

# **IIPS International Symposium**

## **Upcoming Changes in Japanese Society and the Future Shape of the Nation**

Tokyo, December 6-7, 2005

Session 1 Report

Session 1, “Portrait of a Depopulating Society – Diversifying Value and Wealth of Maturity” examined many facets of a society with a decreasing population, including its economics, business management, lifestyles, and government policies. The presentation was followed by a lively discussion.

The first speaker was Akihiko Matsutani, Professor at the National Graduate Institute for Policy Studies who spoke about the economic aspects of this topic and discussed several environmental changes that will occur in a society with a decreasing population and how these can be leveraged to create an affluent society.

First, companies will change the way they do business. National incomes are expected to peak in 2010 followed by a decline, and high-volume, low-margin businesses, which are premised on expanding sales volumes, will no longer be able to survive. Businesses will be forced to focus on value-added production. However, reducing costs through process innovation as a method of increasing value does not have any benefits of scale, and so will be ineffective. Thus, businesses must increase their competitiveness by increasing value through product innovation and delivering revolutionary new products.

Moreover, it is inevitable that Japan’s lifetime employment/seniority-based wage system will collapse, and that this collapse will visit major changes in both the form of employment and the lifestyle of Japanese citizens. As the system of lifetime employment collapses, ways of working that were heretofore seen as relatively risky will eventually be seen as less so, such as taking on several part-time jobs rather than one full-time job, and different approaches to employment will increase and become more diverse. As these changes to the employment system occur, lifestyles and consumer behavior that have been kept homogenous under the system of lifetime

employment and seniority-based wages will also become more diverse. This diversification will lead to a diversification of social values. In the past, the structural cohesion of society grew through social values built on the assumption of ever-increasing per-capita income; however, as expansion-based values break down, so will social cohesion.

There are several policies—mainly in the public policy arena—necessary to achieve a new affluence in this environment of changing corporate activities and diversifying lifestyles and work styles. First, in order to compensate for the reduction in the amount of investment, it is important to convert from an investment-led economy to a consumption-led economy. In order to do this, it is necessary to link the capital saved through decreased corporate investment with increased wages. However, since the labor market is asymmetrical, it is hoped that “big government” will intervene rather than pursuing a permissive policy. Furthermore, in terms of social capital, while the savings rate will decrease substantially, the ability to invest will also decrease, and it is estimated that in the thirty years following the year 2000, the maximum amount of public investment allowed (amount achievable) is expected to decrease by 47 percent. Until now, building up social capital has been achieved through policies intended to build up “hardware-oriented” infrastructure such as roads. The new society, however, requires the development of “software-oriented” infrastructure, such as regulations that limit traffic density in order to decrease congestion. Until recently, the role of public finance has been to support public welfare through growing tax revenues as a result of higher numbers of workers provided by a growing population. However, in a society with a decreasing population, this public finance scheme will inevitably collapse. It has been said that public finance should be scaled back to match the size of the population rather than raising taxes.

The second speaker was Yuri Okina, Chief Senior Economist at the Japan Research Institute. Ms. Okina spoke on the necessity of changing lifestyles in order to enjoy economic prosperity and a higher quality of life amidst the sea change brought about by a decreasing population.

Speaking first about economic prosperity, Ms. Okina said that the overall size of the economy will shrink, as will the supply side of the labor market, which will pull down economic growth macro-economically, pulling down the economic growth rate. However, the global economy will grow, which may also lift Japan up like a rising tide, and keep per capita economic growth from going down. Thus, in order to pursue economic prosperity, we must focus on the population not only from a quantitative perspective but from a qualitative one as well. A super-aging society will increase social

security-related expenditure, and if we continue to spend as we have until now, the public financial system will be bankrupted. Thus, we must radically restructure the public expenditure in such a way as to meet the financial obligations of this generation while leaving no burden on future generations. Particularly important policies would be to achieve a primary balance surplus by the beginning of 2010, restructure public expenditures based on the establishment of a policy management cycle and the importance of each policy, and be more thorough about overall risk management of government debt.

