THE ENIGMA OF JAPANESE POWER

THE FIRST FULL-SCALE EXAMINATION OF

THE INNER WORKINGS OF JAPAN'S POLITICAL/INDUSTRIAL SYSTEM

Karel van Wolferen

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People and Politics in a Stateless Nation

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To Leo Labedz
for his intellectual courage and integrity

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It goes without saying that none of those mentioned are responsible for the conclusions or possible errors in this book.

With the listing of Japanese names I have followed the convention of family name first.

Morigane, Ibaragi, October 1988

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A NOTE ABOUT THE AUTHOR

Karel van Wolferen left the Netherlands at the age of eighteen and has lived in Japan for most of the past twenty-five years. For some fifteen years he has been East Asia correspondent for the Dutch newspaper *NRC Handelsblad*, covering several countries, from India to Korea. In 1987 he received the highest Dutch award for journalism for his coverage of the Philippine revolution. He writes on Japan aided by a vast amount of personal knowledge, gained through teaching and involvement in business activities before he became a full-time journalist. His great interest in political theory has resulted in articles for scholarly magazines such as *Foreign Affairs*, and a study of student revolutionaries of the sixties. *The Enigma of Japanese Power* was written between September 1986 and March 1988 in a cabin in the mountains of northern Ibaragi, about three hours from Tokyo.

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The Japan Problem

Japan perplexes the world. It has become a major world power, yet it does not behave the way most of the world expects a world power to behave; sometimes it even gives the impression of not wanting to belong to the world at all. At the same time, Japan's formidable economic presence has made it a source of apprehension both to the Western countries and to some of its Asian neighbours. The relationship between Japan on the one side and the United States and Europe on the other is in serious trouble. In the late 1980s the West is beginning to harbour doubts about Japan as a responsible partner in politics and trade. In Japan it has become common for officials and prominent commentators to suggest that their country has fallen victim to widespread international ill-will, and they are apt to dismiss unfavourable analyses as 'Japan-bashing'.

For almost two decades Westerners have been advised to have patience with Japan. It was argued that the Japanese understood the necessity of adjustments and were speeding up their efforts at 'internationalisation'. A sustained publicity campaign reiterating this goal, with the appropriate slogans popping up in innumerable speeches and countless newspaper and magazine articles, seemed to confirm this. But in the late 1980s an awareness is gradually taking hold in the West that the long-promised changes are not forthcoming, and that the explanations on which expectations of change have been based may have been wrong all along. In the meantime, increased criticism and demands, the first retaliatory measures and other forms of pressure from frustrated trading partners, particularly the United States, have changed the disposition of officials and commentators on the Japanese side. Their replies are becoming retorts. Their friendly counselling of patience has begun to change into a more belligerent message: the USA should put its own house in order, and Europe should stop being lazy and recognise its 'advanced nation disease' for what it is. Both sides have expressed a firm resolve to avoid an economic war, but around 1987 some people on both sides began to realise that they were in the middle of one.

The riddle that Japan poses for much of the world does not begin and end with its economic conflicts. But they are the most eye-catching, since they involve, it seems, practically all the countries with which Japan

deals. For most observers the Japan Problem, as the conflicts have collectively become known, is summed up in Japan's annual record-breaking trade surpluses: $44 billion in 1984, $56 billion in 1985, $93 billion in 1986; until the near doubling of the exchange rate of the Japanese yen against the dollar caused a lower surplus of some $76 billion in 1987.

But the essence of the Japan Problem lies beyond such figures. Not only does Japan export more than it imports, but its exports, in combination with its inhospitality to foreign products, undermine Western industries. The term 'adversarial trade' was coined by Peter Drucker to distinguish the Japanese method from competitive trade, in which a country imports manufactures of the same kind as it exports. West Germany's trade surpluses are also very large, but West Germany practises competitive trade, as does the USA.[1] With sectors such as consumer electronics and semiconductors – the bases for more specialised industries – being taken over almost completely by Japanese firms, Westerners have begun to fear they may suffer a gradual 'de-industrialisation'. Once it has obtained the required technology, Japanese industry appears capable, with a concerted effort, of outcompeting and taking over from the original inventors and developers in any field.

Having hitherto focused almost exclusively on the trade surpluses, in 1988 the West was slowly coming to suspect that other astonishing developments might form part of an overall pattern of Japanese pursuits, a significant national endeavour, which is hardly understood at all. Months after the New York and London stock-market crash of October 1987 – which hardly seemed to affect Tokyo's stock market at all – prices of Japanese stocks reached new, and by Western standards astonishing, heights when measured against corporate earnings. Land prices in many areas of Tokyo doubled, tripled or even quadrupled within the space of one year. And from around 1986 Japanese firms, often spending significantly more than warranted by market value, suddenly began to invest very heavily in foreign real estate and to buy foreign banks and corporations.[2] Somewhat belatedly it began to dawn on a few anxious US and European observers that Japan, far from 'beating the West at its own game', might not be playing the Western 'game' at all; and that for the West, conversely, to emulate Japan would bring the world trading system to a screeching halt and lead eventually to the collapse of the non-communist international economic order.

Europe and the United States are, to say the least, disturbed by this entity in the Pacific Ocean that appears to be single-mindedly pursuing some obscure aim of its own. One can understand the Japanese wanting to make money, but their conquest of ever greater foreign market shares does not translate into noticeably more rewarding or more comfortable lives. Urban housing is cramped, confined and extraordinarily costly. The cost of living, measured against average income, is exorbitantly high. Only about one-third of Japanese homes are connected with sewers. Commuter

trains are extremely overcrowded. The road system is ridiculously inadequate. These and other deficiencies in the infrastructure of daily living leave average Japanese city dwellers with a lower standard of comfort than that enjoyed by their counterparts in less wealthy European countries, and they proclaim the need for a shift in attention among Japanese policy-makers.

The flourishing of trade and industry has not been accompanied by any robust flourishing of the arts of the kind that history has often shown comes in times of great economic achievement. One can hardly say that much emanates from Japan today that enhances the less materialist aspects of life in the way of great music, great literature or even impressive architecture.

A number of thoughtful Japanese have concluded that something is amiss. A nationalistic Japanese anthropologist who finds dealing with foreigners 'a demanding and troublesome task' nevertheless laments the fact that his country is like a black hole in space, receiving culture but not transmitting any.[3] A respected intellect and former vice-minister diagnoses his compatriots as suffering from a 'Peter Pan Syndrome . . . retreating into an infantile dream world . . . Japanese businessmen and politicians continue to play Peter Pan, asking each other what the world can do for them'.[4]

The question of what drives the Japanese people has thus become something of an international conundrum. For what ultimate purpose do they deprive themselves of comfort and risk the enmity of the world?

It is usually explained that the Japanese are driven by collective concerns. And indeed, Japan appears to demonstrate the possibility of life organised in a genuinely communalist manner. As far as outsiders can tell, most Japanese accept with equanimity the daily demands that they subordinate their individual desires and interests to those of the community. This striking communalism is, however, the result of political arrangements consciously inserted into society by a ruling élite over three centuries ago, and the Japanese are today given little or no choice in accepting arrangements that are still essentially political. Under these arrangements, a Japanese individual must accept as inevitable that his intellectual and psychological growth is restrained by the will of the collectivity. To sugar the pill, this supposedly collective will is presented by most of his superiors as benevolent, devoid of power and wholly determined by a unique culture.

But this explanation does not answer the question of where this political force comes from. The power that systematically suppresses individualism in Japan does not emanate from a harsh central regime. Japan differs as much from the collectivist communist states in Eastern Europe and Asia as it does from the free-market states of the West.

Much of the bafflement over Japan is due to a relative lack of interest on the part of Western intellectuals and people of affairs. Certainly, Japan is visited by many Westerners and receives mention in their sweeping global assessments. But to a large extent it is still treated as a curiosity and is not

clearly visualised as a functioning element in those global assessments. One-sided ignorance is particularly striking in the case of the United States, considering that its relationship with Japan is beyond question among the strategically most important in the world. The continual frustration of the US expectations with regard to Japanese policies, or their absence, indicates that Washington's understanding of its foremost Asian ally – despite all the talk of a 'Pacific era' – is woefully inadequate. In fact, the view of Japanese political processes and preoccupations apparent between the lines of public statements and articles written by US officials directly concerned with the relationship is often so faulty as to appal observers such as myself who believe that nobody in the non-communist world is served by a serious deterioration in the US–Japan relationship.

The uncommon manner in which power is exercised in Japan and the workings of the Japanese institutions responsible for the country's non-dictatorial collectivism and national motivation have received scant attention from Westerners in general. Japan is often lumped together with Europe and the United States in discussions of the political shift towards a supposed 'post-industrial', 'technetronic' or 'post-capitalist' society, while the question of how Japan is actually ruled remains neglected.

It is curious that this should be so. Japan was the first non-Western country in modern times to play a major international role. It defeated Russia shortly after the turn of the century, became the only country ever to attack the United States, has since produced the second largest and, in terms of per capita income, most prosperous economy, has wiped out or is threatening with extinction a number of its trading partners' industries and is on its way to gaining important financial leverage over the world economy. Moreover, two other non-Western countries, South Korea and Taiwan, have become significant industrial presences by following the Japanese, instead of the Western, example of industrialisation.

Inattention to the question of how power is exercised in Japan and how this determines trends in its international relationships is becoming dangerous. Japan has been much praised since the 1960s, but it has also been much vilified, and from the perspective of Tokyo in 1988 the antipathy appears to have overtaken the praise. Contacts between Japan and other countries are likely to increase, with (if experience is any guide) a further proliferation of problems and still more criticism.

This will probably be accompanied by Western measures that Japanese will interpret as hostile. Such measures may well reawaken irrational xenophobic sentiments in Japan and strengthen the old suspicion that, in essence, the world does not want to make room for it. The resulting strengthened nationalism, of which the first signs are already appearing, could mean the beginning of political instability in Japan and unpredictable, probably undesirable, developments for everyone. Under such circumstances, a better understanding of the nature and uses of power in Japan is no luxury.

Confusing fictions

The factor most corrosive, in the long run, of international trust is perhaps the confusion that exists on many levels of communication between Japan and its supposed allies and friends – the apparent impossibility, even, of reaching a point at which both sides can agree to disagree. The communication gap, dating from the early 1970s, that separates Japan from the West as well as from some of its neighbours appears to be widening all the time. Several commonly cherished fictions cloud the perception of outsiders and complicate communication, two of them being central to their seeming inability to come to grips with Japan.

The fiction of responsible central government

First, there is the fiction that Japan is a sovereign state like any other, a state with central organs of government that can both recognise what is good for the country and bear ultimate responsibility for national decision-making. This is an illusion that is very difficult to dispel. Diplomacy takes a government's ability to make responsible decisions for granted; it would be extremely difficult for foreign governments to proceed without the assumption of a Japanese government that can cope with the external world, as other governments do, simply by changing its policies.

Nevertheless, unless the relative lack of governmental responsibility in Japan, the fundamental cause of mutual frustration, is recognised, relations with Japan are bound to deteriorate further. Statecraft in Japan is quite different from in Europe, the Americas and most of contemporary Asia. For centuries it has entailed a balance between semi-autonomous groups that share in power. Today, the most powerful groups include certain ministry officials, some political cliques and clusters of bureaucrat–businessmen. There are many lesser ones, such as the agricultural co-operatives, the police, the press and the gangsters. All are components of what we may call the System in order to distinguish it, for reasons to be discussed later, from the state. No one is ultimately in charge. These semi-autonomous components, each endowed with discretionary powers that undermine the authority of the state, are not represented by any central body that rules the roost.

It is important to distinguish this situation from others where governments are besieged by special interest groups, or are unable to make up their minds because of inter-departmental disputes. We are dealing not with lobbies but with a structural phenomenon unaccounted for in the categories of accepted political theory. There is, to be sure, a hierarchy or, rather, a complex of overlapping hierarchies. But it has no peak; it is a truncated pyramid. There is no supreme institution with ultimate policy-making jurisdiction. Hence there is no place where, as Harry Truman would have said, the buck stops. In Japan, the buck keeps circulating.

