snap election in December 2014 and may be dominant until 2018. Several chapters were revised again to cover developments in 2014, including those on nuclear policy and political leadership. Events have no respect for the schedule of edited volumes.

Where is Japan headed? Broadly speaking, one possible future is that the country recovers from 3/11, sustains modest GDP growth through its industrial and scientific prowess, and remains a democratic midlevel power with increased attention paid to those suffering the effects of economic and social precarity today. A less sanguine possibility is that Japan declines, shrunk by insoluble demographic dilemmas and its inability to resolve such problems as energy, gender inequality, and rising disparity. Overshadowed by China, Japan might become a mere shadow of the country once touted as a global leader.<sup>3</sup> However tantalizing it would be to imagine Japan decades from now, such speculation is beyond the scope of this volume. As the Japanese proverb warns, "Speak of next year and the devil laughs."

Then what is the outlook for the near future? First of all, the participants show that hard times lie ahead for the disadvantaged as social inequality grows. Second, can a high-tech industrial society limp along with a make-shift energy policy or shift from nuclear to alternative sources? Until 3/11 few people thought so. Third, if Japan hemorrhages manufacturing and innovative capacity for another five years, the drop in trade balances will undermine its ability to care for an aging population and provide other services. Last, the

longer that naval and air patrols from Japan and China play “chicken” near disputed islands in the South China Sea, the greater the probability of a serious incident.

On the other hand, the authors in this volume also show that Japan has impressive strengths: enormous financial assets, low unemployment, a skilled, resilient population, and strong institutions. The national health system works, and Japanese corporations are competitive internationally. Although there are no outright Cassandras among the authors, several are guardedly pessimistic while others are tentatively optimistic. It is fair to say there is a shared sense of incremental slippage in social capital and of crises ahead if effective action is not taken. The canary in the coal mine is short of breath.

In chapter 1, Sawako Shirahase analyzes what is a major demographic transformation facing Japan: a falling birthrate, the rapid rise of the proportion of elderly, and a population projected to decline by 2060 to 80 million from 128 million today. In 2014 the fertility rate stood at 1.4, far below the replacement rate, while life expectancy for women was the highest in the world. Extensive media coverage of these trends has contributed to apprehension about the country’s future. No European industrialized country has undergone such a rapid demographic change. Caused mainly by a reduction in the fertility rate, it is due both to fewer young people marrying and to married couples having fewer children. The effects on economic inequality and changes to family structure—with the resultant implications for caregiving of the elderly—are considerable. Yet to date government policies to reverse these trends have not worked, and Shirahase does not expect future initiatives to be more effective. If population size itself—with the possibility that Japan may experience a labor shortage in the future—is the issue, immigration should be more progressively embraced. This does not appear imminent, however, and neither political leaders nor the public are ready for a national debate. She concludes that only by changing its socioeconomic orientation to become a “blended society” that better accommodates diverse lifestyles and immigrants can Japan navigate its demographic destiny.

The concept of “precarity” introduced by Anne Allison in chapter 2 helps explain changes in the labor market, demography, and economic security as well as in social living and well-being. She notes that one-third of the population live alone, and as fewer marry, have their own family, or are steadily employed, more and more feel disconnected from the social attachments that conferred status and belonging in the family-corporate system under “Japan

Inc.” beginning in the 1960s. A sense of not belonging and of isolation has spread in what Japanese call a “relationless society” dramatically characterized by lonely deaths—people who die alone and whose bodies are found only later. Many phenomena are linked to social disaggregation: a high rate of suicide, social withdrawal, directionless youth, homelessness, and underemployment. Allison calls this social precarity and argues that what distinguishes it in Japan is the disintegration over the last twenty years of the family-corporate system, which has served as the country’s de facto welfare scheme, prop to state capitalism, and template for social belonging and citizenship in the postwar era. But just as older forms of social connectedness fray, Allison finds that hopeful new ways of being and belonging in society have arisen, such as volunteerism after 3/11 and local mutual support organizations that are redesigning sociality away from the narrow confines of family and work.

Complementing Allison, Machiko Osawa and Jeff Kingston in chapter 3 document significant shifts in employment patterns over the past two decades. The proportion of the workforce hired as nonregular employees has doubled. The rise of the precariat is primarily due to corporate cost cutting and government deregulation of the labor market. Lacking job security and benefits, the precariat accounts for one-third of the labor force and half of young workers. And unstable employment correlates with other disturbing socioeconomic trends: the rise in poverty, growing economic disparity, and discouraged youth. Osawa and Kingston argue that precaritization of employment contributes to other problems facing policy makers as they plan for Japan’s possible futures, including income disparities, an inadequate safety net, and weakening social cohesion. Not encouraged by the efforts to date by the government or employers, they warn that failure to better incorporate women or immigrants into the labor force epitomizes the precarity of a future Japan.

