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## Revisiting the Vogelian *Japan as Number One*

### 1. *Japan as Number One at 30—Will Japan Soon Become Number Three?*

On October 30, 2009, the Canon Institute for Global Studies (CIGS) in Tokyo had the honor of welcoming Professor Ezra F. Vogel and held a seminar: “Recent Developments of Trilateral Relations—the United States, Japan, and China.” The professor’s speech offered a significant opportunity to think about the future course of Japanese society because this year marks the 30th anniversary of the book, *Japan as Number One*. Although there are a great number of references to the book, this retrospective essay tries to consider the book’s significance for today’s Japan.<sup>2</sup>

Two decades prior to the publication of *Japan as Number One*, Japan demonstrated high growth in exports by taking full advantage of the postwar free trading system. The relative size of Japan’s exports compared with those of the United States increased from 18.1% in 1959 to 50.8% in 1979 (See Table 1). This export-led growth pattern fueled Japan’s GDP expansion (from 7.2% of U.S. GDP in 1959 to 39.4% in 1979) and rapidly rising living standards—per capita GDP (US dollar base) climbed from 14.4% of the U.S. level in 1959 to 77.4% in 1979.<sup>3</sup>

**Table 1. Japan’s Key Economic Indicators (Relative level: U.S. = 100, %)**

	1959	1969	1979	1989	1999	2008
Exports of Goods & Services (US\$)	18.1	35.1	50.8	60.9	45.3	46.7
Gross Domestic Product (GDP) (US\$)	7.2	17.6	39.4	54.1	47.1	34.0
Per Capita GDP (US\$)	14.4	35.4	77.4	111.1	106.0	83.2
Population	50.4	49.6	51.0	48.7	45.4	40.8

Source: International Monetary Fund (IMF).

Many people might forget that Vogel did not write the book to applaud Japan’s successes. Instead, he used the Japanese model to catch the attention of his fellow Americans and show them what they could learn from Japan to revitalize American society. Accordingly, the careful reader remembers that the full title of the book is *Japan as Number One: Lessons for America*. The professor lamented in 1979 that Americans had paid scant attention to Japan’s spectacular economic performance and stated in the book that “the Japanese, in the habit of looking abroad for things to learn, continue studying, while Americans in the world of affairs, in the habit of teaching the rest of the world, find it difficult to assume the posture of the student.”<sup>4</sup>

Since the publication of *Japan as Number One*, the past 30 years have witnessed the vicissitudes of both the

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<sup>2</sup> Vogel himself expressed his own views in a book after the publication of *Japan as Number One*. See Ezra F. Vogel, *Japan as Number One: Revisited*, Singapore: Institute of South Asian Studies (ISAS), 1986.

<sup>3</sup> When it comes to international comparison, economists generally look to GDP in purchasing power parity (PPP) terms, while political scientists generally pay attention to nominal GDP in US dollar terms (because no state can purchase weapons from foreign countries in PPP terms). The ratios of Japan’s GDP and its per capita GDP vis-à-vis America for year 2008 in PPP terms are 30.0% and 71.7% respectively (Estimates of the Economist Intelligence Unit (EIU)).

<sup>4</sup> Ezra F. Vogel, *Japan as Number One*, Cambridge, MA: Harvard University Press, 1979, p. 4.

United States and Japan. Although it would be difficult to fathom the extent to which Americans have learned from the Japanese model, the U.S. economy has outperformed Japan's economy since the early 1990s. For its part, Japan has experienced frustratingly feeble growth since the peak period of the bubble years (1986-1991). From 1989 to 2008, Japan's relative economic size vis-à-vis the United States, in nominal GDP terms, has shrunk from 54.1% to 34.0%, exports from 60.9% to 46.7% and per capita GDP from 111.1% to 83.2% (See Table 1). Furthermore, some experts are worried about Japan's shrinking population. Today's Japan is undeniably shriveling in many respects. The impressive rise of China portends an immediate danger of Japan's becoming number three on a US dollar GDP base.<sup>5</sup>

## 2. Japan in the 1970s: A Mirror for Today's Japan to Embark Upon an Institutional Revamping

In chapter one of the book, Vogel touches on the difficulties facing America, and proposes an approach to tackle its institutional scleroses. Under the title, 'A Mirror for America,' Vogel argues that "one of the best vantage points for looking at our institutions, for reexamining our assumptions and considering alternatives, is from another place that faces similar problems but finds different solutions. . . . we will have more to learn by studying their successes."<sup>6</sup> The professor then points out four reasons for choosing Japan as a mirror for America—Japan's institutional framework is (1) consciously examined and restructured on the basis of rational considerations, (2) only non-Western and distinctive, (3) pioneering in confronting problems that are just beginning to distress America, (4) extraordinarily successful.

At the time of its 30th anniversary, Vogel's book suggests to us that Japan in the 1970s presents a mirror for today's Japan. First, Japan's institutional framework, once consciously examined and restructured as a developmental state, has not been seriously or rationally reconsidered as a maturely developed state. As a developed economy, public policies and corporate strategies in Japan should have been targeted at labor productivity growth, not in the manufacturing sector but in the services sector tightly controlled by labyrinthine regulations (See Table 2).

**Table 2. Japan's Labor Productivity Growth (average annual rate, %)**

	1976-1989	1989-2002	2002-2005
Total Economy	3.6	1.9	2.3
Manufacturing	6.0	1.9	7.5
Services	2.1	1.7	1.8
Market services	2.2	1.8	2.3
Non-market (Government) services	1.6	1.2	-0.6

Source: Organisation for Economic Co-operation and Development (OECD), *OECD Economic Survey of Japan*, September 2009, p. 32.

Second, Japan has lost its monopolistic position as a distinctively non-Western institutional model. Now, competing Asian models, spearheaded by China and India, are riveting the attention of political scientists and economists around the globe. Third, Japan's has lagged behind in confronting problems—especially those caused by the arrival of the globalization and information age—that made America transform itself. Fourth, Japanese organizations, except for a few cases like globally competitive companies including Toyota and Canon, have demonstrated at best mediocre performances. In other words, the past 30 years have witnessed (1) a sea change in the

<sup>5</sup> In PPP terms, China has already surpassed Japan in economic size.

<sup>6</sup> Vogel, 1979, op cit., p. 4.

global economic climate, and (2) complacency and nescience of Japanese government and private institutions—the very same institutions that Vogel had acclaimed in the book for their meticulous efforts to glean information from the rest of the world in order to plan carefully future public policies and corporate strategies.

Table 3 shows Japan’s economic development since the publication of *Japan as Number One* in 1979. During the first half of the 1980s, Japan’s economy recorded a typical postwar pattern though its average growth rate was a relatively low 3.1%. Exports were strong and the robustness of domestic demand—personal consumption and private investment—was also recorded. The bubble years of the late 1980s witnessed an irrationally exuberant rise of private demand (a 111.0% contribution to GDP growth) while the immediate post-bubble era of the early 1990s recorded private demand’s unusually small contribution (19.6%).

In the first decade of the 21st century, Japan experienced an unbalanced growth pattern—feeble domestic demand and relatively strong exports. During this period, exports continued to make a strong contribution to growth. However, personal consumption remained stagnant because of a reduced average wage level—employee compensation recorded its peak level (279 trillion yen in nominal terms) in 1997 and has not exceeded it since then. The lowered wage level can be attributed mainly to the markedly rising share of non-regular workers (to 34% of total employment in 2008 from 20% in 1990<sup>7</sup>) whose income levels are about 40% lower than those of regular workers.

**Table 3. Japan’s Economic Growth and Its Contributions (%)**

	‘80-‘85	‘85-‘90	‘90-‘95	‘95-‘00	‘00-‘05	‘05-‘07
Real GDP Growth (Average Annual Rate)	3.1	4.6	1.1	0.8	1.5	2.7
Contribution to GDP Growth (Total)	100.0	100.0	100.0	100.0	100.0	100.0
Domestic Demand	84.5	111.0	99.1	69.3	81.5	66.1
Private Demand	74.3	95.7	19.6	38.7	83.5	67.6
Public Demand	10.2	15.4	79.5	30.6	-2.0	-1.5
Net Exports	15.5	-11.0	0.9	30.7	18.5	33.9
Exports	17.3	4.4	19.3	66.3	49.1	50.4
Goods	16.0	3.4	20.2	62.6	39.9	46.2
Imports	-1.9	-15.5	-18.4	-35.6	-30.6	-16.5
Goods	-1.0	-9.9	-16.2	-39.8	-30.6	-14.9

Source: Government of Japan (Cabinet Office (CAO)).

Vogel says that “if the term ‘democracy’ is used to signify the expression of diverse interests in the political arena and the capacity of the government to satisfy these interests, it could be argued that Japan is now a more effective democracy than America.”<sup>8</sup> This statement is based on his two observations—(1) the pivotal role played by Japan’s basic multi-purpose groups that are totally different from ephemeral American special interest groups and (2) frequent interplays in Japan that bring about the aggregation of interests and the distribution of fair shares of the groups.

The aforementioned increase in non-regular workers poses a new challenge for Japan’s social fabric. Discriminatory treatment between regular and non-regular workers has led to a gradual loss of the capability to retain

<sup>7</sup> See, for example, Organisation for Economic Co-operation and Development (OECD), *OECD Economic Survey of Japan*, September 2009, p. 28.

<sup>8</sup> Vogel, 1979, p. 97.

group loyalty and the sense of community that had been touted as “communitarian values.” In addition, the growing number of non-regular workers has developed labor market dualism within Japan’s egalitarian society. Contrary to Vogel’s observations in the 1970s, multi-purposed groups are currently unraveling under the mounting pressures of belt-tightening strategies. And their frequent interplays in search of the aggregation of interests and the distribution of fair shares are fading because of resounding calls for “transparency” and “accountability.” Thus, Japan’s institutional strengths—loyalty and a sense of community in economic activity—are evaporating.

In the meantime, Japanese society is now faced with risks and uncertainties not only on the economic front but also on the welfare front. Vogel states in his book “just as the economic bureaucracy accepts a broad responsibility for promoting the economic health of the nation, so the national health bureaucracy accepts a broad responsibility for looking after the health of the populace.”<sup>9</sup> In May 2007, the Japanese populace was dumbfounded by the news that the Social Insurance Agency (SIA) failed to keep 5.6 million pension fund records when they were computerized between 1979 and 1989. The severity of the SIA governance problem and resultantly fading popular confidence in politicians and the bureaucracy were considered among the major factors that forced the Abe cabinet to resign after the upper house election in July 2007.

In sum, facts and stories told in *Japan as Number One* suggest that Japan in the 1970s serve as a mirror for today’s Japan. During its developmental stage, Japan’s institutions played a decisive role for (1) identifying its national goals and approaches, (b) developing national/group consensus, and (3) nurturing national/group solidarity. But now, the global politico-economic climate has changed and an aging Japan is being accompanied by its staggeringly debt-ridden public sector. These transformations, both at home and abroad, require Japan’s institutional revamping.

### **3. Challenges: Tidal Waves of Globalization and Seismic Waves of Aging**

In the final chapter of *Japan as Number One*, Vogel states that “the Japanese have achieved success at a considerable price, the price of strong pressure toward conformity and consensus, sometimes at the expense of the deviant, the opposition, the little man, the outsider.”<sup>10</sup> The considerable price paid for Japan’s successes in the 1970s seems to have turned out to be an obstacle against Japan’s current and future successes.

During the three decades immediately after World War II, cross-border trade was confined mainly to manufactured goods and materials. At that time, China was still a hermit country residing deep in the communist bloc. South Korea and Taiwan were not yet in their industrializing phases. Therefore, Japan’s manufacturing sector enjoyed unparalleled competitiveness in a wide variety of sectors ranging from television sets and steel products to electronics components and automobiles. At the same time, Japan’s manufacturers began to raise the ratio of overseas production partly to avoid trade friction and reduce the impact of the yen’s substantial appreciation, and partly to avoid trade

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<sup>9</sup> *Ibid.*, p. 199.

<sup>10</sup> *Ibid.*, p. 244.

barriers and get geographically closer to local markets.

With the advent of globalization, the mode of trading practices has changed and resulted in faster growth of foreign direct investment (FDI) and trade in services. While expanding external FDI, Japan’s manufacturing sector has raised its overseas production ratio—from 3% in 1985 to 6% in 1990, then from 13% in 2000 to 32% in 2007. Furthermore, today’s world trading system comprises complex amalgams with wider diversity—negotiations over intellectual property rights and financial transactions in addition to traditionally traded goods. Such diversity is difficult to accommodate in Japan because its business culture, as Vogel explains in his book, emphasizes homogeneity and conformity. For this reason, the Japanese business community has found it easy to expand its external FDI toward the rest of the world while Japan has been reluctant to accept internal FDI from abroad. As a result, conformist and homogeneous Japan has an asymmetrical pattern of inward/outward FDI (See Table 4). As Table 4 shows, Japan’s hospitality toward inward FDI is dwarfed by major European countries including Germany, France and the United Kingdom and even by the emerging BRICs (*Brazil, Russia, India, and China*).

**Table 4. Foreign Direct Investment (Billions of US dollars)**

	Inward FDI (Stock base)			Outward FDI (Stock base)		
	1990	2000	2008	1990	2000	2008
World	1,942	5,757	14,909	1,786	6,070	16,206
Japan	10	50	203	201	278	680
United States	395	1,257	2,279	431	1,316	3,162
Canada	113	213	412	85	238	520
Germany	111	272	700	152	542	1,451
France	98	260	991	112	445	1,397
United Kingdom	204	439	983	229	898	1,511
Italy	60	121	343	60	180	517
Spain	66	156	635	16	129	602
Netherlands	69	244	645	107	305	844
Sweden	13	94	254	51	123	319
China	21	193	378	4	28	148
Hong Kong	202	455	836	12	388	776
Singapore	30	111	326	8	57	189
India	2	17	123	0	2	62
Australia	74	111	272	31	85	195
Mexico	22	97	295	3	8	45
Brazil	37	122	288	41	52	162
Russia	n.a.	32	214	n.a.	20	203

Source: United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2009*, September 2009, pp. 251-252.

Like it or not, globalization is unstoppable. The only way to help Japan surf these globalization waves and escape drowning in them is not to avoid them but to nurture talented young people who are accustomed to global activities in a wide range of fields, and who are capable of communicating with their foreign counterparts.

While Japan’s domestic institutions remain insularly segregated from the outside world, the world community is becoming relentlessly more interconnected and globalized.<sup>11</sup> For this reason, the world’s best and brightest in a wide

<sup>11</sup> As for the definitions of “interconnectedness” and “globalization,” see, for example, Robert O. Keohane and Joseph S. Nye, Jr., *Power and Interdependence*, third edition, New York, NY: Longman, 2000, Chapter 10.

variety of academic fields are trying to enter the world’s best universities. 21st century globalization has made America’s higher educational system the envy of the world by amassing the most talented people. Amongst all of them, Harvard enjoys popularity and superiority. However, at Harvard, Japan’s dwindling presence has reached an alarming level while other major countries except for Taiwan increased their student numbers (See Table 5). During the 1990s, the number of Japanese students was stable at around 180 and Japan remained as one of the top countries along with Canada, China, and South Korea. Since then, the number has continuously declined while most countries have increased their numbers. As of the academic year of 2009-2010, Japan ranks eighth with 101 students after Canada (538 students), China (463), South Korea (314), India (235), the United Kingdom (227), Germany (159), and Singapore (114). Table 5 shows that the difference in the number of students at Harvard between Japan and such countries as Turkey and Israel is gradually narrowing. Careful observers understand this Harvard case is not exceptional. The presence of Japanese students at other Anglophone universities exhibits the same pattern.<sup>12</sup>

**Table 5. Foreign Students Registered at Harvard University**

	1991	1996	2001	2006	2007	2008	2009
Japan	179	179	162	130	127	107	101
Canada	348	375	464	471	489	531	538
China	220	178	318	403	400	421	463
South Korea	137	159	212	269	297	305	314
India	98	104	120	193	216	225	235
United Kingdom	149	127	156	194	201	209	227
Germany	105	107	118	149	158	159	159
Singapore	34	43	61	71	66	89	114
Taiwan	138	135	81	113	117	100	99
Turkey	16	39	64	80	90	96	96
Israel	52	48	71	81	77	86	85
Mexico	57	94	95	98	83	76	79
France	65	59	67	82	81	84	77

Source: Harvard University (Harvard International Office (HIO)).