We must also empower the individual, and build an inclusive society that can harness the power of these individuals. To this end, we must broaden the scope of education and increase our “people power” to expand on creative and imaginative innovation, like that demonstrated in the crafts and animation industries. Furthermore, to actuate Japan's precious labor resources and increase its capacity for developing technology that adds value, we need employment arrangements and organizational flexibility to make the most of the power of the individual. To do this, the government must create an environment that provides an incentive for those types of business activities.

Next, to live a comfortable life, we need to become a society that permits a diversity of values created through economic prosperity. Specifically, we need to recognize women and senior citizens as a significant factor. Senior citizens are a generation in limbo, and in order to release the rich store of business experience and traditional skills that they can contribute to society through NPO activities, the social security system, local governments, and businesses must change their views of this group. We need to create an environment that makes it easy for women with children to work and that makes it easy for women to return to work after long absences, by building up infrastructure such as daycare and after-school care facilities. In addition to absorbing part of the financial burden through the tax system and subsidies, we need to create an environment that places importance on home life and creates a balance between work and life, even for men.

Finally, we must shake up the current company-centered society left over from the period of high economic growth, open up public activities that used to be the domain of government agencies, and convert to an inclusive society that enables seniors, women, and foreigners to be productive members of society.

The third and final speaker was Alan Walker, Professor of Social Policy from University of Sheffield in the UK, who spoke on the current state of the ageing society in the EU trends in government policies, the similarities to Japan's ageing society, and comparisons with Japanese government policies.

Professor Walker said that the EU population is decreasing as a percentage of the global population, and like Japan, the birth rate is declining, while the average age is rising. The 55 to 64 age group is expected to exceed the 15 to 24 age group by 2010. In 10 years, the average age in the EU will be 42—and the average age in Germany will be greater than 50—but there are significant differences, both nationally and geographically, between EU members, and government policies must take these into consideration. An aged society brings to mind negative images, such as rising medical and social security expenditures and more people with disabilities, but the social security system is in control of policy makers to a great extent, and as life expectancy increases, we can expect a longer productive lifespan rather than increased disability. There is no reason to adopt an apocalyptic view.

The next topic discussed was policy reform in the EU. In the 1970s and 1980s, the policy objective in the EU was reforming the traditional early retirement system to keep pace with the ageing society, eradicating discrimination of the aged in the labor market, and providing a societal safety net for those who need support and nursing care. Now, senior citizens are getting involved in local government and otherwise joining in the political and policy making process.

The term used to describe the future ageing society was “active ageing.” This concept expresses the importance of planning lifestyles at every life stage, not just for the aged. For employers, it is important to prevent disease and keep worker skills from becoming outdated. Regional communities must focus on policies for public health and preventive medicine. Both Europe and Japan are considering ways to increase the birth rate, but regardless of efforts in this area, we need policies to deal with issues created by ageing.

Following the three presentations, there was a lively discussion. The audience raised questions about the distribution of reduced investment to the labor market, and suggested that instead companies would move overseas. Attendees also asked about specific measures for reducing the size of public finance, the advisability of using immigration to deal with the declining labor force, and changes in the work ethic in Japanese society.

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Session 2 Report

The second session, entitled “Sources of Competitiveness— Japan’s Strengths and Globalization,” commenced with a presentation by Akio Mikuni of Mikuni & Co. Ltd, who chiefly uses analysis of company financial statements to analyze Japanese economic competitiveness.

After World War Two Japanese companies such as Toyota and Sony raised their international competitiveness and achieved a high level of economic growth by relying on debt and actively engaging in capital investment, thereby contributing to post-war reconstruction and a high rate of growth. These companies gradually attained price leadership and emerged as established international brands. Consequently, from the mid-1960s onwards Japan’s balance of trade remained consistently in the black, in 1970 it became a net creditor nation, and in the latter half of the 1980s it became the world’s largest creditor nation. In the process, however, Japan was left with a high-cost economy—a situation that was exacerbated by the high yen—and began to lose competitiveness in labor-intensive sectors. In order to remain competitive, Japanese companies proceeded to outsource production overseas. Consequently, the level of industrial production in Japan has remained essentially flat since 1990 and Japanese manufacturers have enjoyed significantly higher profits in overseas markets than in the domestic market.

Since the mid-1990s, the accumulated current account surplus has exerted deflationary pressure on the Japanese economy, precipitating an economic slump. This came about because Japan exported its surpluses in the form of capital, resulting in a dearth of domestic investment which served as a root cause of deflation. The Bank of Japan had been trying to compensate for this lack of capital by easing the credit situation. However, during the 1980s, this credit easing had led to the formation of the bubble, and starting in 1990 the bursting of the bubble caused signs of deflation to appear.

Thus it cannot be denied that the Japanese economy is declining in competitive terms. Strengthening Japan’s competitiveness will require major shifts in policy. To achieve this it will be necessary to increase domestic demand by focusing on household finances and to increase added value so as to enable the raising of retail prices. If these measures are implemented, domestic demand will enable the improvements in profitability and productivity that are essential to economic growth. The specific policies required are as follows: first, Japan should abandon its dependence on exports and a surplus, and allow a strong yen; second, new products and services should be devised that reflect the unique values of the Japanese, who desire a richer lifestyle; third, a tax system for the individual should be considered that mirrors the corporate tax system and allows deductions for interest paid on housing loans; and fourth, the securities market should be made the central source of corporate funding. Implementing these four policies will reinvigorate economic activity, sow the seeds of innovation, and nurture the development of human resources.

Implementing the measures that these policies will require, however, will demand strong leadership, and may prove impossible under the existing top-down system of governance. It would be difficult to argue that the Japanese government has shown firm leadership, and the Japanese economy’s loss of its competitive edge can be ascribed to this lack of leadership.

Second to speak was Glen S. Fukushima, president and CEO of Airbus Japan, who drew on his accumulated research and business achievements since 1969 to examine the changes in Japanese competitiveness over the past 60 years, the sources of Japan’s competitiveness, and the effects of globalization on Japan’s competitiveness.

There are probably few nations whose perceived competitiveness has changed as much as Japan’s has. Although little attention was paid to Japanese competitiveness in the 1960s, even then early problems were arising in the textile sector. Subsequently, trade friction occurred in the 1970s and 1980s in sectors such as consumer electronics, iron and steel, automobiles, machine tools, semiconductors, super-computers, beef, citrus

fruits, tobacco, soda ash, plate glass, paper products, construction services, law, financial services, communications devices, and communications services.

During this period, Japan became a member of the OECD in 1964 and in 1965 surpassed Germany to become the world's number two economic power; in 1979 "Japan as Number One" by Professor Ezra Vogel of Harvard University was published, and in the 1980s Japan was recognized as the most competitive nation in the world in surveys of international competitiveness conducted by organizations such as the IMD and the World Economic Forum. The culmination of this transition was a 1989 survey conducted by the magazine Business Week, in which 68 percent of the American public responded that the economic threat to the USA posed by Japan was greater than the threat posed by the military power of the Soviet Union. At that time some economists so over-estimated Japan's economy that they predicted that Japan's GDP would outstrip that of USA by the year 2000. By the end of the 1990s, however, it was said that there would be no repeat of Japan's earlier economic recovery and it was widely bruited that Japan's mountain of bad debt represented the most serious impediment faced by the global economy.