The need for Japan to diversify the categories and patterns for people to work, live, and reproduce is also discussed by Ayako Kano in chapter 4. Japan ranks at the bottom of Organisation for Economic Co-operation and Development (OECD) countries in terms of gender equality, a standing that hinders not only the rights of women but also the nation’s capacity to confront the challenges of socioeconomic viability. In a theme echoed by several authors in this volume (Osawa and Kingston, Shirahase, Allison), Kano sees gender traditionalism—a rigid bifurcation of gender roles, with men as breadwinners, women as housewives, and both expected to marry and reproduce families

that replicate the same gendered division of labor—as complicit with many social issues. Given the difficulties in balancing family and work, those who lack regular employment, men as well as women, find it difficult to marry and have children. The government has been cognizant of the need to promote a “gender-equal society” and has instituted a number of progressive policies since the 1990s. But by the turn of the new century such initiatives met with a fierce backlash within conservative and neonationalist circles. Today, the very concept of a gender-equal society has shifted to emphasis on the participation of men in child care versus equality for women in society and the workplace.

The Great East Japan Earthquake and Tsunami triggered a meltdown at the Fukushima Daiichi nuclear reactor that might have been expected to produce a radical change in Japan’s nuclear policy, as it did in other countries such as Germany. Jacques Hymans shows in chapter 5 that although no nuclear reactors are operating today compared with fifty-four prior to 3/11, reform of Japan’s nuclear safety system and energy policy has been remarkably slow. Certain changes have occurred, including creation of an independent safety watchdog agency and the announcement of a zero nuclear power generation policy by 2040. But credibility and carry-through are questionable, leading to a de facto post-Fukushima nuclear policy gridlock. Hymans says policy makers have failed to coalesce around a viable long-term nuclear program because veto players with different strategic interests have created an extremely fractionalized policy-making arena. Pessimistic about a resolution in the near future, he sees danger ahead not only for Japan’s environment and economy but also for public confidence in the country’s political institutions. A cleanup is likely to take decades and cost up to \$500 billion.

In chapter 6, William Siembieda and Haruo Hayashi outline the history of disaster management in Japan, particularly since the 1995 Kobe Earthquake, when the central government took on new responsibilities, and 3/11, when a weak reconstruction agency faltered badly. They untangle the web of Japan’s decentralized and compartmentalized disaster management system—nuclear safety was handled separately—and contrast Japan’s centralized responses to calamity to those of Chile, New Zealand, and China. Although seismologists cannot foretell events precisely, a grim consensus predicts major earthquakes in the Tōkai and Tokyo areas in the next few decades. In Tōkai alone, the estimated losses—up to 320,000 casualties over thirty prefectures—and economic damage could stagger the nation. Although constrained by the new demographic and economic realities described by other authors in this book,

planners must try to minimize the projected hardship with limited resources. The denial and wishful thinking that characterized some assessments before 3/11 have given way to new safety standards and organizational arrangements. Siembieda and Hayashi anticipate a less rule-bound holistic approach to disaster management that engages the business community and civil society with a more agile and adaptive central government. Despite the foreboding outlook for megadisasters, the authors believe the lessons learned from 3/11 may pave the way for a less vulnerable future.

Saori Katada and Gene Park ask in chapter 7 when Japan will have to face the music for its lack of fiscal discipline. Given that it is strapped by high public debt and endless budget deficits, not only is the social security system for an aging population shaky but so is the ability to fund security needs in the rivalry with China. The authors review on-again, off-again attempts at fiscal consolidation when the government has been able neither to curb spending nor to raise taxes enough to fill the gap. Certain assets offset profligacy: no foreign debt, a high domestic savings rate, and positive trade balances (now slipping away). Helped by official intervention, major banks survived reckless speculation in the real estate and stock bubble of the 1990s and emerged from the Big Bang shocks of the 1990s in good shape, albeit with their numbers thinned to a few megabanks. The silver bullet is Japanese government bonds and the willingness of now risk-averse bankers to buy them in large quantities. The authors conclude that the uneasy status quo is sustainable in the near future but that Japan will have to borrow abroad in a decade or so. Enter new prime minister Abe, who boldly rolled the dice to stimulate growth by changing monetary and fiscal policy. Now the question is whether Abenomics will mitigate the economic malaise or harm Japan's credit rating and solvency.

