



JAPAN OUTLOOK: Struggle for Change

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There is no doubt that Japan is experiencing drastic changes very similar to two earlier events: the 1868 Meiji Restoration, which led to the modern state structure, and defeat in World War II in 1945. The current changes are primarily in two major areas, national security and the economy. Changes in these two areas are interrelated to a certain degree, and they are closely related to other political and social changes. The key questions raised are:

- Will Japan seek a new security posture more independent from its alliance with the United States?
- Will Japan continue to be a world economic giant after the current severe economic slump and program of structural reform?

Political Change: "Normal" Country or Rising Nationalism?

Significant Security Events

- In September 1999, Japan decided to develop an independent reconnaissance satellite.
- In March 1999, the Japan Maritime Self-Defense Forces fired warning shots at two North Korean vessels in Japanese territorial water for the first time in postwar history.
- In May 1999, the Diet adopted the Defense Guideline-related bills, which clarify Japan's responsibilities, such as logistic support and "search and rescue," in U.S. military operations in case of a contingency in the areas surrounding Japan.
- In August 1999, Japan agreed to cooperate with the United States in ballistic missile defense research and development.
- The Obuchi government is seeking a way to expand the role of the Self-Defense Forces in UN peacekeeping operations beyond merely noncombat support.
- Japan is considering the reduction of host nation support for U.S. forces due to the critical fiscal budget deficit and continuing economic recession.

These events may suggest a trend toward more conservative policies in Japan, which some observers regard as rising nationalism. Some wonder whether Japan is seeking a defense posture more independent of its alliance with the United States. Some recent political events seem to support this idea and display Japan's frustration with the current economic "winner," the United States. However, if we examine these events carefully, we can conclude that it is not an alarming trend but rather a reflection of Japan's efforts to become a "normal" country.

The 145th Diet session (January 19-August 13, 1999) was one of the most productive in history, passing 108 of 124 bills, including such important bills as the new Defense Guidelines-related laws, flag and anthem laws, a tax ID number law, wiretapping laws, and a Diet reform law. In addition, the Diet decided to establish the Research Commission on Constitutional Amendment, which had been taboo in Japanese politics since the intensification of the rivalry between the LDP and the Socialist Party in the 1960s and 1970s. While this appears to be a major shift in Japan's defense policy, if

future historians were to look back, the changes would be seen as gradual and prudent steps taken by Japan to become a normal country.

After the end of the Cold War, Japanese leaders gradually realized that Japan's vulnerability was not a result of a lack of military equipment but stemmed from an inadequate legal infrastructure. During the Gulf War in 1990, Japan's inability to participate as part of the UN forces was criticized by other nations despite its very generous financial support. (Japanese leaders were shocked that Japan was not included in Kuwait's full-page ad in the New York Times thanking the allied forces after the war.) After experiencing some frustrations over its defense policy and leadership role in the world, dangers in the region were sharply underscored by North Korea's missile launch over the Japanese main island in 1998.

In recent years, Japan has gradually adopted the defense policies of a "normal" nation:

- 1) U.S.-Japan security declaration: Alliance for the 21st Century in April 1996;
- 2) ACSA (Acquisition and Cross-Servicing Agreement) with the United States in April 1996;
- 3) Okinawa Land Lease Law (that allows the U.S. military to use Okinawa bases) in April 1997;
- 4) Agreement on the review of the U.S.-Japan security guidelines in July 1997;
- 5) Firing on North Korean vessels in March 1999; and,
- 6) Passage of the Defense Guidelines-related laws in May 1999.

The Obuchi cabinet is currently preparing a contingency plan-related bill. As compared to the 1960s and 1970s, when opposition by the Socialist and Communist parties and the media paralyzed Diet discussion of defense issues, these are significant steps forward.

This series of steps toward becoming a normal country is planned to strengthen U.S.-Japan security cooperation. What reminded U.S. and Japanese leaders of the vitality and importance of the U.S.-Japan security alliance, and of their shared interests in the midst of heightening trade friction, was the Nye Initiative in 1995.

Japanese Economic Slump

Economic Events: Lost 1990s?

- GDP growth was -0.1 percent in 1997 and -1.9 percent in 1998. GDP growth turned positive in the first quarter of 1999 at 1.5 percent with huge public spending. It is, however, expected to decrease to -1.0 percent in the third quarter. The unemployment rate hit 4.9 percent in June and July 1999, the worst in the postwar era.
- The government deficit is at the highest level in Japan's history, reaching 14 percent of GDP (\$3.34 trillion), which is well over the IMF's warning level of 10 percent. According to the Finance Ministry, the debt will hit \$4.02 trillion by the end of FY 2000.
- Japan's financial sector, which was long under government protection, was exposed to severe global competition with the Big Bang. A U.S. company, Ripplewood Holdings, and a group of blue chip backers acquired the Long Term Credit Bank, which had been nationalized under the government bridge bank plan. Many other Japanese financial institutions have been merged with or acquired by foreign companies.
- Facing major international competition, the banking sector is going through a major reorganization: Tokyo-Mitsubishi in April 1996, Fuji-DKB-IBJ and Tokai-Asahi in 1999, Sumitomo-Sakura to be merged in 2001.
- Japan's high telephone connection fee, protected by government regulation and monopoly, has been criticized as a huge obstacle for development of the information technology industry in Japan. NTT's new unlimited connection plan still costs 8000 yen per month.

During the 1980s and 1990s Japanese policymakers, business leaders, and bureaucrats did not try to adjust Japan's old economic and business structures and customs to the standard of the new, more competitive global market. Only in late 1990s did leaders begin to feel the need for structural and economic revival. The Japanese economy is suffering from weak competitiveness due mainly to protective government regulation and a corporate structure and culture in which companies guarantee employees' social welfare and lifetime employment, regardless of competitiveness, efficiency, and profits. This unwritten social pact worked positively during the high-economic-growth era in Japan. However, people now realize that such a system loses its efficiency in a world of global competition.

To become more efficient and competitive in the global market, Japanese corporations are undertaking radical restructuring initiatives. The financial sector is being forced to clean up nonperforming loans and become more transparent and efficient under the financial Big Bang. It has also opened up to foreign capital. Foreign investment in the financial sector increased from 27.3 billion yen (\$242 million) in 1996 to 457 billion yen (\$43.1 billion) in 1998. In order to survive,

many large banks are going through mergers and acquisitions. The next targets for restructuring are large construction companies, which have been protected by the government, and insurance companies, which also suffer from nonperforming assets. Many corporations have started to reduce employment—a socially unacceptable action in the high-growth era. With the impact of economic restructuring yet to be seen, Japanese economic recovery will take some more time.

Many Japanese are now questioning the fairness of U.S.-Japan macroeconomic relations, as a frustrated U.S. public did in the 1980s. Some Japanese feel that the United States is unfairly benefiting through the manipulation of exchange rates; they accuse the United States of financial conspiracy. Understanding that the relationship with the United States is crucial for economic survival, many Japanese are frustrated that the Japanese government and major financial and industrial sectors are not strong enough to take independent initiatives or prove their competitiveness. Some Japanese are trying to influence public opinion by playing to these frustrations.

Considering Japan's positive defense steps, its difficulties during the transitional phase in its economy, and some feelings against the strong U.S. financial sector and monetary policy, what would be the answers to the two questions raised at the beginning?

Will Japan seek a new security posture more independent from its alliance with the United States?

The positive developments in Japan's defense policy toward becoming a "normal" country are unlikely to weaken the U.S.-Japan security framework. For Japan to seek an independent security role—especially under the current economic conditions with an enormous budget deficit and a rapidly aging society—is not a rational choice. It is not a strategically sensible choice for Japan to play an independent role in the short and medium term. Current Japanese defense capabilities are supplementary to U.S. forces in Asia. Japan has strictly limited its defense capability and never obtained a power projection capability such as aircraft carriers. Japan wishes to have a normal country's defense capability, but not an offensive one. No existing political parties have the power to gain strong public support for an independent security role that would endanger the alliance with the United States. Even the largest opposition party, the Democratic Party, which once developed the idea of an "alliance without U.S. bases in Japan," stresses the importance of the alliance with the United States. In the April and June 1997 Nikkei polls, 55 percent of Japanese supported current U.S.-Japan security cooperation and the Defense Guidelines. The top security priority for both the U.S. and Japanese governments remains to minimize the negative political impact of the U.S. bases in Japan, especially in Okinawa.

Will Japan continue to be a world economic giant after the severe economic slump and program of structural reform?

Japan is entirely capable of returning to economic prosperity considering its well-educated human resources, good infrastructure, huge capital pool (e.g., \$10 trillion in household savings), and superb manufacturing capability. Japan's economic situation is not unlike the U.S. economic slump in the 1980s, which forced the economic restructuring, industrial revitalization, and policy alteration that led to the current sustainable economic growth. As was the case for the United States, Japan's economic recovery depends on structural reform and the international trade and financial environment. The efforts Japan has made so far for economic recovery demonstrate its desire to maintain stability in Asia and a sound world trade system through cooperation with the United States. Such common interests are a strong basis for overcoming Japan's occasional frustration with the United States; like the Nye Initiative, they remind both countries of the importance of the security relationship.

Despite Japan's potential for future economic growth, its economic revival in the short run is still tentative, as Japan's economic reform measures have not been fully effective, and the political will for a real transition is not yet fully formed. However, even if Japan fails to reform in the short run, it can maintain a stable social system with its already mature economy. Ironically, this stable social structure itself has, to a considerable degree, been an obstacle for rapid restructuring. Japan's choice, however, is not between two extremes, greedy competition or eternal stagnation. Japan has pieced together its own socioeconomic standards, pulling from both the social democratic policies of Europe and the free market competitiveness of the United States. Japan's highly competitive companies such as Toyota or Sony will remain so in the world market. At the same time, Japan will seek to maintain a social stability modeled on its own standard. This combination of maintaining both social stability and competitiveness at the same time will be the goal for Japan's future economic advancement.

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