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Japan's Prospects and Challenges: A View from Southeast Asia

by

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1 Most of my friends, both Asians and Westerners, have a pessimistic view about Japan's future. They think that Japan is in terminal decline. They point to the facts that Japan has a shrinking population, a stagnant economy, an insular mindset, a huge public debt, an unstable political system and weak leaders. As a contrarian, I do not subscribe to this conventional wisdom. I believe that Japan can overcome its challenges. I believe that Japan has many strengths which are under-estimated. I believe that Japan can still have a bright future. The following are the reasons for my optimism.

My Faith in the People of Japan

2 First, I believe in the people of Japan. I believe that they will overcome the many challenges which beset their country. The strengths and virtues of the Japanese people were on display when the Northeast of Japan (Tohoku) was struck by a devasting

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earthquake and tsunami on 11 March 2011. There were no panic and lawlessness. There were no scenes of looting. Instead, the people reacted with calm, courage, discipline, unity and civic-mindedness. The world had never seen a people behave in such an exemplary manner in the face of such a great tragedy. The recovery from the triple disasters has taken place smoothly and rapidly. This has given the Japanese people a new spirit of self-confidence which had been missing for a long time.

The Quality of the Japanese Workforce

3 Second, I believe in the high quality of the Japanese workforce. I was a member of Toyota's International Advisory Board for five years (1996-2001). I was, therefore, able to observe the workers of Toyota. What I saw was a workforce which was one of the best educated, trained and diligent in the world. This is one of the core strengths of the Japanese economy. The competitiveness of an economy depends, in part, on the quality of its human resource. Japan should, however, raise its labour productivity. According to the 2011 report of the Japan Productivity Center, Japan's labour productivity ranked no. 20 among the 34 OECD countries. The low labour productivity is due largely to the retail sector and over-staffed corporate headquarters.

Work Ethic and Culture of Excellence

4 Third, I admire the Japanese work ethic and the pervasive culture of excellence. The people of Japan are extremely hard-working. It must be the only country in the world in which people

actually die of over-work! The work ethic is a core value of the Japanese people. So is the culture of excellence. Every Japanese worker, no matter what his or her job or occupation, seeks to achieve excellence. We see this in the attitudes of the sushi chef at his counter, the potter at his kiln, the interpreter in her booth, the worker on the factory floor, etc. I suspect that this culture of excellence has contributed to the high reputation of the Japanese brand and products.

Science, Technology, Innovation

5 Fourth, the competition among the advanced economies is increasingly driven by technology and innovation. Japan has a strong track record of innovation and new technology. Japan used to dominate the world in consumer electronics and white goods. In recent years, Japan seemed to be falling behind the United States and Korea, in such areas as electronics and mobile phone technology. Japan remains, however, a world leader in automotives, robotics, game technology, anime, photographic technology and green technology. Japan spends 3.8 per cent of its GDP on Research and Development (R&D), out-spending the US (2.7 per cent) and Germany (2.6 per cent). 21 per cent of all patents granted by the US in 2009 were to Japanese inventors. According to the World Intellectual Property Organization (WIPO), Japan's share of patent applications globally has risen from 10 to 20 per cent in the past 10 years. Japan should do more to exploit its investments in R&D and its innovation by translating its new inventions into products and services for the world market.

Global Champions

6 Fifth, in the corporate world, Japan has produced some notable global champions. There are 68 Japanese companies in the Fortune Global 500. Many of these companies are world class. Other companies, such as, Rakuten and Uniqlo, are likely to join this club. These two companies are using English as one of their working languages. This will make them more competitive internationally. It is important for Japan to produce more global champions because such companies are profitable, attract talented employees, generate innovation and good jobs, as Heang Chhor, the former head of McKinsey in Japan, has argued in the book, Reimagining Japan (2011, at page 430).

Japan's Soft Power

7 Sixth, Japan has a very attractive soft power. The world admires Japan as a peaceful and beautiful country. It is immaculately clean and takes excellent care of its environment. It has a long and rich history and its heritage in the arts and crafts has been carefully preserved. Japanese design, fashion and architecture are much admired. Japan is viewed as both prosperous and egalitarian. There is a high level of social trust and harmony. The quality of life is high and various aspects of Japan's popular culture, such as its cuisine, ikebana, judo, manga, anime, J-Pop, have been embraced by the world. The Japanese people are viewed as polite, cultured and considerate. They are also admired for their inner strength and never-say-die attitude. This was best exemplified by the victorious

Nadeshiko Japan, which, in spite of the relative small size of its players, defeated the bigger-sized US team in the final of the FIFA World Cup in 2011. The same team won the silver medal in the 2012 Olympic Games in London, losing to the US in the final. I wish also to praise the contributions which Japan has made, under UN auspices, to peace-keeping and nation-building, in Cambodia, Timor Leste, Aceh, and Mindanao. Japan has also played a positive role in the reconstruction of Sri Lanka, after the conclusion of the civil war. I would encourage Japan to do more in the pursuit of peace.

Japan's Five Challenges

8 What are Japan's biggest challenges? I will comment on the following challenges:

(a) Demography;
(b) Gender;
(c) Education;
(d) Business; and
(e) Leadership.

The Demographic Challenge

9 First, Japan's demographic challenge. There are two aspects to this challenge: (i) Japan has the world's fastest ageing population; and (ii) Japan's population has been shrinking since 2005 because the Japanese are not reproducing themselves. Japan's total fertility rate is 1.4. Singapore is afflicted with the same problems. In spite of many financial incentives and more generous maternity leave, the total

fertility rate of Singapore hovers around 1.2. There is an ongoing national debate in Singapore on how to raise our fertility rate to the French and Nordic levels. We are re-examining our policies relating to maternity and paternity leaves, subsidised childcare for infants and young children, early or pre-kindergarten education, the role of the father in child-rearing, the work-life balance, etc. Without prejudging the outcome of this review, I must confess that I am not very optimistic about the prospect of raising our fertility to or near the replacement level of 2.1. I suspect the same is true of Japan.

Making up the Deficit

10 In order to make up the deficit, Singapore imports people through its immigration policy. As a result, our population has grown progressively from 2 million in 1970 to 4 million in 2000, to its current level of 5 million. The optimum size of the Singapore population has not been settled, but I suspect it will be around 6 million.

11 Singapore's capacity to absorb immigrants is due, partly, to our history as an immigrant nation and, partly, to our diversity. Our population consists of citizens whose forefathers had migrated to Singapore from China, South Asia, Southeast Asia and West Asia. As a result, we have developed a culture of accepting diversity. Multiculturalism is in our DNA. There is very little zenophobia in Singapore. However, in recent years, especially during the boom years, Singapore had taken in too many foreigners. The influx was greater than our absorptive capacity, straining our infrastructure and amenities and causing great discomfort to Singaporeans. The

Singapore Government has since recalibrated its policy. According to the opinion polls, 70 per cent of Singaporeans are in favour of immigration.

Can Japan accept Immigrants?

12 The question I wish to pose to my Japanese friends is whether Japan can liberalise its immigration policy in order to prevent its population from shrinking? Can the Japanese people, who are used to living in a homogenous society, accept foreigners? Is Japan willing to assimilate talented foreigners into the Japanese family? If the answers to these questions are no and if the fertility rate remains low, then we are faced with the scenario of a Japan with a shrinking population. This will have many implications for Japan and for the world. If the answers to my questions are yes, then we face an entirely different scenario, of a global Japan, energised by the infusion of new talent from the rest of Asia.

In Praise of Older Workers

13 The Japanese people enjoy the longest life span in the world of 83 years. By 2030, people over the age of 65 could account for one-third of Japan's population. This is going to be the trend in the developed world as people live longer, but it will happen in Japan first. Demographers and economists generally view this in a negative light as they assume that the older people will stop working and become dependants. Hence, they talk about the worsening dependency ratio of ageing societies.

14 I would like to urge Japan to become the world's thought leader on ageing. Instead of viewing older people as a liability, we should view them as an asset. A few years ago, Mr Lee Kuan Yew, the first Prime Minister of Singapore, caused a consternation in Singapore when he proposed that the concept of mandatory retirement be abolished. He has often said that retirement equals death. I agree with his philosophy. We should encourage older people, who are fit and who wish to work, to continue to do so. I am very proud of the fact that my dentist and tailor are both 80 years old and my optician is 82 years old. We need a radical re-think about ageing. Can Japan be our thought leader?

The Gender Challenge

15 Second, I want to refer to Japan's gender challenge. The Japanese society is viewed by us in Southeast Asia as a male-dominated society. We note that 30 per cent of women drop out of the work force after marriage. Another 20 per cent drop out after the birth of the first child. As a result, women's participation in the work force, at 50 per cent, is relatively low. We have also noticed the under-representation of women in policy-making and senior positions, both in the public and private sectors. Japan was ranked no. 94 out of 134 countries in the 2010 Gender Gap Index of the World Economic Forum. In the UN Human Development Index, Japan is ranked 8 in the world. However, in the Gender Empowerment Measurement, Japan is ranked 59. As a generalisation, I would say that there is greater gender equity in Southeast Asia than in Japan. Japan should seriously consider how to empower its women so that this talented and

well-educated human resource can make a bigger contribution to the country. I suspect that the solution lies both in improving the childcare infrastructure and in changing the mindset of the Japanese men towards women. The fact that women are treated as second class citizens was brought home to me by the way Japan treated its male and female football teams on their way to the Olympic Games. The medal-winning women's team was flown to London in economy class whereas the men's team, which has not won a medal of any colour, was in business class.

The Education Challenge

16 Third, I want to comment briefly on Japan's education challenge. Japan has good schools and universities. Tokyo University is regularly ranked among the top 10 or top 20 in the world. What then is the problem? One problem which Japan shares with others in East Asia is that, because of their Confucian heritage, their education systems tend to emphasize rote-learning and respect for authority. Without undermining our strengths, we need to produce more independent and critical thinkers. Another problem is that Japan's education system is not producing global citizens. Unlike the trend in Southeast Asia, the trend in Japan is that fewer students are going abroad to study. Is it too radical to suggest that Japanese universities should consider requiring their students to study one year abroad? There are very few universities in Japan which offer degrees, either at the under-graduate or post-graduate levels, in English. I am an academic adviser to the Ritsumeikan Asia-Pacific Univeristy, located in Beppu, Oita Prefecture. The university teaches in both Japanese and English and 50 per cent

of the students are non-Japanese. Japan needs more such universities. Japan's elite universities have the potential to re-make themselves into Asia's leading centres of learning, in areas in which Japan has excelled. The question is whether Japan's leaders have such a vision. Do the leaders of Japan envision a future in which Japan's elite universities will compete with those of the United States for the best and brightest students of Asia?

The Business Challenge

17 Fourth, the challenges faced by Japanese business. Japanese business face challenges at home and abroad. Let me begin with the challenges they face at home. According to Dr Klaus Schwab, the Executive Director of the World Economic Forum, the three biggest obstacles encountered by business in Japan are: (i) policy and government instability; (ii) tax rates and regulations; and (iii) inefficient government bureaucracy. Dr Schwab wrote that, "The macroeconomic environment is challenging enough; the larger problem, though, is that Japanese politics is in disarray. There have been six Prime Ministers since 2006. This kind of churning makes such reforms difficult to implement." (Reimagining Japan, pages 125-126).

18 Japanese business also face many challenges abroad. According to Gordon Orr, Brian Salsberg and Naoyuki Iwatani of McKinsey, "Japan's biggest companies have been losing relative market share over the past ten years: their proportion of the Fortune 500's total revenues decreased to 13 per cent, from 35 per cent,

between 1995 and 2005 …. [Japan's] share of the world's export value of electronic goods has fallen from 30 per cent in 1990 to less than 15 per cent today …. Many Japanese companies have no alternative to globalization if they hope to continue growing." (Reimagining Japan, page 151).

19 It will be culturally very challenging for great Japanese companies to transform themselves into great multinational companies. The boards of most Japanese companies do not have any foreigners. The same is true of their senior management and their talent pools. Most Japanese executives are not proficient in English, the business language of the world. Although difficult, such a transition can be made. Companies such as Nissan, Komatsu, Takeda, Shiseido, Uniqlo and Rakuten, have successfully embarked on such a journey.

20 My question to the leaders of business in Japan is whether they are convinced that their companies have no alternative but to globalize. If they are convinced, do they have the will to bring about this transformation. As Shinzo Maeda, the Chairman of Shiseido, has written, "There is a Japanese saying that change starts at the top and cascade to lower levels. That is true for us. Once we made the commitment to embrace diversity at the top, everything else began to cascade in the right direction. Now we are pushing for diversity at every level". (Reimagining Japan, page 162).

The Leadership Challenge

21 Fifth, perhaps the most difficult challenge facing Japan is the

leadership challenge. For over three decades, the leadership of Japan was provided by a golden triangle, consisting of the political leaders of the Liberal Democratic Party (LDP), the leaders of the bureaucracy and the leaders of the business community. This governance structure has been broken. As a result of scandals and growing incompetence, the LDP has lost the confidence of the Japanese people. For the same reasons, the public has also lost its trust in the bureaucracy. The leaders of the bureaucracy used to provide the country with both ideas and stability. They can no longer play that role. There is no other institution which has filled the policy vacuum. Japan does not have great think-tanks like those in the United States which are constantly throwing up new ideas and policy proposals. There are also few public intellectuals in Japan of national stature who can provide the country with intellectual leadership.

22 Politically, things seem to be in a state of a flux. After the LDP lost power, Hosokawa, Hata and Murayama, from the left, provided Japan with an alternative leadership. They were, however, not successful and have since faded away. In the meantime, the Democratic Party of Japan (DPJ) has emerged as the new alternative to the LDP. The DPJ is suspicious of the bureaucracy and has unwisely chosen to govern without its support. In the short time that it has been in power, the DPJ has changed the leadership of the government from Hatoyama, to Kan, and to Noda, in quick succession. At a time when Japan needs strong and visionary leaders, neither party seems able to fulfil this need.

23 Professor Gerald Curtis at Columbia University, an expert of Japan, has written that: “The public’s disappointment with the DPJ is matched by a lack of enthusiasm for the LDP, or for any of the several small parties that have recently been created by defectors from the LDP. Japanese politics, like the economy itself, has fallen into a deep funk with no clear way out.” (Reimagining Japan, page 129).

24 A new generation of younger Japanese has entered politics. Many have been elected to the Diet in the 2009 elections. The question is whether these new leaders will rise to the challenge. Will they be able to envision a new future for Japan that will capture the people’s imagination and support? Will they have the wisdom to forge a new partnership with the bureaucracy, business and civil society? Will they re-energise existing political institutions or build new political institutions? Will all these happen soon so that Japan will stop drifting?

Conclusion

25 Let me conclude. Japan has played a very important role in the rise of Asia. Japanese investment, technology and Official Development Assistance (ODA) have enabled the countries and peoples of ASEAN/Southeast Asia, to make rapid progress in their social and economic development. The Fukuda Doctrine of 1977 continues to be a beacon guiding Japan and ASEAN in their engagement. The ASEAN-Japan partnership is strong, substantive and trouble-free. It is a partnership founded on shared interests, common objectives and a high level of mutual trust. ASEAN has a

vested interest in a vibrant, prosperous and self-confident Japan. We wish Japan success in meeting its historic challenge of re-making an inward-looking Japan into a global Japan. History has shown us that Japan has the capacity to make such historic transformations. The Meiji Restoration and Japan's post-war reconstruction are two such examples. A global Japan will be a boon to Japan, to Asia and the world.

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[26 Sep 12, 3.00pm]