To Takahiro Fujimoto, the wholesale relocation of manufacturing plants overseas is shortsighted and threatens the nation's future. In chapter 8, he advocates public policy to retain a strong manufacturing sector in Japan. His analysis rests on a neo-Ricardian theory of comparative advantage—Japan's industrial productivity—combined with rigorous empirical observation of factories and design centers. A domestic industrial base is the source of innovation, commercial success, and favorable trade balances, according to Fujimoto. This perspective from the shop floor is not popular in boardrooms or the media. Attracted by the siren's song of low wages in China and other emerging economies, especially since the financial crisis of 2008, corporate

managers have moved hundreds of plants abroad, losing the precious synergy of design and blue-collar skill available in Japan. The mass media echo boardroom groupthink and exaggerate cyclical trends into a doomsday scenario for Japanese factories. Rather than accepting a race to the bottom in wages and deindustrialization as the inevitable outcome of global trends, Fujimoto argues that preservation of efficient manufacturing sites is essential for economic recovery. Eschewing protectionism, he recommends tax and environmental policies that reward efficient plants and management. The US experience of massive trade deficits, offshoring, and rust belts is a cautionary tale for Japan.

In chapter 9, Masaru Yarime examines the role of science and technology in Japan, from the creation of modern industrial and military establishments through an abrupt shift to civilian priorities after World War II and the later transition to a postindustrial economy driven by research and development. Government policies shaped the rapid economic growth of the 1960s and 1970s and still sway the national agenda today. When the economy faltered in the 1990s, Japan borrowed the concept of an “entrepreneurial university” from the United States to transfer science and technology from academia to industry, with inconclusive results so far. Japan’s R&D spending, mostly from the private sector, remains among the highest for industrialized countries and has impressive achievements in big science and technology, from bullet trains and the K computer to Nobel prizes. Favorable trade balances over the years owe much to basic and applied research. Yet Japan now lags behind in such critical indicators as research publications, patents, and international collaboration. Old patterns no longer work, Yarime says, pointing to a new paradigm of innovation that cuts across conventional boundaries. Although institutional reform is proving difficult, he contends that Japan can lead the way to integrated solutions to complex problems.

China is the four-hundred-pound gorilla in the room when Japanese strategists ponder security. Hiroshi Nakanishi in chapter 10 recounts how in 2010 the Kan administration scrapped the static Cold War mission of the Self-Defense Forces (SDF) as a supplement deterrent (to the United States) against Russia and adapted a “mission leap” of defense of the sea and air space around Japan, including responses to attacks on offshore islands. Additional steps were taken in 2011–14 toward military cooperation with the United States, the United Kingdom, and Australia. Restrictions on arms sales were removed and defense spending was boosted. The game changer was reinterpretation of the

constitution in July 2014 to allow the SDF to engage in military operations overseas. A broad bipartisan consensus underlies this shift, says Nakanishi, although the public does not yet grasp the full implications. Japanese public opinion imputes hostile intentions and increased military capability to China's actions in the dispute over the Senkaku Islands; meanwhile, negative Chinese public opinion toward Japan has surged in recent years. China has repeatedly tested Japan's resolve with naval and air patrols that skirt Japanese territory and has hinted at an irredentist claim to Okinawa. Nakanishi recommends that Japan avoid escalation and respond in a way commensurate with the provocation, while trying through diplomacy to dissuade China from its goal of projecting naval power globally. Relations with the United States remain the keystone of Japan's security; badly bungled in 2009, they have improved under the Abe administration. Managing that bilateral relationship, expanding military ties with other nations, and reaching an accommodation with China make up the near-term security agenda. Counterterrorism was added to the agenda when the Islamic State beheaded two Japanese hostages in January 2015.

Claude Meyer assays the intense rivalry between Japan and China for leadership in Asia and ventures a long-run forecast. Unlike many contemporary observers, he does not see the race as already half over and China the certain victor. Japan is too strong—with formidable financial and industrial assets complemented by national resiliency—to fall by the wayside soon. China has sprinted past Japan in manufacturing exports, for instance, but is an also-ran in soft power and other fields. Meyer sees, rather than a clear winner in the near future, a mutual economic dependency prevailing over nationalistic assertiveness. Although China has settled many territorial disputes, he finds worrisome its escalation of disputes over maritime rights such as that with Japan over the Senkaku/Daioyu Islands. For the next decade an antagonistic geopolitical standoff of grudgingly shared leadership is most likely. Meyer concludes that from about 2030 China's economy will be four times that of Japan's and that Beijing may dominate the rest of Asia. On the other hand, if a nascent Asian Community of shared democratic values is formed, Japan and India could counter China's influence.

Ellis Krauss and Robert Pekkanen in chapter 12 take on the vexed issue of leadership, explaining why the country has been so plagued by turnstile prime ministers over the past two decades. Given the challenges facing Japan today, they decry—as does the public in general—the instability of leadership

at the top, which they track in terms of the prime ministership, noting its long legacy in the postwar era as a weak office. In what has been a bureaucracy-strong parliamentary democracy, two reforms instituted between 1994 and 2001 provided at least the potential for a stronger prime ministership. But in their assessment, only Jun'ichirō Koizumi realized this potential, for reasons that include his ability to cultivate a popular image through the mass media and his willingness to be a maverick in exercising radical reforms. Both before and after him have come a string of short-term, ineffective prime ministers. In considering possible futures of Japan, Krauss and Pekkanen argue that another transformational leader like Koizumi is desperately needed and conclude that Shinzō Abe, after a remarkable political comeback and three electoral victories, may be such a leader, for better or worse.

Lawrence Repeta and Colin Jones in chapter 13 examine what strong leadership by Prime Minister Abe is likely to mean for the 1947 Peace Constitution, “imposed” by US Occupation officials to implant a legal framework that would sustain demilitarization and democracy. The new charter replaced imperial authority with popular sovereignty—“We, the Japanese people”—and made the once-divine emperor a symbol of the nation. Other provisions guaranteed basic rights of speech, assembly, and religion that a public long denied freedom and weary of militarism supported, particularly the “No War” Article 9 that restricts Japan’s use of military power. Conservatives bowed to force majeure and adjusted to the alien values and language, but they were restively longing for a constitution “Made in Japan.” Emboldened by a sweeping electoral victory in December 2012, the LDP announced plans to revise the constitution and submit it to a public referendum. The LDP draft constitution, Repeta and Jones write, is ideologically nationalistic and authoritarian and rejects universal concepts of human rights, for example, in favor of vague nativist precepts. LDP success in the July 2013 Upper House election cleared the way for a factious battle over revision, and the party threw down the gauntlet in 2014 by reinterpreting Article 9.

*Japan: The Precarious Future* opens with a sobering review of demographic projections and widening economic inequality. The first set of papers show how as prospects of steady employment and a middle-class lifestyle dissolve for an increasing number of Japanese, so do an ethos of egalitarianism and an expectation of security upheld in postwar times. What has emerged today is a social system of winners and losers and a national mood of nagging unease. As the population literally shrinks, fear rises that Japan is in decline and that

the toll will be heavy on those most vulnerable by reason of age, gender, ethnicity, and underemployment. Shifting focus, the next set of papers concerns Japan's strengths and opportunities, from its formidable financial assets and improved disaster planning to a dynamic industrial sector and world-class science and technology. From the perspective of infrastructure and reaction to crises, the tone is guardedly optimistic about the near future. The final four chapters look at political leadership in national security and domestic politics. Adroit management of ties with Beijing would improve Japan's security, but mutual brinkmanship and nationalistic grandstanding may edge the rivalry toward confrontation. At home, with a conservative coalition apparently ascendant, the prime minister may stay in office long enough to accomplish transformative changes. The ongoing radiation crisis at Fukushima and the lack of an energy policy suggest a turbulent tenure. Whether a bitter struggle over constitutional revision leads to domestic stalemate and regional isolation remains to be seen.

## Notes

1. Two books by Jeff Kingston capture much of the horror and response. See Jeff Kingston, ed., *Tsunami: Japan's Post-Fukushima Future*, Kindle ed. (Washington, DC: Foreign Policy, 2011), and Jeff Kingston, ed., *Natural Disaster and Nuclear Crisis in Japan* (Routledge: London, 2012).
2. Richard J. Samuels, *3.11: Disaster and Change in Japan* (Ithaca, NY: Cornell University Press, 2013). In a brilliant analysis of three major policy areas, Samuels contends that 3/11 was not a "game changer." Three years after the disaster, more change is apparent, including the Liberal Democratic Party's domestic political and regional security goals.
3. Ezra Vogel, *Japan as Number One: Lessons for America* (Cambridge, MA: Harvard University Press, 1979). The theme of Japan's decline is explored in a series of articles collected by Sheila A. Smith at the Council on Foreign Relations website: "Is Japan in Decline?," November 28, 2012–January 18, 2013, [www.cfr.org/projects/world/is-japan-in-decline/pr1628](http://www.cfr.org/projects/world/is-japan-in-decline/pr1628).