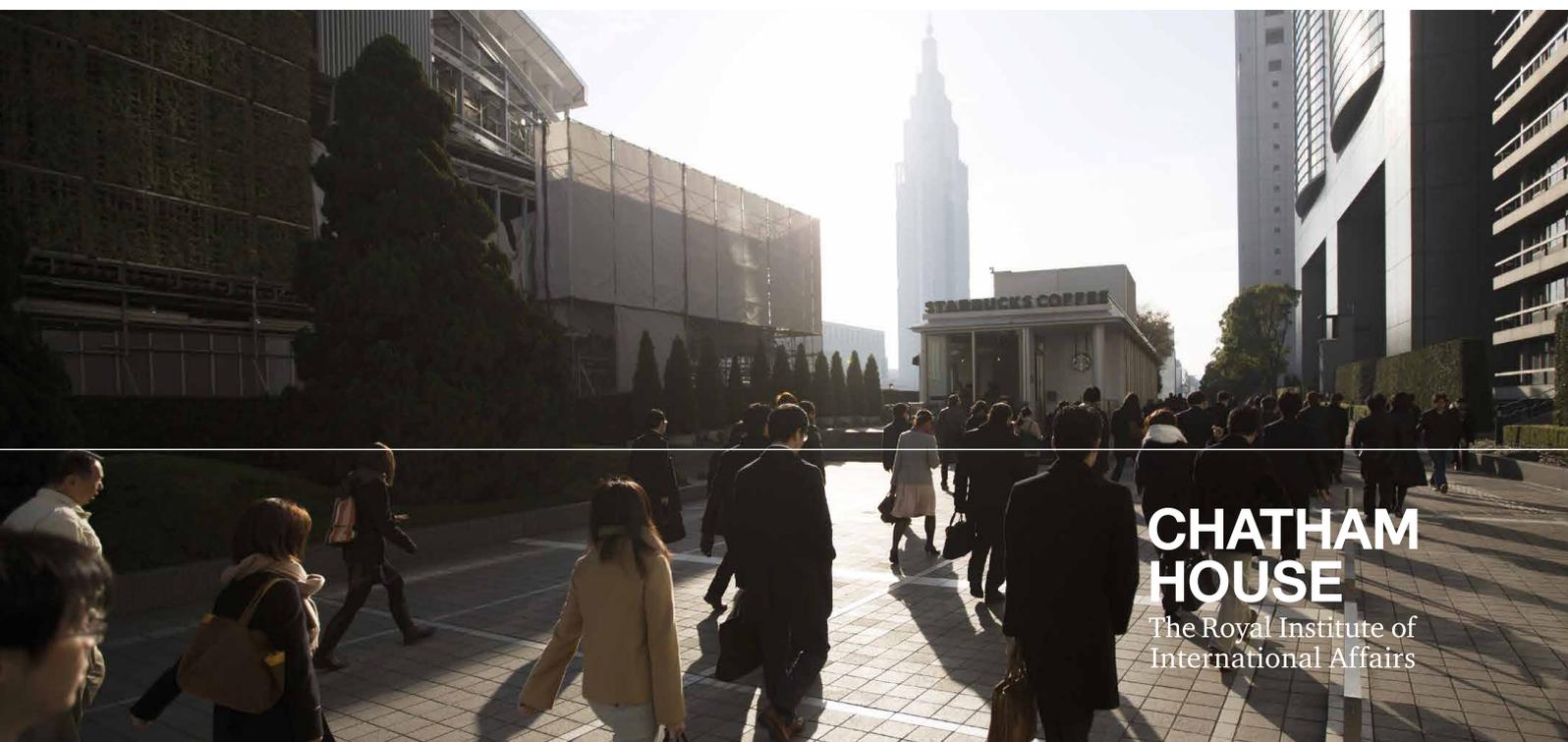


Conference Report

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The Future of Capitalist Democracy UK–Japan Perspectives

With an essay by Bill Emmott and Masayuki Tadokoro



**CHATHAM
HOUSE**
The Royal Institute of
International Affairs

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About the UK–Japan Global Seminar Series

The UK–Japan Global Seminar Series aims to explore how the United Kingdom and Japan can work together more effectively to address a number of critical international challenges in the economic, security and social spheres, broadly defined.