In addition to the problem of fewer Japanese students studying abroad, the language barrier is still an obstacle. Frank Gibney, a prominent American journalist, quoted the meaningful words of Yale historian, John W. Hall that “Japan is the only truly world power which does not have a ‘world language.’ . . . In many ways Japan remains the most culturally distinct and intellectually inaccessible of the great powers and this fact impedes greatly the exchange of ideas and sentiments with the rest of the world.”<sup>13</sup> The Japanese language, however sophisticated in terms of social communications and literature, is a vernacular language from the viewpoint of the global business and academic communities. In a globalized world, the *lingua franca* for the business and academic communities is, like it or not, English. At Harvard, the author has had numerous experiences where Japanese students and scholars who are English-deficient had a difficult time making themselves understood among friends and colleagues. Although it would be difficult to reach a generalized assessment statistically, it should be noted that the average TOEFL (*Test of English as a Foreign Language*) scores of Japanese students are by far lower than those of their counterparts in major countries (See Table 6). Many observers are surprised that Japan’s scores are lower than those of Turkey and North Korea despite

<sup>12</sup> The Massachusetts Institute of Technology (MIT), for example, has 81 Japanese students for the academic year of 2008-2009. And Japan ranks ninth with 81 students, after China (405 students), India (278), South Korea (272), Canada (214), Germany (109), France (101), Taiwan (90) and Singapore (86).

<sup>13</sup> Frank Gibney, *Japan: The Fragile Superpower*, New York, NY: W.W. Norton, 1975, p. 145.

the fact that the North Korean government might selectively choose its students who are qualified to take the TOEFL tests.

**Table 6. Average TOEFL Scores of Major Countries (Internet-Based Test (iBT))**

	Total	Reading	Listening	Speaking	Writing
World Average: Total	79	19	20	19	21
Graduate-level Students	83	21	21	20	21
Undergraduate-level Students	76	18	19	20	20
Applicants for Professional Licenses	84	20	21	21	21
Japan	66	16	16	16	18
China	76	20	18	18	20
Hong Kong	80	18	20	20	22
Taiwan	73	18	18	18	19
South Korea	78	20	19	18	20
North Korea	72	17	17	18	19
India	87	21	22	22	22
Singapore	100	25	26	24	26
Germany	97	23	26	24	24
Turkey	77	19	19	19	20
Mexico	85	21	22	21	21

Note: The figures are rounded and may not sum to total.

Source: Educational Testing Service (ETS), "Test and Score Data Summary for TOEFL Internet-based and Paper Based Tests," March 2009.

While tidal waves of globalization are sweeping relentlessly over Japan, domestically seismic waves of aging are shaking up the Japanese Archipelago.<sup>14</sup> Accordingly, pessimistic observers have been concerned that a rapidly aging Japan, with a dwindling number of youth with less international experience, might fail to master globalization.

#### 4. Conclusion: A *Salto Mortale* for 21st Century Japan

In the concluding part of *Japan as Number One*, Vogel says that the Japanese "became the masters of change rather than the victims. Other countries were devastated by foreign influence, but Japan was invigorated."<sup>15</sup> The time has come, again, for Japan to reinvigorate itself by mastering changes caused by the tidal waves of globalization and the seismic waves of aging. Now, *Japan as Number One* reminds us of the importance of the eagerness and speed with which the Meiji oligarchs and the postwar elite determinedly performed a *salto mortale* (a deadly jump) and received much kudos for their indomitable courage and spectacular results.

This year, at the time of the general election in August, the Japanese populace put an end to the postwar rule of the Liberal Democratic Party (LDP) that had lasted since 1955 and gave the Democratic Party of Japan (DPJ) an opportunity to change Japan's sclerotic institutional framework.<sup>16</sup> A DPJ-led Japan is now aiming at a historic overhaul of Japan's postwar political and bureaucratic system. In this sense, this essay is written with hopes for today's Japan, just as Vogel had hopes for the United States thirty years ago.

<sup>14</sup> Japan's elderly population aged 65 and over accounts for 22% of the total in 2008 (Its projected figures for 2015 and 2020 are 27% and 29%), the comparable figure for the United States in 2008 is 13%, China, 8%, and Germany, 20%. Japan's population aged 75 and over accounts for 11% of the total in 2008 (Its projected figures for 2015 and 2020 are 13% and 15%); For more details, see, for example, Government of Japan (Cabinet Office), *Korei Shakai Hakusho 2009* [Annual Report on the Aging Society 2009], May 2009, p. 4.

<sup>15</sup> Vogel, 1979, pp. 255-256.

<sup>16</sup> See, for example, *Cambridge Gazette: Politico-Economic Commentaries*, No. 1 (August 31, 2009).