In regard to the sources of Japan's competitiveness, it was previously thought that the post-war economic growth was spawned by Japan's industrial policy and Japanese-style management. Conversely, by the end of the 1990s Japan's economic slump and competitive decline were being attributed to these very same factors. That is to say, in Japan factors such as administrative guidance and cooperation between the public and private sectors were preventing market principles from operating and brought about the decline of the Japanese economy. Furthermore, Japanese-style management—symbolized by lifetime employment, the seniority system, and decision-making by consensus—came to be regarded as inefficient and was recognized as a major obstacle to competitiveness.

Although Japan's competitiveness was in part underpinned by factors such as a Cold War era political environment in which Japan could focus on its economy, the maintenance of favorable exchange rates also played a role. Other factors that gave rise to Japan's competitiveness included a comparative lack of government corruption, an outstanding workforce, a strong science education system, on-the-job training, close family relationships, a desire to study and a strong interest in the international community, technological innovation and an enthusiasm for putting it into practice, investment in human resources based on the long view and a capital market that supported this, the impetus for making improvements, the "customer-first" principle, and pride in Japan's national identity.

Japan was slow to react to globalization and its tardy response to the IT revolution at the start of the 1990s was in large measure due to the sloth of Japanese decision-making. Since then, the influence of globalization on Japan's competitiveness has undoubtedly increased; however, Japan now faces other issues, such as a low birth rate, an aging society, pension problems, and the problem of sovereign debt. Although these problems can be resolved, the manner in which this is done will be important, given the likelihood that Japan will at the same time be confronted by significant security challenges.

The third and final presenter was Barry Bosworth, senior fellow at the Brookings Institution, who asserted that the over-optimistic view of Japan which had formerly prevailed has been supplanted by an overly pessimistic view.

Japan is faced with several serious problems—a decline in the younger working population due to the low birth rate and the aging of society, increasing pension and health care costs due to society's aging, a budget deficit of 8 percent of GDP (the worst among OECD nations in percentage terms), and sovereign debt amounting to 150 percent of GDP. Despite the fact that these problems appear serious at first glance, however, Japan seems to be responding well in practice, as exemplified by the improvements that it has devised for the pension system. These kinds of measures—coupled with the relatively modest tax burden in Japan—essentially suggest that these problems can easily be resolved, provided that the economy grows.

With Japan currently suffering from low growth, the resolution of these problems will thus ultimately depend on whether or not the economy can continue to grow. With regard to Japanese productivity, the low growth in Japan's GDP in the 1990s was caused by a decline in the labor investment volume, which was mainly due to factors such as the low birth rate and the aging of society. Whereas the working population in the USA is growing at an annual rate of approximately 1 percent, in Japan it is contracting by approximately 1 percent per annum. Furthermore, while Japanese companies which are engaged in overseas activities are exhibiting high levels of productivity, Japan lags behind other industrialized nations in terms of domestic productivity. Rather than protecting its domestic markets, Japan must engage in competition in genuinely global markets, as in the future Japan is likely to be exposed to increasing competition from China and South Korea in manufacturing industries. On the immigration front, as long as Japan is making economic inroads overseas, there is absolutely no need for Japan to allow increased admission of immigrants.

In recent years a wealth of high-quality research has appeared, from which valuable hints can be gleaned. As regards competitiveness, for example, research reveals that export industries have historically improved their productivity, while domestic manufacturing and service industries have been playing second fiddle.

Japan invests 3 percent of its GDP in R&D, a ratio that places it third in the world after Sweden and Finland. In addition, education in mathematics and physics in Japan ranks highly, and Japan can also boast enormous sums of foreign credit. On the other hand, Japan will from now on be unable to rely on continuing growth in its current account surplus and will thus have to develop domestic markets by promoting competitiveness and investment in advanced R&D—chiefly through deregulation and the introduction of foreign capital.

Once the three speakers had concluded their presentations and analysis, a discussion ensued as the other symposium participants weighed in with questions. During this debate and questioning, a wide range of topics were revisited, including the importance of R&D, future trends in capital markets, how to build Japanese excellence, policy issues which relate to production factors that lead to predominance, problems of entry into Japanese markets, acceptance of foreign capital in Japanese markets, and the need for deregulation.

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Session 3 Report

The theme for the third session was “Resonance of Culture—Transnationalization and Mutual Understanding between Cultures,” and three speakers gave real-world examples and analyses of the transnational impact of culture amidst globalization.

The first speaker was Yasuki Hamano, Professor at the Graduate School of Frontier Sciences, University of Tokyo, who spoke on Japanese culture and the challenges posed to it by globalization under the title “The Conflict of Culture and Civilization.”

First, rapid changes in the lifestyle and culture of Japan were effected in the wake of World War II due to the permeation of the Western lifestyle and Japanese receptiveness. The twentieth century saw the spread of mass production, mass consumption, and mass disposal on a global scale, and cultural diversity was minimized as lifestyles were standardized and homogenized. After World War II, Ms. Appleton of the Economic and Scientific Section of the GHQ for the Supreme Commander of the Allied Powers was in charge of managing the distribution of soybeans, and she reportedly said “the tastes of the Japanese can be changed so easily.” As foreshadowed by her words, the subsequent closing of some 1,500 soy sauce factories triggered massive change in the Japanese diet.

Ironically, a backlash against the twentieth-century lifestyle is currently underway in Europe and the US, with concepts such as slow food, slow life, and Lifestyle of Health and Sustainability (LOHAS) being proposed. This is based on the concept that nature is not something to be exploited but is something with which to coexist, and this is at the core of the philosophy that used to form the foundation of the Japanese lifestyle. This philosophy is reflected in the works of Japanese artists like Hayao Miyazaki, who directed the animated films *Nausica of the Valley of the Wind* and *Princess Mononoke*; Issei Miyake, who incorporated traditional kimono designs into his fashions; and especially Akira Minagawa, who proposed the hundred-year design, the concept of

continuously recycling materials for hundreds of years. This type of natural lifestyle historically existed across Japan and in Asia, but it fell before the onslaught of Westernization, which was fueled by the Japanese mindset that foreign ideas and goods were superior, and the desire to imitate the Western lifestyle. In this way, the Japanese and people of Asia abandoned the lifestyle embodied by the idea of being one with nature.

Moreover, the concept of a global standard confuses civilization with culture. Civilization is convenience derived from physical comforts and overcoming physical limitations. It is significant that this phenomenon is common to humankind. As such, civilization tends toward standardization or integration, but culture is a tapestry woven of local customs and histories that tends toward fragmentation and individualization. There is no hierarchy, superiority, or inferiority among cultures. Cultures should recognize each other and be judged by their own values rather than having another's values forced on them. It is difficult to measure the Japanese culture, which operates on the psychological framework that "the parts are the whole," with the more Western concept that "the whole is the sum of the parts." In conclusion, it is incumbent upon Japan and the Japanese to not take the idea of a global standard for culture on blind faith, but to have their own strategy and values when conveying their culture to the world.

The second speaker, Wang Min, Professor, Center of International–Japan Studies at Hosei University, spoke about China's interest in Japanese pop culture as a vehicle for analyzing Sino-Japan relations and the promotion of Japanese culture. In China, where 85.5 percent of urban residents regard themselves as middle class, the country is thoroughly permeated with elements of Japanese lifestyle and pop culture, and people under age 30 are particularly influenced by Japanese culture. For many Chinese, the first exposure to Japanese culture was the 1963 translation of Yasushi Inoue's book *Tenpyo no Iraka* and the subsequent attention lavished upon it when it was selected for inclusion in Japanese Cinema Week in the late 1970s. As a result of the refined image of Japanese lifestyles and culture held by the Chinese in the 1980s, Japanese cuisine and other cultural elements gained popularity. Though there are anti-Japan demonstrations today, there is a strong interest in Japanese culture. This is demonstrated by the fact that there are now four companies publishing the book *The Chrysanthemum and the Sword*, and the study of the Akutagawa Prize winner *Keritai Senaka (The Back You Want to Kick)* by Risa Wataya, and *Hebi ni Piasu (A Pierced Snake)* by Hitomi Kanehara. Japanese culture provides China with a ready medium for interacting with the world and for grappling with traditional values as they emerge from an epoch dominated by dogmatic ideology. At the same time, the aesthetics, refined lifestyle, and cuisine of

Japanese culture is helping to change anti-Japanese prejudice and rebuild values.

Against this background, Japanese cultural power, or soft power, is widely recognized by other nations, and so active promotion of Japanese culture can broaden the path to mutual understanding, even if it is unique among world cultures. Moreover, the role of culture in Japan's international relations cannot be ignored. Especially in regard to its often-turbulent relationship with China as well as other Asian nations, the aspects of Japanese culture that are agreeable to and resonate with other cultures must be harnessed. Toward this end, it is apparent that Japan needs to consider how to promote Japanese culture with Japanese values but in a way that it can be understood by non-Japanese. At the same time, the diversification of values in China is necessary, and the spread of Japanese culture could facilitate this process.

The third speaker was Thomas D. Looser, Assistant Professor in the Department of East Asian Studies at New York University, who examined the spread of popular culture as an example of the shifting cultural environment due to the rapid globalization of the past 15 years.

Over the past several years the most important social and cultural concept is that of sovereignty—not sovereignty in the political sense, but in the more general sense of controlling or ruling. How has the concept of the individual and the concept of the state as a sovereign entity changed as popular culture has changed over the last 15 years?

Anime, for example, is an expression of Japan even though it is a product that is undergoing globalization. Specifically, the animated work *Gasaraki* combines traditional Japanese Noh and the romantic writings about Japanese ogre legends by Watanabe no Tsuna with a colorful and complex storyline replete with the Self Defense Force, a war in the Middle East, and global economic events that are expressed using a wide range of media, including two-dimensional animations, 3-D graphics, and photographs. As indicated by this example, anime is used to express a world with overlapping layers of space and time. Moreover, anime goes beyond Japan's borders, as people in Asia and the US collaborate on works that are consumed the world over. The consumer takes on the position of sovereignty—the consumer is the point at which sovereignty is located and identified, and, paradoxically, even if global or transnational in nature, this process maintains national borders and strengthens national identities.

The *otaku*, as anime fans call themselves, have created an identity from a conglomeration of interests—as represented by anime *cos-play* (dressing up the costumes of one's favorite character) and techno music groups—and this identity is being exported globally, mutating as it goes, and sovereignty becomes dispersed and uncertain. The Superflat genre of art created by Takashi Murakami, Yoshitomo Nara,

and others employs anime-esque characters while skillfully weaving traditional Japanese cultural elements into stories made up of overlapping space and time. Moreover, digital technology is used to merge these different elements, blurring the connections and boundaries with the original and creating a more complex matrix of today's global connections between consumers and national identities.

Next, there is the *moe* (offshoot) generation, or post-*otaku* culture, evolved from the *otaku* culture of the 70s. As the inheritors of the *otaku* culture, they moved it away from politics and into a more self-indulgent, sexually hedonistic vein with a childish quality, and they consciously and happily negate the value of human relationships, isolating themselves from real-world relationships.

Thus, the concept of overlapping space and time in anime has continued in the *otaku* phenomenon, and the image of *otaku* has spread amongst global popular culture in many forms, giving birth to a type of hyper-modern isolated individual to whom sovereignty has returned in a new form, as a national identity not based on race or hierarchy,

The presentation was followed by a lively discussion focusing upon the individuality and universality of culture, means for improving the communication of Japanese culture abroad, cultural diplomacy, the image of Japanese culture and receptiveness to it overseas, as well as the interaction and relationship of society, politics, and the economy.