Both countries are in a position to capitalize more fully on their respective comparative advantages in order to confront these common challenges. Closer cooperation will offer increased scope and opportunity to identify common strategic priorities and to devise appropriate solutions.

To this end, each year the UK–Japan Global Seminar Series convenes an annual conference, held alternately in London and Tokyo, to discuss these shared concerns and identify practical ways to deepen UK–Japan cooperation. The project also produces a range of publications and hosts discussion groups to provide opportunities for policy experts, analysts and decision-makers from the UK and Japan to assess their respective approaches to a range of challenges.

The UK–Japan Global Seminar Series is funded by The Nippon Foundation and is held in partnership with The Nippon Foundation and the Great Britain Sasakawa Foundation.

About the third UK–Japan Global Seminar

The third seminar in the UK–Japan Global Seminar Series was held at Chatham House in London on 21–22 September 2015, with the title ‘The Future of Capitalist Democracy: UK–Japan Perspectives’. It considered the contemporary debate over competing models of governance and political economy. This debate is of increasing relevance for both Europe and East Asia. Political populism is on the rise and authoritarian trends are challenging democratic norms in response to widening economic disparities (both between and within countries) and growing threats to state stability in Europe (e.g. in Ukraine), the Middle East (Syria) and potentially East Asia (Thailand and North Korea).

The Chatham House event brought together knowledgeable Japanese and British participants for an extended series of discussions on how to capitalize on past and present experiences to confront a number of common policy problems. Several critical issues formed the focal point of deliberations over two days. Day one opened with a plenary session to discuss the wider challenges to capitalist democracy in the UK and Japan. It was followed by sessions on neoliberal economics and new forms of state security (and insecurity). Day two continued with an examination of the challenges to social cohesion and the rules-based order in Europe and Asia. The meeting closed with a session discussing the extent to which the UK and Japan will need to engage the United States to successfully confront today’s challenges.

This publication brings together a summary of the discussions at the seminar and a co-authored essay by two of the participants, Bill Emmott and Masayuki Tadokoro, on the role of the UK and Japan in the changing international order.

The UK, Japan and the Changing International Order

Bill Emmott and Masayuki Tadokoro

The Chatham House seminar, ‘The Future of Capitalist Democracy: UK–Japan Perspectives’, held in London on 21–22 September 2015, exposed a wide range of concerns common to scholars and practitioners in both countries, not only about the economic condition of our liberal democracies but also about the domestic and international politics that surround and influence them.

Domestic political backlashes against inequality, corporate malfeasance and the stagnation of real incomes over the past decade are being reinforced by uncertainties about the durability of the post-Cold War international order. Russia’s military intervention in Ukraine, China’s strategic and territorial claims in the South China and East China seas, the rise of Islamic State of Iraq and Syria (ISIS) and the Syrian civil war, the migrant crisis affecting Europe and the Mediterranean, and evolving threats to cyber security – all constitute serious challenges to the rules of the global game.

A natural, and perhaps inevitable, question that emerges in the light of such concerns is: ‘How can the United Kingdom and Japan work together to deal with these issues?’ This, however, is a question more appealing to diplomats than to scholars or journalists. We are sceptical about the idea that bilateral cooperation can play a significant role in these matters, even if we are not at all opposed to it. Rather, we feel – and our feeling was confirmed by the September discussions – that what is most valuable is to enhance British and Japanese awareness and understanding of each other’s perspectives and, in particular, of the differences in emphasis or priority seen in the two countries, and thereby to help each other promote solutions more effectively in multilateral forums.

This essay aims to contribute to that process. There is plainly a great deal of overlap and agreement between Japan and the UK on many issues. There is always a lot that each country can learn from the other. But it is in the differences – whether of perspective, of experience or of emphasis – that the most important learnings lie. This essay will therefore explore differences more zealously than it seeks similarities.

Attitudes to China’s rise and its regional policies

In Japan, China is seen as clearly the major threat to regional stability. Britain’s and Japan’s mutual ally, the United States, seems to agree. So there is much puzzlement, and not a little concern, at the impression that Britain sees China differently. Especially during the visit to China by the British chancellor of the exchequer, George Osborne, in September 2015 and then the state visit to London by China’s president, Xi Jinping, a month later, the British government was seen by many¹ in Japan (and indeed by many independent observers in the UK) as kowtowing to China in pursuit of investment and trade, and disregarding the legitimate interests of allies such as Japan.

¹ George Parker and Jamil Anderlini, ‘Britain’s red-carpet welcome for Xi baffles traditional allies’, *Financial Times*, 18 October 2015, <http://www.ft.com/cms/s/0/3e5a866a-7579-11e5-933d-efcdc3c11c89.html>.

As, respectively, a journalist and a scholar, neither of the authors of this paper is in any sense a spokesman for his country's government. Together, we share a sense of irony that, at the time of a Chatham House event discussing 'capitalist democracy', one of the countries that can be said to have given decisive shape both to modern capitalism and to modern democracy was sending its finance minister to act, in effect, as a salesman in the world's largest capitalist dictatorship; and that the UK was promoting its commercial relationship with China as vital for the future of its own capitalist democracy. When governments act as salesmen, whether for exports or for inward investment, it leads to bad compromises and is always likely to distort markets. A price is always paid. Democratic politicians' goals are short-term, for a few jobs here and headlines about billion-pound contracts there, so even when – as with the British chancellor – they portray themselves as acting in the long-term interest of their country, they are in truth motivated in other ways.

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Beyond the aesthetics and immediate politics of British policy, however, this question of how to deal with a China that presents both business opportunities and security threats at the same time reveals a crucial difference of opinion between European officials and Japanese ones about the right approach to China.

European officials share the view that the rise of China, and in particular its assertiveness in the South China Sea and East China Sea, poses a threat to stability, though even in modern times distance makes such threats feel less urgent. (Countries far away in Europe still fret more, for instance, about Russia's activities in Ukraine than they do about maritime territorial disputes in Asia.) America's decision² to sail a warship on 27 October 2015 close to China's new artificial islands in the South China Sea so as to signal that it rejects the territorial claims they imply seems in Europe to make sense: we rather admire it. But European officials – including the British, detached though they often seem from European Union decisions – are taking a very pragmatic view of China.

Official Britain – as distinct from scholars and commentators, whose views are more diverse – does not seem to think that it can do very much about China's territorial assertiveness. It therefore prefers to leave it to others to deal with the issue. This may seem strange, given that for centuries European navies, in effect, controlled the South China Sea. But such is today's European reaction, perhaps conditioned by a lack of confidence in its capabilities: a renunciation of old roles and responsibilities, thanks in part to post-colonial legacies, and a considerable downplaying of the importance of maritime territorial disputes in Asia. Europeans see China's economic role in the region and in the world as simply a new reality which needs to be accommodated, adjusted to and even exploited, even if China's assertive behaviour is a somewhat unpleasant part of that reality. In British politics and commentary, while there has been much criticism of the kowtowing to China by David Cameron's government, there has also been widespread acknowledgment that Britain is simply playing catch-up with the also-kowtowing Germans and French in their commercial dealings with China.

That is why Britain and other big European countries were so quick to join China's initiative for the Asian Infrastructure Investment Bank (AIIB), to Japan's and America's horror. Britain concluded that the

² Tom Phillips, 'Beijing summons US ambassador over warship in South China Sea', *Guardian*, 27 October 2015, <http://www.theguardian.com/world/2015/oct/27/us-warship-lassen-defies-beijing-sail-disputed-south-china-sea-islands>.

AIIB was going to happen regardless, and that one way or another Chinese capital was going to play an important role in regional investment. It therefore made sense to get involved at an early stage, as this seemed to offer Britain at least a chance of having a modest influence over the new institution (although this decision admittedly goes against the traditional British approach to working with Europe).

Japan does not fundamentally dispute the idea that power shifts demand adjustments also to existing multilateral institutions. Certainly there is Japanese agreement that the Bretton Woods institutions of the IMF and World Bank are obsolete in their current form, and that China – as the second-largest economy in the world – has to be better incorporated and represented in future structures for global economic governance.³ The Japanese sense, however, that the UK should have and could have done a better and more responsible job of responding to the shift in global economic power – notably by giving China an incentive to operate within existing norms and principles rather than encouraging it to challenge these through unilateral actions. And Britain is alleged to have failed to consult, or at least warn, its American and Japanese allies about what it was envisaging. Chancellor Osborne has practically run British foreign policy towards China, yet he seems not to have tried very hard to coordinate policy with the US or Japan. Nor has he shown any serious concern about regional geopolitical problems caused by China. As a consequence, there is a Japanese sense that for the UK today, East Asia is merely a place to make money, nothing more.

More broadly on the economy, all over the world analysts have spent much of the past year trying to assess whether turmoil on the Shanghai stock exchange could signal that China's high-growth period might be over and that a serious financial collapse could be imminent. Chinese economic weakness has been worrying the West more than Chinese strength. This concern has also been present in Japan, given the country's own much larger trading relationship with its continental neighbour. But the difference between Japan and Europe is that – while Japanese are not known for hard-nosed realism – a combination of its geopolitical environment and the quick recent shift in the balance of military capability in favour of China (which is now spending four times more on defence than Japan) means that Japan simply cannot afford the European luxury of ignoring the geopolitical implications of China's changing behaviour. The paradoxical attitudes of Europe – where people worry about a Chinese downturn while being quite happy to see Russia suffer economically as a result of the sharp decline in oil prices – can also be explained by the tangible European security concerns arising from Russia's behaviour towards Ukraine.

Attitudes to Russia and its policies in Ukraine

On China, there is serious concern about the consistency of Britain's policies and about the principles behind them. That concern is matched, however, by British concern about the consistency of Japan's policy towards Russia. Some British policy-makers feel that while Japan's government devotes a lot of time to calling for respect for international rules when it comes to China, it shows a different attitude to Russia. Yes, it has abided by the US-led sanctions on Russia over the latter's annexation of Crimea and intervention in Ukraine, but the European suspicion is that Japan is lukewarm about this. Europeans hear much talk of a Japanese desire for a deal over the Northern Territories, despite what

³ It has been widely felt by Japanese financial officials that China and some other Asian economies are under-represented in the IMF despite their increasing economic weight. The frustration with the IMF became particularly strong during the Asian financial crisis in 1997–98. See, for example, Eisuke Sakakibara, *Nihon to Sekai ga Shinkansita Hi*, Tokyo Chuokoron Shinsha, 2000. The Japanese government lobbied for redistribution of quotas of the IMF. But the US Congress accepted the change only in December 2015 after the AIIB was founded. See, for example, 'Azia Age Giron', *Nihon Keizai Shimbun*, 24 April 2006.

Russia has done in Ukraine, and wonder whether at some point Japan might break ranks in order to further this goal.

Japan has been maintaining the unity of the G7 in its objection to Russia's expansionism. It has also participated in multilateral economic sanctions despite the fact that the Ukrainian issue poses no more direct threat to Japan than China's aggressive actions in the East and South China seas pose to the UK. Russo-Japanese relations were downgraded a great deal after the Russian annexation of Crimea, despite the fact that Prime Minister Shinzo Abe had met President Vladimir Putin as many as five times in 10 months before the annexation. But after annexation, Abe instead visited Ukraine in June 2015, clearly expressing Japan's support for the territorial integrity of that nation.

Having said that, Japan is certainly not diplomatically monolithic. There are voices calling for a more 'independent' approach towards Russia.⁴ It is reasonable to speculate that within the current administration some are still indulging in the hope of a breakthrough on the territorial issue by inviting Putin to Japan. Is there any possible grand bargain to be made out of appeasing Russia? It is highly unlikely. In the first place such a deal would not work. It is hard to imagine that President Putin would make territorial concessions on Russia's eastern front while fanning jingoism at home. Secondly, Japan simply cannot afford to alienate the US, given Japan's heavy strategic dependence on America. Thirdly, the territorial issue is largely a matter of principle for Japan. The disputed islands have very little material value, but are a symbol of unlawful and opportunistic Russian expansionism. Thus, it would be meaningless to get these useless islands back by undermining Japan's objection to changing the status quo by force. Besides, if Japan condoned Russian expansionism in Ukraine, its position *vis-à-vis* China over the territorial issue in the East China Sea would be badly damaged. It may now perhaps be a comfort to some Japanese thinkers that the increased intervention by Russia in Syria in the autumn of 2015, which happened to occur just ahead of the 13 November ISIS jihadi killings in Paris that drew Britain and others into a new phase of military action in Syria and Iraq, has presented Europeans with equivalent dilemmas, which they too must resist.

There are, however, differences between Japan's and Britain's national interests when it comes to relations with Russia. For Japan, having China as a neighbour poses an immediate security threat. Thus, it has a strong reason to keep engaged with Russia rather than push Russia into the arms of China. Meanwhile Russians, despite an ostensibly intimate relationship with China, are deeply suspicious of it. They are concerned about their territorial integrity in East Siberia, where very few Russians live along the border with populous and powerful China.

It is difficult to remember now, more than 20 years on. But soon after the end of the Cold War, Japan was criticized for its lack of flexibility towards Russia. In fact, Prime Minister Abe's nuanced approach is very much driven by his desire to have more flexibility in Japan's relationship with Russia, hitherto rendered completely rigid by the relatively minor territorial issue.⁵

Europe's refugee crisis, immigration and terrorism

Two big Japanese concerns are Europe's handling of the Mediterranean, Afghan and North African migrant crisis, and the occurrence of terrorist attacks in European cities as extensions of the wars in the Middle East. It is clear that the Japanese would be utterly unprepared, intellectually or in

⁴ For example, see the remarks made by Muneo Suzuki, a former vice-minister for foreign affairs, available in '日ロ関係改善へ、もっと日本の"独自色"を出せ!', *Nippon.com*, 28 April 2015, <http://www.nippon.com/ja/in-depth/a04004/>.

⁵ See, for example, Harry Gelman, *Russo-Japanese Relations and the Future of the US-Japanese Alliance* (Santa Monica, CA: Rand, 1993).

practical terms, for large-scale population inflows. How is Europe going to deal with the migrant crisis? Both Japanese and British observers find it moving to see Germans welcoming migrants, even if such positive sentiments are laden with doubts about the practical impact of seemingly open-ended generosity. But given the magnitude of the problem, a humanitarian attitude alone will anyway not solve it, particularly when anti-immigrant political parties are gaining influence all over Europe (an influence which terrorism is now bound to increase further). It is easy to say that stabilization of the Middle East is the key. Nobody seems to know how to achieve this.

This concern was underlined by the aftermath of the Paris terrorist atrocity of 13 November. After such a shocking assault on Europe's liberties, civilization and indeed way of life, the natural tendency will be for governments to respond forcefully, both by strengthening internal security and by trying to retaliate against ISIS fighters in Syria and Iraq. But to what end? Experience with terrorism on all continents tells us that closing borders or allowing tighter security to infringe liberties will not solve the problem. Nor will raining down bombs from the sky.

The connection between Europe's refugee crisis and terrorism is, in any case, that the refugees are seeking to escape exactly the sort of violence and insecurity that Parisians have now experienced. So to close borders to asylum-seekers on grounds that there is a risk of terrorists slipping through under cover of the migrant flows makes little sense. