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## RESHAPING THE NATIONAL SPIRIT OF JAPAN: HOW WASHINGTON CAN HELP CREATE A MORE RESPONSIBLE JAPAN

### INTRODUCTION

When Japan's Prime Minister, Kiichi Miyazawa, arrives in Washington on June 30 to prepare for next month's meeting of the seven industrialized nations in Munich, he should find much in common with George Bush.

Bush, early in the presidential primaries, defeated a challenge from within his own party to an internationalist-oriented foreign policy; Miyazawa in June succeeded in turning back strong objections from within his own Liberal Democratic Party (LDP) to his proposal that Japan participate in United Nations peacekeeping operations. But these victories have been small. Repeated political scandals on the western side of the Pacific Ocean, and an increasingly angry electorate on its eastern shores have continued the slide in popularity of both leaders since their flu-plagued state dinner in Tokyo last January. Most important, the two men share the common misfortune of political responsibility for the current sluggish conditions of the world's two great economic powerhouses.

**Fundamental Strengths.** Japan's economy is in the throes of its most serious reversal since World War II. Although the Japanese maintain a public face of placidness and composure, their stock market has been in a steady dive for over two years, land values are collapsing, and corporate earnings have plunged. Commentary in the American press has ranged from glee that the Japanese have finally gotten their comeuppance to concern that a serious world recession will follow. While bubbles may burst, however, the fundamental strengths of Japan's economy—its people's discipline, ambition, and organization—guarantee renewed health and vigor. As Japan's economy returns to strength, and when the public spotlight in the United States shifts following the November presidential elections, Americans' concerns about Japan are sure to grow.

U.S.-Japanese relations have been chilly for some time. Indeed, following President Bush's four-day visit to Japan in January, the climate between Washington and Tokyo turned ugly. Less than two weeks later, the Speaker of Japan's lower house of Parlia-

ment, Yoshio Sakurauchi, declared that problems in the relationship between the U.S. and Japan could be laid at the feet of "the inferior quality of U.S. labor." Sakurauchi added that "U.S. workers are too lazy," and concluded noting that 30 percent of American laborers "cannot even read."

Five weeks later Senator Ernest Hollings, the South Carolina Democrat, advised a group of workers at the Roller Bearing Company of America plant in Hartsville, South Carolina, to "draw a mushroom cloud and put underneath it, 'Made in America' by lazy and illiterate Americans and tested in Japan."

The feelings articulated by Speaker Sakurauchi and Senator Hollings are not original. Indeed, several respected Japanese politicians and businessmen privately have expressed concerns about the U.S. that were identical to Sakurauchi's public criticism.<sup>1</sup> The willingness, however, of senior elected members of the U.S. and Japanese governments to rebuke each other's societies is new. Until recently, trans-Pacific fusillades were the province of such businessmen as Chrysler's Lee Iacocca, and such intellectuals as the author of *The Japan That Can Say No*, Shintaro Ishihara.

**Heading Off An Explosion.** Because of Japan's military and economic importance to the future of the U.S. the Bush Administration should take seriously the accumulated evidence of deep problems in Washington's relationship with Tokyo and move to head off a precipitous reaction by Congress or the public before it is too late. The sudden imposition of restrictions on Japanese imports or the abrogation of the 1960 U.S.-Japan Mutual Defense Treaty are the two plainest examples of mischief which a political explosion could release.

Unfortunately, there is no sign that the Bush Administration appreciates the need to act. Knowledgeable American embassy officials in both Tokyo and Beijing told The Heritage Foundation in January that there are few, if any, high-level officials of the Bush Administration who have substantive experience in or detailed knowledge of Japan. One representative of a large American communications company in Tokyo winced at the Japanese language skills of the interpreter George Bush brought with him on his January trip, and observed that on previous visits Bush and Secretary of State James Baker had to rely on interpreters hired in Japan.

An anecdote from a series of articles on Vice President Dan Quayle that appeared in *The Washington Post* during January illustrates the State Department's inattention to Japan. "A number of sources," reported the *Post*, indicated, "that the secretary of state does not want Quayle to be a major player in the formulation or implementation of foreign policy." Accordingly, "his efforts have been restricted to areas of the world on which Baker rarely focuses...." Several paragraphs later, the article mentions those areas: Latin America and Japan.

Bush and Baker have concentrated their energy on neutralizing Saddam Hussein and the unravelling of the Soviet Union. It is, however, long past the time to consider the challenge with which Japan confronts the U.S. today and is certain to do so increasingly in the future. Japan's current economic woes offer American policy makers a window of opportunity to open Japanese markets, encourage the growing demand for

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1 Conversations with The Heritage Foundation in Tokyo, January 1992.

better living standards, and most important, discourage Japan's troublesome exceptionality.

**National Passion.** This exceptionality is key to Japan's problems with the rest of the world. Indeed, foreign observers long have noted it. "Our attitude's queer and quaint," wrote the Victorian W.S. Gilbert for a chorus of Japanese nobles from *The Mikado*, and "you're wrong if you think it ain't." Japan's island geography and its ancient effort to establish an identity separate from China helped mold a national spirit as unique as it was suspicious of things foreign. When Western missionaries and, later, traders arrived uninvited, Japanese mistrust of strangers became a national passion. It laid the groundwork for both the militarism that led to Japan's involvement in World War II and Tokyo's subsequent effort to find security in economic triumph.

Today, Japan is far along the path to such a triumph. But the cost has been high. Tokyo's official reluctance to admit foreign goods, and such unique business practices as product distribution systems effectively closed to outside competitors, gradually are poisoning Japan's relations with the U.S. and other industrialized nations. Protectionist legislation under consideration in Congress that could lead to U.S. restrictions on Japanese products, although moderated by the House Ways and Means Committee in June, is an example of the seeping toxin. So are the European Community's prohibitions against such Japanese products as videocassette recorders, microwave ovens, and semiconductors.

Protectionism, however, will neither improve a manufacturer's ability to compete, nor will it subdue Japan's fierce drive to provide security against a hostile world by accumulating wealth beyond measure. The aim of U.S. policy should be to soften this impulse by addressing its root in Japan's age-old suspicion of foreigners. With its zeal for security blunted, Japan would behave more like other nations. America's task is to change the national spirit of Japan.

**Receptive People.** An ambitious undertaking under the most favorable circumstances, the prospects for shaping Japan's national spirit are improved by the Japanese peoples' current receptiveness to change. Such politicians as Prime Minister Miyazawa have responded to popular sentiment by promising to increase national living standards. This is a step in the right direction; an emphasis on consumer spending will clearly temper the relentless drive to amass capital.

But more is required, specifically a moderation of such international pricing strategies as "dumping," clan-like corporate structures called *keiretsu* that support attacks on foreign market share, and foreign competitor-proof arrangements between manufacturers and distributors. These predatory trade practices have made of modern Japanese enterprise an organism surprisingly similar to the closed nation Commodore Matthew Perry found when he arrived in Japan 139 years ago. To take advantage of sentiment for change in Japan, and to prevent political pressure in the U.S. for protectionism, the Bush Administration should:

- ✓ **Attempt to moderate Japan's historically insular view of foreigners.** This has been the key attitude behind its closed markets, collusive business practices, and incestuous commercial arrangements, all of which have created serious friction between Japan and other nations. U.S. policy should be consistent with such fundamental American practices as free trade and free enter-

prise, which are rooted in the principles of self-determination and liberty, and which are the best international models for peace and economic growth.

- ✓ **Ensure that policy towards Japan, rather than attempting to imitate such Japanese practices as industrial policy and managed trade, reflects such American strengths as its acknowledged world leadership role and its desirability as a place to live.** The Japanese should be encouraged to temper their focus on accumulating wealth with a growing emphasis on consumer spending. In short, Japan should pursue a standard of living that more accurately reflects its huge financial reserves. To achieve this goal, the U.S. should:
  - ◆ **Spread knowledge of Americans' material comforts by encouraging Japanese tourism.** Of the 10 million Japanese who went abroad for pleasure last year, only 430,000 travelled to the U.S.
  - ◆ **Develop an awareness in Japan of the benefits of improved standards of living.** This could be done by enacting legislation offering special inducements to Japanese professionals to become American citizens. As a result, the U.S. could enjoy an influx of engineers, researchers, and other workers whose skills would increase American competitiveness; the departure of these valuable professionals would encourage the Japanese to make their own society a more comfortable place in which to live.
  - ◆ **Require the United States Information Agency to develop a public diplomacy strategy that raises the Japanese awareness of and demand for the American standard of living.**
  - ◆ **Continue to break down Japanese trade barriers.** These include informal restrictions on the participation of U.S. firms in public works contracts and the exclusion of foreign competition in the auto parts and glass manufacturing industries.
- ✓ **Formulate a long-term policy that aims to bring Japanese commercial practices into line with those of other international economic powers.** Acknowledging the uniqueness of Japan's traditions and business practices, the U.S. should address the roots of Japanese economic behavior, its sense of isolation, and perceived need, therefore, to defend against a hostile world. The aim should be to include Tokyo as a full and respected member of the international community. To achieve this goal, the Bush Administration should:
  - ◆ **Privately urge Tokyo to begin writing its own constitution for adoption in 1995.** The constitution Japan now observes was the work of General Douglas MacArthur. It remains a popular document, but still one imposed from the outside. Redrafting the constitution would require fundamental consideration of the direction and goals of the Japanese state. Lacking a strong two-party system, these issues have never been addressed. Doing so would help encourage a politics based on competing ideas, one that offers a chance of representing the Japanese people's aspi-

rations rather than the mingled interests of the entrenched bureaucracy and corporate chieftains who now set the nation's priorities.

- ◆ **Press Japanese lawmakers and leaders to modify the constitutional restrictions on Japan's use of military force.** Article Nine of the constitution "forever renounce[s] war as a sovereign right of the nation and the threat or use of force as a means of settling disputes." No one, especially Japan, seeks a repetition of World War II. Avoiding such an occurrence is advanced by encouraging Japan to become a full, responsible, and participating member of the international community. Article Nine has complicated but not prevented Japan's contribution to such U.N. peacekeeping operations as those conducted in Kuwait and Cambodia.

Tokyo has been able to circumvent Article Nine when necessary, and would not be held back by the constitutional measure if aggression was what Japan intended. Thus, Article Nine does not ensure a peaceable Japan. However, its idealistic message—that all war is wrong—makes Japan an exception to every other nation in the world, and discourages responsible debate by the Japanese over whether a potential use of force is right or wrong. Japan may well choose to cling to a pacifistic fantasy that denies the possibility of a just war. But prompting the Japanese to take this decision themselves will encourage a more pluralistic society, one better equipped to challenge from within both the neo-mercantilistic policies Tokyo now pursues as well as any potentially aggressive foreign policy a Japanese politician might one day propose. The best insurance against a remilitarized Japan is not a constitutional provision founded upon an unspoken lie, but rather a vigorous political system based on the open competition of ideas.

## RISING TENSIONS BETWEEN WASHINGTON AND TOKYO

Unless the dying embers of the Soviet Union re-ignite, Tokyo's commercial challenge is likely to replace Moscow's armed threat as one of America's biggest foreign headaches in the end of the 1990s. The signs of trouble ahead are abundant today. Although U.S. exports to Japan more than doubled from \$22.9 billion in 1986 to \$48.1 billion in 1991, Japan's trade surplus with the U.S. edged upward, growing by 1.3 percent to \$43.5 billion in 1991. A much bigger jump in the trade imbalance is possible this year as Japanese demand for American imports falters, the victim of Japan's weakened economy.

Sparks kindled by trade frictions now have come to characterize and punctuate relations between Washington and Tokyo. Reacting viscerally to trade imbalance figures in the suffering U.S. auto industry, politicians and business leaders on both sides of the Pacific escalated the harshness of their rhetoric early this year. Americans accused the Japanese of unfair business practices, and the Japanese claimed that American workers are too undisciplined to compete successfully in world markets. As the year reached its midpoint, U.S. Department of Justice efforts to challenge the established—and illegal—Japanese practice of bid-rigging to exclude foreign competition in public works contracts became the bone of contention.

Naturally, tensions have risen. Opinion polls in the U.S. and Japan reflect the worsening relations. A *New York Times/CBS News/Tokyo Broadcasting System* poll taken shortly before the 50th anniversary of Japan's attack on Pearl Harbor last year showed that nearly 40 percent of the Japanese considered relations with the U.S. "somewhat" or "very" unfriendly. Asked about anti-Japanese feelings by a February 1992 *Washington Post/ABC News* poll, 65 percent of Americans answered that it was on the rise, double the percent of respondents who said anti-Japanese sentiment was increasing in 1990.

From the point of view of an America accustomed to unchallenged economic superiority since World War II, a comparison both of current economic figures and future projections also suggests colder relations with Tokyo ahead. Although not a measure of buying power, which remains 30 to 40 percent higher in the U.S. than in Japan, the ratio of national wealth to population, called by economists per capita gross national product (GNP), is a common tool used to compare the prosperity of nations. Japan's per capita GNP exceeded that of the U.S. for the first time in 1987. During the final three years of the 1980s, Japan's per capita GNP averaged \$23,723, or 12 percent higher than the U.S. figure of \$21,112 for the same period. By itself, this 12 percent difference means little. However, as a rough gauge that measures the post-World War II economic accomplishments of the two former enemies, Japan's achievement of equality with America's per capita GNP indicates a disturbing trend that adds to tensions between the two nations.

A comparison of the two economies' growth rates provides more graphic evidence of Japan's momentum. For the second half of the 1980s the U.S. economy expanded at an average rate of 2.64 percent per year. Japan's yearly growth rate during the same time was 4.65 percent, about three-fourths higher than the U.S. figure. The Japanese Economic Institute in Washington, which is funded by Japan's Foreign Ministry, estimates that at current exchange rates and assuming a modest and sustained difference of 1.2 percent above the U.S. growth rate, Japan's economy, which produced a \$3.39 trillion GNP in 1991, would overtake America's, which stood at \$5.68 trillion.<sup>2</sup>

## JAPAN'S PUNCTURED SENSE OF ECONOMIC INVINCIBILITY

Although its long-term economic prospects remain bright, Japan's economy is shuddering under an assault of unrelieved bad news from the Tokyo Stock Exchange. On June 19, the Tokyo stock market slid to 16,045 points on the Nikkei index level—well below half of where it stood on the final day of December 1989 when speculators pushed the average to its all-time high of 39,915. In the plunge, stocks that had sold for 70 times companies' yearly earnings fell to multiples of around 30, producing a \$2.6 trillion loss to investors portfolios and puncturing Japan's sense of economic invincibility.

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2 A blue-ribbon advisory panel to the government in Tokyo, the Economic Council, predicted in May that despite Japan's current downturn, its economy will grow by an average of 3.5 percent a year for the next five years, thus maintaining a 1.1 percentage point lead over the 2.4 percent annual rate recorded by the U.S. economy in the first quarter of 1992, the best record for any three-month period since George Bush took office in January 1989. Peter Blustein, "Its Economic Bubble Burst, Japan Anticipates Slower Growth," *The Washington Post*, May 30, 1992.

**Falling Land Prices.** Compounding this new sensation of vulnerability, land prices have buckled. The Japanese government's National Land Agency admitted in March that the value of real estate has dropped significantly for the first time since 1975. According to the government's quite conservative estimates, land in Tokyo's commercial district, the Ginza, which at its height in 1987 brought about \$50,000 for a parcel the size of a newspaper page, has lost more than 15 percent of its value. In Osaka and Kyoto, sites of particularly feverish speculation, the price of residential land has fallen between 25 percent and 35 percent.<sup>3</sup>

Further evidence of the crash lies scattered around the tracks on which the seemingly unstoppable Japanese economy once sped. Japanese investment in American real estate fell from \$13 billion in 1990 to \$5 billion last year, a drop of 61 percent. The corporate research firm, Teikoku Databank Ltd. reported in April that 11,767 Japanese firms went bankrupt in 1991, leaving debts each of ten million yen or more (about \$77,000), which is an increase of 64 percent from 1990. And according to Japan's leading business daily, the *Nihon Keizai Shimbun*, combined pre-tax profits of the nation's five top automakers are headed for a 35 percent decrease this year. Company predictions confirmed the paper's expectations. Among many who have forecast or disclosed unwelcome news, the electronics giants Hitachi and Fujitsu reported pre-tax declines in earnings of 60 and 40 percent for last year.

It would, however, be premature and foolish to count Japan out. Unemployment remains at a low two percent, and the economy is certain to continue to grow, albeit at the languorous pace of little more than 2 percent annually. No prominent observer has argued that either the deceleration in the economy or Bank of Japan's tight money policy will diminish Japan's long-term economic prospects. Awash in the savings of its thrifty citizenry, the threat of inflation firmly quashed, and borne by a still-gathering wave of new manufacturing equipment and factories, Japan can look confidently to the future.

However, the fundamental problem between Washington and Tokyo remains. An atmosphere of hostility and suspicion has suffused the relationship based on American suspicion of Japan's success and resentment of its business practices, and on Japanese contempt for the political and social shortcomings of its biggest customer.

## WILL WASHINGTON AND TOKYO PART WAYS?

The damage to each nation that could result from allowing relations to deteriorate is considerable. At stake for Japan is the future of its relations with the U.S., its protector since the end of World War II. Tokyo would regret a parting of the ways with Washington since it would probably lead to the withdrawal of America's defensive umbrella. A serious separation also likely would cause problems between Japan and its neighbors. Their memories of Tokyo's World War II aggression would make them uneasy at the prospect of a rearmed Japan outside the U.S. defense umbrella.<sup>4</sup> But Japan, which spends slightly more than one percent of GNP on defense—the smallest percent of

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<sup>3</sup> See David E. Sanger, "Land Price Begins Fall," *The New York Times*, March 28, 1992.

<sup>4</sup> See Seth Cropsey, "The Washington-Tokyo Defense Relationship: Where Now?" *Asian Studies Center Backgrounder* No. 116, September 20, 1991.

GNP devoted to defense of any industrialized nation— would have little trouble shouldering the cost of its own military. Moreover, Tokyo's direct investment of \$34.3 billion in Asia between 1981 and 1991 would subdue the potential objections of such neighbors as China, the Philippines, and Singapore, whose memories of Japanese atrocities in World War II might otherwise produce noisy objections to Japan's rearmament.

The Japanese would regret losing their special relationship with the U.S. because Washington is the only power of consequence that Tokyo has been able to call a friend. But friendly relations are not necessary for trade to flourish, especially when the prospective parties to an international falling-out are the two largest economies in the world, as well as one another's biggest trading partners.

What America stands to lose on account of dissatisfaction over its relationship with Japan is considerable. At stake for the U.S. are its principles, specifically its principled attachment to freedom. The growing agitation to "do something" about the Japanese leads in only one direction: the suspension of free trade for the special case of Japan.

Washington's weathervane has not yet come to rest at this point yet, but it has been testing that direction in the current election season. Defeated Democratic presidential candidate Jerry Brown called throughout the primary season for protection from foreign goods; legislation introduced last fall by House Majority Leader Richard Gephardt would keep Japanese autos out of the U.S. market; retiring Chrysler chairman Lee Iacocca maintains a constant barrage of invective against Japan and Japanese businessmen, and such authorities as Clyde Prestowitz, head of the Washington-based Economic Strategy Institute, argue that Japan's uniqueness requires Washington to adopt some of Tokyo's managed trade practices or face the likelihood of failure in international competition.

**Dangerous Mistake.** Allowing frustration with Japan's predatory commercial practices or its resistance to foreign imports to rearrange the ideological foundations of the U.S. would be a dangerous mistake. Free trade cannot be separated from free enterprise. The government cannot improve on the marketplace's ability to produce goods desired by consumers at the lowest cost. And the marketplace is defined not by political jurisdiction or national boundaries, but by the ability of manufacturers to bring their products to consumers. This tenet either holds or it should be rejected. It cannot be applied selectively.

If the U.S. is forced to abandon its principled commitment to free trade, freedom of enterprise will become more vulnerable than ever, and the damage might even affect political freedoms at home as well. The West has so far resisted the bloodiest and most determined efforts of international terrorists to create disruptions that would compel democracies to exchange their freedom for greater security. Japan's motives are far more benign than those of international terrorists, but the effect could be similar if the U.S. and other nations built on individual liberties turned their backs on their own principles.



## THE HEAVY HAND OF CULTURE AND HISTORY IN JAPAN

Indeed, a difference in first principles, the moral and political foundations of a society, is at the bottom of Japan's problematic relationship with the U.S. and other nations. Individual liberty, toleration, and the supremacy of law are the sturdy beams on which rest Western political tradition.

Universal principles are a minor part of Japan's traditions. Such personal relationships as filial piety or the loyalty between subordinate and superior, as well as the trust between peers born of consideration and experience are the pillars of this ancient society. As professor of philosophy Yutaka Yamamoto has described it, Japanese morality is characterized very simply by "harmony based on trust."<sup>5</sup> The customs and manners that ensure this harmony are the elaborate, stylized etiquette for which Japan is justly famous: deferential both in speech and gesture, in all things faultlessly polite. And the success of this institutionalized control should be measured by the Japanese people's willingness to depend on it rather than on shared ideas of an individual's natural rights as protection against the worst excesses of *shogun* or even landlord.

Foreigners, however, since they do not come from a system based on relationships of trust, must be treated with supreme caution. In the middle of the 16th century, the first Europeans set foot in the land of the rising sun. Fifty years later, Japanese rulers—claiming to act on behalf of the emperor who was by then a figurehead—had grasped the danger to their authority of Christianity's universal principles and its acknowledgment rather than embrace of temporal authority. Missionary activity was banned in 1612, converts were frowned upon, and many were tortured or executed.

**Slight Opening.** Japan's rulers closed their land to foreign influence utterly. In this hermetically sealed condition Japan remained until Commodore Matthew C. Perry arrived at Edo Bay in July 1853 to open up the land to American traders and mariners bound for other Asian destinations. Perry tried diplomacy and a letter President Franklin Pierce had penned to the nonexistent Japanese emperor. Neither was as effective as the American commodore's ability to threaten Edo (the city's name was changed to Tokyo in 1868) with a blockade enforced by superior naval weaponry. Japan opened slightly.

Negligible was the effect of Japan's opening on its fundamental politics. Power changed hands but never coalesced. The ruling family of shoguns from Tokugawa in the center of the main island of Honshu were overthrown by a group of barons from different regions of the land. Seeking greater legitimacy, the new rulers breathed life and the appearance of authority into a figure who had until the mid-19th century been chiefly a ritualistic symbol of Japan, the emperor. Known as Meiji, the newly dusted off emperor sat in dignified splendor, leaving as his only monument his name to describe the next four decades of Japan's history, the Meiji Restoration.

Throughout this period real political clout and the ability to establish national goals remained as scattered among powerful individuals and interests as ever in Japanese history. Neither religion nor "harmony based on trust" offered legitimacy for rule. Author-

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5 Yutaka Yamamoto, "A Morality Based on Trust: Some Reflections on Japanese Morality," *Philosophy East & West*, October 1990, p. 451.

ity effectively to govern, what the American authors of the *Federalist Papers* called “energy in the executive,” had never rested, nor did it in the years after the end of Japan’s isolation, in a single person. Rather, political control was shared by new and competing institutions both public and private: the navy, army, and civilian bureaucracies, the emperor’s immediate circle, parliament, and the *zaibatsu*, which are large vertically and horizontally integrated corporate cliques.

But if politics did not change fundamentally, attitudes did. Japan’s sudden introduction to the outside world exerted a profound influence on the minds of its populace. Because foreigners had no place in the structure of loyalty and personal relationships which supported society, Japan’s first worry understandably was for its safety. This predisposition was reinforced vigorously by the particular foreigners Japan came to know. In the half century that followed Commodore Perry’s arrival, England, Germany, and Russia forced trade concessions from China and established military presences in the Middle Kingdom to safeguard their interests. France swallowed Indochina whole. If Japan was to survive, it must be able to defend itself against the Western powers.

**Modernization Japanese Style: Munitions First.** From the beginning of the Meiji period national security propelled Japan’s modernization. Japan reversed the normal order of capitalist development, concentrating first on heavy strategic manufacturing and only afterwards on such light industries as were needed for the production of finished cotton and silk goods.<sup>6</sup>

Obedying the slogan of the time, “rich nation, strong military,” the samurai put away their swords and built munitions, foundries, and shipyards. Twenty-five years after Perry steamed into Edo Bay, almost two-thirds of the government’s investments went into the military, a level of effort that did not fall below one-half during the entire decade of the 1880s.<sup>7</sup>

Where technology was unavailable at home, the Japanese went abroad. The Emperor’s 1868 Charter Oath promised that “intellect and learning would be sought throughout the world in order to establish the foundations of Empire.”<sup>8</sup> And if weapons systems were too complex swiftly to be copied—for example modern warships—then Japan purchased them in foreign yards. Ten of the twelve modern battleships and cruisers in Japan’s fleet which Admiral Heihachiro Togo wielded to defeat Russia’s Second Pacific Squadron at the Battle of Tsushima in 1905 were built in Great Britain.

As the Meiji period waned, Japan’s strength and weakness converged. National concerns about external danger successfully led to the construction of a strong military. But the taproot of these concerns, Japanese society’s absence of principle and dependence on relationships built upon trust and obedience, continued to offer no legitimacy for effective political leadership. Accordingly, there was none. Might made right, and the military elite that represented the nation’s strongest passion, its fear of the outside, took control.

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<sup>6</sup> E.H. Norman, *Origins of the Modern Japanese State* (New York: Pantheon Books, 1975), p. 233.

<sup>7</sup> Richard J. Samuels, “Reinventing Security: Japan Since Meiji,” *Daedalus*, Fall 1991 p. 47.

<sup>8</sup> *Ibid.*

In the 1930s the militarists who would not be governed by a divided civilian cabinet in Tokyo attacked China and increased the empire. The war they started with the U.S. almost ten years later ended in humiliating defeat and national disaster.

This bitter experience did not teach the Japanese that outsiders could be controlled, trusted, or befriended. Rather, World War II forcefully underscored the need Japan recognized when it opened to the West, "to sacrifice for national security in a hostile world."<sup>9</sup> By leading Japan into calamity, the military disqualified itself in the memory of the living as an effective provider of national security. But if the armed forces could not protect the land, what would?

**Beating Swords into Marketshares.** Great wealth would. And the idea of wealth as a guardian and shield had been around since the Meiji era. In the minds of Japan's late 19th century rulers national security was the justification for a strong economy. Wealth was chiefly a route to this security, not a way to assure the material comfort of the Japanese people. This view Japan's post-World War II leaders shared.

After World War II Japan acknowledged the values of its Western occupiers, but cherished the same economic goals in service of the nation's defense as the Meiji rulers. As Naohiro Amaya, former vice minister of the Ministry of International Trade and Industry (MITI) wrote in 1988, "postwar Japan defined itself as a cultural state holding the principles of liberalism, democracy, and peace, but these were only superficial principles. The fundamental objective was the pouring of all our strength into economic growth."<sup>10</sup>

Economic growth was achieved, but it has had a disproportionately small effect on the lives of the Japanese people. Although the nation's standard of living surged ahead in the years after World War II, progress slowed to a meandering drift in the last two decades compared to the swift advance of the Japanese economy as a whole.

**Rich Nation, Poor People.** Japan since 1965 has led the pack of populous wealthy nations in the category of average growth rates. However, this wealth has not translated into equal advances in the material comfort of its citizenry. From 1985 to 1988, the most recent period for which figures are available, Japan ranked twelfth in the world in purchasing power parity, a rough comparison of living standards that takes into account currency devaluations, exchange rates, and inflation.<sup>11</sup> American consumers may enjoy the latest in Sony or Hitachi consumer electronics, but the Japanese have about one-fourth as many television sets per hundred people as are owned in the U.S; fewer than half of Japanese homes have flush toilets, and only about ten percent of the nation's homes enjoy central heating.<sup>12</sup>

Why? For one thing, the Japanese save rather than spend, a practice handsomely rewarded by the ideas of Douglas MacArthur's financial advisor, Joseph Dodge. During the American occupation, Dodge, a Detroit banker, invented the tax-free postal savings

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9 *Ibid.*

10 Kenneth B. Pyle, "How Japan Sees Itself," *The American Enterprise*, November-December 1991.

11 Starting with the highest, the top twelve nations in purchasing power parity are: the United States, United Arab Emirates, Canada, Switzerland, Iceland, Sweden, Brunei, Australia, Luxembourg, Hong Kong, Finland, Japan. Source: *Human Development Report 1991*, published for the U.N. Development Program, by Oxford University Press, New York, 1991.

12 T.R. Reid, "Premier Vows to Make Japan 'Lifestyle Superpower,'" *The Washington Post*, November 8, 1991.

deposit and sat back to watch the Japanese savings rate soar from the minus column to 20 percent of personal income within six months. Savings is important because it provides the capital base for an economy on whose increase the nation's security rests.

Complementing individuals' admirable savings patterns, Japanese firms plough back their earnings into the economy as though the nation's security depended on it. In 1990, Japan invested 25.4 percent of its GNP in plant and capital equipment. The same figures for Germany and the U.S. were 15 percent and 9.3 percent, respectively. And 1990 was no fluke. Japan has bested both Europe and the U.S. in capital investment for every one of the past 25 years.<sup>13</sup>

**History Lives on in Current Economic Practices.** Other Japanese individual and corporate behaviors find their roots in the Meiji elites' search to protect the 19th century realm, and their spreading branches in the identical effort of the modern Japanese to protect their nation. Japanese corporations are grouped today into giant clusters known as *keiretsu* with interlocking directorships, massive holdings in one another's stock, and an understood obligation to come to each others' assistance. The winking agreements that propel these corporate behemoths prevent unwanted outside takeovers, provide a steady flow of cheap capital, and help ensure the success of Japanese corporate forays into foreign markets by subsidizing the low prices at which Japanese products are typically marketed abroad.

The model for this cozy approach to business emerged from the urgency with which the Meiji rulers acted to modernize their land. In 1881, for example, the government helped the Nippon Railway Company to its feet with abundant financial assistance and low-cost loans. In 1890 the government finally halted its annual subsidies to the fledgling Mitsubishi company after fifteen years of support that began with an outright gift of thirteen former military transport ships. Also useful in jump-starting the economy were rules the government enacted in 1876 that scuttled British-owned Peninsula & Orient Steam Navigation Company's bid to control the route it had pioneered between Shanghai and Yokohama.<sup>14</sup>

By World War II, these methods were refined, but the perceived need to cooperate in the face of external threat remained the source of officials' action. Instead of providing direct support for industry, the government stepped back and pulled the strings. To ensure its supply of war materiel, Tokyo enacted legislation in 1943 that paired 150 of its leading munitions manufacturers with the nation's banks and other financial institutions, and finally the government's own Bank of Japan. As a result, funding was assured. By the end of World War II, this means of providing capital was used by over 600 large firms.<sup>15</sup>

It has worked very well. So long as the financial institutions at the base of Japan's conglomerate structures have stayed healthy, a cheap source of capital flowed vigorously and abundantly into the *keiretsu*. The massive distribution network of retailers whose shelves and showrooms offer only products manufactured by the cartel magnified its power. Extending these intimate relationships into illegal activities was adopted as common practice as bid rigging, collusion between corporations to exclude

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13 "Japan in the 1990s," speech by Kenneth S. Courtis, Senior Economist, Deutsche Bank, Tokyo, December 1991.

14 Norman, *op. cit.*

15 Karel van Wolferen, *The Enigma of Japanese Power* (New York: Alfred A. Knopf, Inc., 1989).

unwanted foreign competition, and politician-buying became the favored *modus operandi*. In all, participating members of the *keiretsu* have enjoyed a protection against the demands of the bottom line which would be the envy of anyone who has ever tried to start a business, invade a competitor's turf, or protect his own.

## WILL JAPAN'S RECESSION CHANGE THE SYSTEM?

It is not yet clear whether the burst in Japan's bubble will topple the *keiretsu* system or shake Japan's militantly defensive concept of trade. The former is indeed a function of the latter, and both have survived not only post-World War II economic shocks, but the war itself. Still, the signs of wobbling are beginning to appear.

A vital agent in the glue that binds Japan's exclusionary corporate clusters has been stock held in each other's firms. According to one bank's research, 70 percent of the shares sold by Japanese corporations and financial institutions was, up until recently, mutually held.<sup>16</sup> This exclusionary corporate policy kept out unwanted outside shareholders, guaranteed the success of stock offerings, and drove the entire market higher. The shares purchased were intended to be held in virtual perpetuity—until now. Pressured by the central bank's tightening of credit, corporations have been forced to dip into their sacrosanct mutual holdings. The result: Ten percent of these previously untraded assets have been put on the market and sold in the past year.<sup>17</sup>

This trend is a positive one. An end to intimate relations between Japan's financial and corporate giants would subject them to takeovers and slice off Japanese industry's direct access to the capital which helped finance its successful and sustained raids on foreign market shares.

Of greater significance in blunting these corporate assaults, Japan's current economic problems may force its firms to substitute the pursuit of profit for their previous emphasis on obtaining market share. Between the Bank of Japan's increased discount rates and the sliding stock market—whose booming days once offered companies a seemingly inexhaustible pool of funds—cheap money has become a memory. As a result, firms do not have the capital to invest, for example, in manufacturing a dozen variations of one model. Toyota, for example, is cutting by one half the number of Corolla models it will offer for sale. Matsushita Electric has made a similar reduction in its number of television models.

In addition, major companies are slowing spending on plant and equipment. Sony, for example, is pruning expenditures by 36 percent; Toyota, Hitachi, and Toshiba by 20 percent or more.<sup>18</sup> Such competitive advantages as the ability to market many versions of a single product, as well as to purchase the most up-to-date manufacturing technology, were once supported by easy credit. If Japanese companies want more cash to engage in these or other ventures today, they may have no choice but to raise it by increasing their profits. And, since the hunt for market share was in large part fi-

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<sup>16</sup> Anthony Rowley, "Armour Unmeshed," *Far Eastern Economic Review*, April 23, 1992.

<sup>17</sup> *Ibid.*

<sup>18</sup> Clay Chandler, "Japan's Woes Stir Talk Its Firms May Modify Time-Honored Ways," *The Wall Street Journal*, April 30, 1992.

nanced by selling goods below their cost of production, this politically explosive chase, known as "dumping," may now end or at least temporarily be suspended.

It is, however, important to note that Japan may take its financial stumble in stride without any fundamental change in its business practices. For such poise, there is recent precedent. Although Japan at first agreed with other industrialized nations on the need to increase the value of its currency, Tokyo experienced a jolting 50 percent increase in the value of the yen when the exchange rate soared beyond expectation from September 1985 to June 1986. Analysts incorrectly forecast that unemployment would double over the next five years, that competition from other Asian countries would loosen Japanese firms' grip on their own domestic market, and that the dearer yen would unhinge Japan's export strategy.<sup>19</sup> None of these predictions came to pass. In time-honored fashion the government stepped in to help business. The central bank chopped interest rates and the money supply was allowed grow at a double-digit pace. Companies used the plentiful cash successfully to improve their short and long-term competitiveness. Outbound merchant vessels laden with Japan's products groaned under the burden of increased cargoes.

## CHANGING JAPAN

The difference between 1986 and 1992 is that today's trauma is wider and deeper, and could transform Japan's cartelized financial system into a more liberal arrangement less suited to sustained, concentrated assaults on foreign market share. Moreover, an increased desire for an improved standard of living and other social changes was underway before the depth of the current slump became clear. New social attitudes, especially among young people, indicate fissures in the Japanese people's willingness to sacrifice indefinitely for their nation. The result may be that the Japanese people may no longer be willing to sacrifice their standard of living for the greater economic good of the nation.

A survey of Japanese citizens from age 15 to 23 is taken every five years by the Management and Coordination Agency, an administrative organ within the office of the prime minister. Results made public last year revealed that for the first time since the question had been asked twenty years ago, more respondents listed earning money rather than fulfilling their civic obligations as a reason to work. Echoing this growing taste for private goals at the expense of public ones, a poll taken this February by the Japanese government's Economic Council found that most people believe Japan lacks a proper "great power lifestyle." They also believe that the half-century of rebuilding since World War II has yet to produce the personal comforts the Japanese want.

What the entire society clearly does not want is a work schedule that drains family life of happiness by keeping breadwinners on the job until late at night for six days each week. The term *karoshi*, which means death from overwork, has become a commonplace. In fact, a survey conducted by the Prime Minister's office in November showed that three out of five Japanese favor shorter working hours. When Prime Minister Miyazawa addressed parliament in his first major speech after election last year, he declared his intention to make Japan "lifestyle superpower."

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19 "Industrial Japan," *Far Eastern Economic Review*, December 18, 1986.

**Increasing the Quality of Life.** The heralds of change are stirring throughout society. Last November, the same month Prime Minister Miyazawa spoke up for improved living standards, a government study called on Japan to abandon its corporate-centered society in favor of one that respects privacy and the home. Simultaneously, five big steel producers declared in November 1991 that they would allow workers a year of leave to care for their newborns. People clearly are unhappy at the gulf between the heavy demands of their work and the meager benefits they have to show for it.

Japan's leaders are beginning to articulate these feelings. Akio Morita, the Chairman of Sony, asked in February, "Isn't it advisable to allow employees more holidays and fewer work hours so that they can enjoy their lives? Are the salaries being offered by Japanese companies enough to provide employees with 'quality of life?'"<sup>20</sup> Morita identified "the ferocious [domestic] competition caused by the government's policy of encouraging industrial growth"<sup>21</sup> as a source of pressure corporations have placed on their employees, their suppliers, and ultimately the foreign competitors who have become the targets of Japanese firms. Morita's call for change may grow from a fear that the world will disintegrate into regional trade blocs from which Japan would be excluded. But whatever the motive, his call for change is out.

Former vice minister of MITI, and now chairman of the Dentsu Institute for Human Studies, Naohiro Amaya, painted an even bolder picture of Japan's need to change. Comparing the Japan of the 1950s to a greyhound chasing the rabbit of wealth, Amaya said that the rabbit has now been caught, and that Japan has become "a stray greyhound."<sup>22</sup> Amaya thinks it unreasonable for Japan to continue in the same direction, and argued that the unalleviated pursuit of economic growth "is giving the outside world the impression that we've substituted economics for military expansion."

## CONCLUSION

Amaya's point is a good one. The nagging, whispered fear shared by America and Tokyo's neighbors alike is that the Japanese militarism of the 1930s will rise again. The view from the Land of the Rising Sun, however, is equally skeptical of outsiders. Japan's exposure to foreigners—from the Americans who forced their way into Edo Bay to the Europeans who divvied up mainland Asia—inspired fear in the Japanese people and the desire to defend themselves against a threat in their midst. Building upon this foundation of sand, fundamental moral and political differences between Japanese and other societies, most notably Western ones, have left a shifting, inconstant basis for relations between Japan and the rest of the world.

The rebuilding of Japan that followed World War II fit cleanly together with its people's undiminished sense of insecurity and desire to protect themselves. The new route, however, would be economic. Recapitulating the 19th century rulers' solicitude for industrial development, Tokyo encouraged the growth of giant corporate cartels, and watered them with favorable regulations, easy credit, and an unofficial policy toward corporate corruption as blind as it was deaf.

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<sup>20</sup> *Fortune*, March 9, 1992.

<sup>21</sup> *Ibid.*

<sup>22</sup> Conversations with The Heritage Foundation, Tokyo, January 1992.

**Lesson From History.** Japan's defensive reaction can be neither condoned nor pardoned, especially when it leads to offensive, predatory trade practices or other overly selfish actions. However, the way out for Japan may be the growing realization on the part of some that this defensive attitude is harmful to Japan. It is instructive to remember that when Japan's military machine hurled itself into futile contest with America in World War II, the result was death and dishonor, not security.

A combination of protectionist attitudes toward foreign goods and unique corporate practices made Japan's economy the second largest in the world within four decades of its utter defeat in World War II. It also helped generate rising political tensions with the U.S., Japan's military benefactor and largest single trading partner. Today, these tensions threaten to increase, and perhaps contaminate relations between Washington and Tokyo.

The potential for damage to American interests is incalculable. Protectionist legislation could never be applied only to Japan. It ultimately would infect America's commercial relations with all of its important trading partners, and set back by decades the cause of global free trade. Commerce between the world's two most prosperous nations would suffer, to both nations' diminution. And, if a serious falling out were to occur, the mutually beneficial security relationship between Washington and Tokyo could be destroyed, placing at risk both America's position of influence in the western Pacific and the region's tranquillity.

**Opportunity for Influence.** Notwithstanding the high stakes of U.S.-Japan relations, George Bush's Administration has paid little attention to the issue. The current reversal in Tokyo's economy and shifting national attitudes do not guarantee positive change in Japan; they offer the Bush Administration an unsought but gilded opportunity to influence Japan. The Administration should seize this opportunity to avert a catastrophic break in U.S.-Japanese relations. Its policy toward Japan should address the root of the problems that divide the two countries: Japan's still insular and suspicious view of foreigners, which is the cause of the nation's aggressive economic behavior.

The U.S. should take advantage of Japan's current economic slump and its people's wish for more comfortable lives to tear down the barricades that have made Japan the exception in the world. U.S. policy should aim to make the Japanese more like Western nations, moderate their national frame of mind, and encourage the ripening of their democracy.

The Bush Administration needs to develop a twin-pronged policy toward Japan. The U.S. should continue the successful effort of successive administrations in persuading Japan to free its financial system, liberalize its markets, and open its hearts to foreign products. As a result of this effort, almost all official Japanese barriers to American products have been taken down, a fact reflected by the more than doubling of U.S. exports to Japan between 1986 and 1990.

To fan the Japanese people's growing desire for material comfort, the United States Information Agency should launch a public diplomacy program that explains the benefits of America's consumer-oriented economy and assists other appropriate agencies of the U.S. in encouraging increasing numbers of Japanese to visit the U.S. The Japanese can learn from these visits that a higher standard of living for all, rather than the mere accumulation of national wealth, should be the goal of a nation's economic policies.



For its part, Congress should reinforce the suitability of America's consumer-oriented economy as a model for Japan. To do this it should pass legislation that attracts Japanese immigrants with such valuable skills as engineering and applied research. Such opportunities would be eagerly welcomed by skilled, worldly Japanese professionals who know how much more pleasant life is in America than in Japan. Their immigration to the U.S. would strengthen American competitiveness and serve as a constant encouragement to Tokyo to drop its predatory commercial practices and redouble its effort to make Japan an attractive place to live.

**Reconsidering Constitution.** Over the long term, U.S. policy's second prong should be to reshape some of Japan's fundamental attitudes toward the outside world. The Bush Administration should seek to reduce Japan's sense of exceptionalism among other nations by privately urging Tokyo to reconsider its unique constitutional prohibition against force. Repealing this provision would shatter the constitutionally-sanctioned fantasy that all war is wrong, thus encouraging the political debate over any possible future military action, which in a democracy is often the best assurance against aggression.

It is equally important for the U.S. to encourage the growth of an economy that caters to individuals rather than bureaucratic and corporate interests. By urging the Japanese to draft their own constitution, the U.S. can help stimulate the domestic political debate whose absence postpones the ability of individual consumers to determine the nation's political and economic direction.

Finally, George Bush should exploit American concern about Japan by linking proposed domestic programs—such as those which would improve American education, increase the U.S. savings rate, and reduce the federal deficit—to advances in American competitiveness. Most Americans understand that Japan is not solely to blame for trade problems between Washington and Tokyo. Were Bush to acknowledge this fact, he could use it constructively to address problems whose solution would enhance American competitiveness and benefit the entire nation.

Shaping another nation's spirit is difficult under the best circumstances. It presents an even more daunting challenge to George Bush's Administration, which is uncomfortable with ideas and taciturn when expressing them. Still, Japan's ideas are the basis of its mercantile policies which arouse anger and threaten to poison relations between Tokyo and others around the world. By crafting a policy that seeks to change Japan's attitudes and bring the Japanese closer to the orbit of other democratic, industrialized nations, the Bush Administration could take an important step toward integrating Japan more closely into the international community.

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