If Japan seems to be in the world but not of it, this is because its prime minister and other power-holders are incapable of delivering on political promises they may make concerning commercial or other matters requiring important adjustments by one of the components of the System. The field of domestic power normally leaves no room for an accommodation to foreign wishes or demands. Such accommodation is made only with a great show of reluctance and very late in the day, when angry outsiders resort to coercion. Japan needs the world for its exports, to keep its economy running; but many Japanese in official positions appear to prefer their traditional isolation, wishing that the world with all its political complexities would leave their country alone.

The 'free-market' fiction

The second of the central fictions that have determined Western attitudes since shortly after the Second World War is that Japan belongs in that loose category known as 'capitalist, free-market' economies.

In spite of all that is written about it, defining the Japanese economy still causes trouble to foreigners and to Japanese alike. Japanese officials are usually indignant at any hint that their country is something different from the label they have put on it. On the other hand, Japanese economists have told me privately that a common mistake among Westerners writing on Japan is to exaggerate the function of the market. It horrifies Western academic economists, especially those of the conventional neo-classical persuasion, to hear it suggested that Japan does not in fact belong in the club of 'free-market' nations. For many of them, the idea that there can be a successful economy not based on the free play of market forces is tantamount to heresy. While Japanese officials have interests to protect, many Western economists have stuck their heads into the sand against this Japanese threat to a set of theories that claim to be universal.

Japan is obviously not a centrally controlled, Soviet-type economy. Does it, then, as a number of commentators have implied, belong to a category of its own? The rise of South Korea and Taiwan as industrial states, apparently driven by an extraordinary force similar to that of Japan, suggests not. Their experience invites a new look at the Japanese 'economic miracle' and shows that, even minus its cultural and psychological specifics, it can provide a model for certain other countries.

The Japanese, Korean and Taiwanese experiences show that a third category of political economy can exist, beside the Western and communist types. US political scientist Chalmers Johnson has isolated this category of industrial nations and labelled it 'capitalist developmental states' (CDSs).[5] The strength of the CDS lies in its partnership between bureaucrats and industrialists; it is a variant that traditional political and economic theory has overlooked.

An eloquent theoretical objection made by Friedrich von Hayek to

government interference in the economy is that planners at the centre can never know enough about the many ramifications of social and economic life to make the right decisions.[6] According to this theory, centrally planned economies must always fail to prosper. Yet if this is true, how have Japan, South Korea and Taiwan, whose governments consider manufacturing and trade very much their business, managed to improve their national wealth and economic power?

The manner in which Japan, South Korea and Taiwan have found a way around the Hayekian obstacle is crucial to an understanding of their political economies. To begin with, their governments have never considered private enterprise antagonistic to their goals. Unlike the communist approach, which equates entrepreneurism with original sin, or the socialist approach of the European welfare state, where regulations obstruct the entrepreneur, the CDS encourages the private sector and treats it with great deference. The bureaucrats never attempt to gain full power over non-governmental corporations. They guide the economy, using businessmen as their antennae in doing so. They get to know what is happening far away from the centre by constant monitoring of the experiences of capitalists trying to find new ways of expanding their businesses.

The many mistakes these officials undoubtedly make are more than compensated for by the unifying force they bring to bear on industrial development. The economy prospers because areas of industry that show promise are stimulated by fiscal policies favouring investment. Industries considered of strategic importance are carefully nursed and protected against genuine foreign competition. Those that are in trouble are temporarily protected to give the firms concerned an opportunity to diversify, while those that appear to have reached a dead end are more easily abandoned by policies forcing reorganisation. In other words, this is a partnership sealed by a shared industrial policy and trade strategy. Market freedom is considered to be not a goal desirable in itself but one of several instruments for achieving the paramount aim of industrial expansion.

Japan pioneered the CDS model a century or so ago, during the Meiji period, when it transferred state industries into private hands (after state entrepreneurism had brought many governmental corporations to the verge of collapse).[7] It further experimented with it during the forced industrial development of Manchuria, from the early 1930s until 1945. In its post-war form this economic model, which has made Marxist–Leninist theory distinctly less appealing as an economic guide for politicians and intellectuals in the less developed nations of non-communist Asia, is structurally protectionist. It has to stay so if it wants to continue enjoying its proven benefits. The question remains as to whether the bureaucrat–businessman partnership will continue to pay off once industry has saturated the market at home and once overseas markets become inhospitable. Another question, raised with particular urgency by the case of