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Challenges for Japan and the United States during the Next Two Decades

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When the Kansai Keizai Doyukai and Harvard held their first meeting in 1992, Japan had just been shaken by the bursting of the bubble that stymied Japanese economic growth. Even so, when our dialogues began, Americans were still concerned about Japanese economic competition that was challenging the pillars of the U.S. industrial economy, from sectors such as electronics and autos. Today, America's intense concern about Japanese competition has disappeared and been replaced by concern about Chinese competition. Americans, aside from the cultural sphere, have reduced their interest in Japan. When our meetings began, the Soviet Union and the Soviet empire had just collapsed, and some questioned whether it was even necessary to continue the U.S.-Japanese alliance. In the mid-1990s, however, the United States and Japan reaffirmed their alliance. In 1992, China was just emerging from the sanctions imposed after the Tiananmen Incident of June 1989 and its negative growth rate in 1990; at the time, its economy was roughly one-fifth that of Japan's and one-tenth that of the United States.

During the two decades of our meetings, the relationship between Japan and the United States has remained strong and their security relationship has underpinned the stability we have enjoyed in East Asia. During these two decades, there have been no major conflicts in East Asia to compare with the Korean War and the Vietnam War. However, in recent years there have been numerous small clashes between fishing vessels in the South China Sea, in the Senkakus

(Diaoyutai), and along the coast of North Korea. The Chinese economy has continued to grow at enormous speed compared to the economies of Japan, the United States, and other Western countries. China's GNP has surpassed that of Japan, and at current rates early in the next twenty years it will surpass that of the United States. Japan's trade with China has already reached one-fifth of its total trade, far surpassing its trade with the United States, and U.S. trade with China has surpassed its trade with Japan. The United States, like many other countries, has undergone a financial crisis, and the fiscal deficit in both Japan and the United States has grown rapidly, attracting the concern of investors. In Japan the stable political structure that had existed since 1955 came to an end, and political stability has not yet been restored.

We lack the knowledge to anticipate all the changes that we will face in the next two decades, but we can identify some of the challenges that Japan and the United States are likely to face.

Responding to Continued Rapid Chinese Growth

China's growth rate is already slowing down because of the increased costs in Chinese coastal areas, the slowdown in Western economies' ability to absorb more Chinese exports, the declining returns on Chinese domestic infrastructure investment, and the growing competition from other industrializing countries such as Vietnam and India. But the presence of several hundred million underemployed workers in China's rural areas still willing to work for low wages, the potential for the growth of Chinese domestic consumption, the upgrading of technology within China, the potential for expanding Chinese exports of heavy industrial products such as automobiles, steel, and ships provide a strong basis for continued economic growth within China. China has trained excellent high-level officials with experience at lower

levels who have displayed the ability to promote overall growth within their geographical jurisdiction, but in the last two decades top leaders have not had the bold leadership comparable to that of Deng Xiaoping in the 1980s to deal with the problems China is already confronting. The Chinese system of a strong ruling party, with power decentralized to teams of local officials within their own area, has made possible unrivaled rapid urban development and infrastructure construction. The World Bank has lowered its estimate of economic growth in the years ahead, but estimates for growth in the next several years still exceed 7 percent a year. Even though it is likely to slow down further, at least for the next decade its economy is expected to continue to grow far more rapidly than Western economies.

Economic growth is hard enough to predict, but high-level political developments are even more difficult to anticipate. In the last several years, however, there are signs that the tensions among high-level political leaders are at a high level. Chinese leaders have displayed great concern with the domestic political mood. They have responded strongly to the resistance of Uighurs and Tibetans and to foreigners whose support for these minorities might strengthen their resolve to resist. The regime has gone to great efforts to place limits on Internet communications that express criticisms of the government, but they have not been able to stop imaginative Internet users who find ways to display their fury with what they see as the “corruption” of high officials, the massive accumulation of wealth through legal or illegal means by their families. Internet users have shown growing impatience with the Communist Party’s inability to contain the corruption among families of high officials. The lavish display of wealth through banquets, stylish housing, and expensive possessions has aroused the anger of those who live more modestly. The favoritism given to those who have family and personal connections with the highest officials in hiring and promoting people and distributing state assets has aroused

the envy of those who feel they are just as deserving. The widespread expectation that people must give red packets containing money if they hope to receive good medical care, obtain jobs, and gain promotions has tested the patience of those with limited assets. And yet high officials endeavoring to curb some of these practices have found it difficult to gain the necessary compliance. Those with modest incomes struggling to acquire what they consider desirable housing are furious at the rich who not only live in luxurious buildings but by buying other housing as an investment for the future, drive up further the cost of housing. Farmers who receive modest compensation for land they are forced to give up are incensed that local officials and businesses who make use of the land gain great wealth. Leaders are aware that more than 100,000 local domestic disturbances break out each year. The legitimacy of officials, considered to be corrupt, who are appointed to office by other high officials without a system for public participation in the selection process, is being questioned.

The transition to slower growth rates is likely to intensify these problems as those who remain relatively poor believe the chances for improving their life styles will be lessened. We now know the difficulties that Japan faced as growth slowed down. This transition may pose even more serious difficulties for China. When Japan made the transition from high growth to slower growth, 90 percent of the population identified themselves as middle class. Medical care was universal. School systems in rural areas provided education not greatly different from the training provided in urban schools. By contrast, in China, growth is slowing down before a majority of the population has achieved middle-income levels.

One cannot rule out the possibility that Chinese leaders concerned about public support may again carry out patriotic education campaigns that would lead to an increase of tensions with the outside world. Japanese know very well that after youth demonstrated in Tiananmen in

1989, Beijing's leaders, concerned about keeping the loyalty of the youth to the government, launched a patriotic education campaign that eventually included intensified criticism of the Japanese for their role in World War II.

Despite these political uncertainties, the prospects are that the Chinese economy will continue to grow far faster than the economies of Western countries, and that this will have an effect on China's relations with other countries. Not only Japan but South Korea, Taiwan, ASEAN, and Australia already have far more trade with China than with the United States and the gap between trade with China and the United States is likely to widen. The United States now has more trade with China than with Japan. China already possesses far more foreign capital reserves than any other country. Chinese investments and the Chinese presence around the world are likely to increase, but the impact is likely to be far greater in Asia than elsewhere.

China's economic growth has been accompanied by increasing investment in the military and the upgrading of military capacities. For over a decade, China's increase in expenditures for the military has surpassed the increase in GNP, and the prospects are for continued increase in Chinese military spending. Specialists differ on their estimate of the gap between Chinese and U.S. military power, but most well-informed analysts estimate that it will be decades before the Chinese military can be on a par with that of the United States, especially in software for command and control. However, the development of Chinese submarines and of missiles has already placed constraints on the access the U.S. military would have in case of conflict in the area around Taiwan. Chinese progress in satellites, aircraft carriers, stealth planes, and cyber warfare reflect China's intention to become a major overall military power.

Stability in East Asia in the past two decades has rested on the dominance of the U.S. military and its allies. The United States cannot expect to maintain this dominance in the decades ahead. Neither China nor the United States claims to be the dominant power, yet each assumes the other is seeking dominance, and the military on each side seeks to make preparations so that it would prevail in case of conflict. The danger is that each side's doubts about the intentions of the other will lead to an arms race. The hope is through mutual discussions between top Chinese political and military leaders and their U.S. and Japanese counterparts the level of trust can be increased. Since each side watches the behavior of the others, it is possible that collaboration of the Chinese and U.S. military in missions like peace keeping, search and rescue, response to natural disasters, and controlling piracy will make it possible to reduce the strategic mistrust and maintain the stability necessary for the Asia region to enjoy peaceful development. It is of course in the interest of Japan and the United States to work together in this process. What circumstances might upset the stability in East Asia?

(1) Sudden changes in evaluation of the prospects for continued U.S. military

commitment in Asia. Given the unsustainability of budget imbalances in Japan and the United States, the question is whether military planners in the United States can make realistic plans for military investment in East Asia. Is it possible that they might aim for very high-level military investments that cause others to worry about their sustainability? Is it possible that global financial markets might downgrade the value of U.S. bonds if the U.S. trade imbalance and current accounts balances remain large? The issue confronting U.S. and Japanese decision-makers is how to invest in the military in ways that will provide reassurance for allies without reaching beyond U.S. and Japanese financial capacities. How can the United States and Japan offer assurances to other countries in the region about the

firmness of their commitment without causing the Chinese to regard the preparations as provocative or threatening to China so that China feels it necessary to expand its military preparations?

(2) **Increased Chinese assertiveness that challenges the status quo.** If China, feeling more confident of its growing power, continues to become more assertive in pushing its claims in the South China Sea or were to begin placing military pressure on Taiwan to reunify with the mainland, this could create uncertainties and risk conflict. The question for Japan and the United States is how to provide enough military preparedness and to respond firmly to Chinese assertiveness to make this unlikely.

(3) **Chinese domestic disturbances that cause China to become more anti-foreign. If China, because of domestic disturbances, became more anti-foreign,** this could unleash undisciplined Chinese groups who carry out demonstrations, boycotts, or other activities directed at Japanese and possibly other foreigners. This could also place stronger pressure on leaders to respond strongly to issues that arise between China and other countries.

(4) **The decision of various East Asian countries, to adjust their hedging strategies, distancing themselves from the United States and accommodating to more requests from the Chinese.** Might South Korea, Australia, and some ASEAN countries begin moving closer to China and weakening their alliances with the United States? Is it possible that at some point, Japanese leaders, under pressure from China, will decide to reduce their support for American forces in Japan and request that more U.S. troops be withdrawn from Japan?

There are many reasons for hope that U.S. relations with China will not deteriorate into the hostile competitiveness of its relations with the Soviet Union at the height of the Cold War.

Unlike the Soviet Union, China has not invaded other countries and has been restrained in sending its troops abroad. The level of exchange of the Chinese people with Japan, the United States, and the rest of the world is far greater than what was true of the Soviet Union at its peak. China, unlike the Soviet Union in the Cold War, has given no indication that it seeks to expand its territories beyond the South China Sea, the Diaoyutai Islands, and Taiwan.

But the level of strategic mistrust between China and other countries remains high. It is clear that an effective response to these challenges requires close cooperation between China on the one hand and the United States and Japan on the other hand. It is in the interest of all three countries to strengthen the relations of trust and to manage the increasing shift of economic and military power toward China without increasing the instabilities in the region. Although leaders of China and the United States have made and are continuing to make efforts to promote mutual understanding, they, like U.S. and Japanese leaders, will observe closely the actual behavior of other countries. To preserve stability in East Asia, China and other countries must, while making military preparations to defend their own country, find ways to adjust to the changing military balance without escalating into a cold war and without creating serious instabilities that lead to conflict. Is it possible, for example, for the United States to reduce the irritants to China by reducing military sales to Taiwan and reducing the surveillance missions near China's coast without increasing the risk that China will respond by greater assertiveness in the South China Sea and around Taiwan? Or is it possible that increasing Chinese confidence will lead to greater assertiveness requiring Japan and the United States to strengthen their demonstration that they will not yield to Chinese provocations? Is it possible that China and Japan might be able to engage in joint exploration in disputed territories? Is it possible that China, as a stakeholder in the global system, might expand its cooperation with other countries in dealing with global

issues like peacekeeping, climate change, environmental preservation, and prevention of nuclear conflict? Can Japan and the United States find ways to increase the chance that China will respond in this fashion?

Achieving Domestic Political Stability and Leadership

How can Japan and the United States within the context of our democratic practices find ways to resolve our domestic problems? Can we avoid the polarization and fragmentation that make it difficult to make wise national decisions? Can democracies where politicians compete to spend for their constituents maintain the fiscal discipline to balance budgets and leave the financial resources that future generations will enjoy? The United States has plenty of problems to worry about, but as the only Japan specialist in our American team, I shall focus on the challenges that I believe Japan will be facing.

It is widely recognized that since Japan's 1955 political system collapsed in the early 1990s, Japan has not yet achieved a stable political system. In the last eighteen years, Japan has had twelve prime ministers, and there is no immediate prospect that any political leader can remain in office as long as several years. The frequent changeovers make it clear the problem is not the lack of suitable candidates but the system itself. The challenge is to find some system that will provide stability and enable a prime minister to remain in office for several years. If it is not possible to get the support for a constitutional amendment to change the system, is it possible for the political parties to adopt a practice of selecting a leader for a term of several years?

Not only prime ministers but ordinary Diet members are being replaced so frequently that the number of knowledgeable experienced Diet members has declined. Since the creation of single-seat districts in 1994 in the hopes of eliminating factionalism, factionalism has been

greatly weakened. But the seniority system has also been weakened, because it is far more difficult for a Diet member to be re-elected in a single-seat district than in a multiple-seat district. The elimination of factions has also removed the system by which young Diet members were tutored by more experienced senior members of the same faction. The challenge now is how to find a new system that prepares younger Diet members for later leadership positions. How does Japan find a system so that leaders will be better prepared for high positions than they are at present? Is it possible to structure a system so that as the days of the Yoshida School, experienced and mature bureaucrats, deeply knowledgeable about the issues Japan faced, could become bold politicians and provide political leadership?

Japan also needs a way to allow experienced bureaucrats to provide their knowledge and understanding to political leaders while allowing political leaders to concentrate on the overall issues of governing the country. Since the LDP (Liberal Democratic Party) lost its dominance, the bureaucracy has found it difficult to provide reliable channels for informing political leaders. How can Japan find a way to improve the morale of bureaucrats who are knowledgeable about affairs and provide effective inputs to politicians of whatever party? The DPJ (Democratic Party of Japan) has in the last several years acquired more understanding of issues facing the country through sending more politicians to serve in the bureaucracy, but the challenge is for these politicians or their successors to provide overall political leadership and leave details to the bureaucracy. It is also a challenge for bureaucrats accustomed to protecting their narrow sectional interests to focus on what they can serve overall national interests.

A related challenge is to find a way for high-level leaders to implement the agreements they make with foreign leaders, for if they are unable to do so, foreign leaders are in danger of ignoring Japan's point of view and spending more time talking with leaders of other countries.

Since Japanese share a common culture and do not have to engage in such detailed explanations within Japan, it is also a challenge for Japanese to find effective spokesmen who can speak in English at international meetings in a way that foreigners find of interest.

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It has been my personal pleasure over the last several years to work with many talented young Japanese who have spent time in the Boston area. I know that they have great potential for helping Japan, the United States, and other countries to meet the challenges we confront. I also know that there is a deep base of understanding and trust between Japanese and Americans who work together in many different spheres. I fervently hope that our successor generations can maintain their mutual trust and understanding and continue consulting closely as we endeavor to respond effectively to the difficult challenges ahead.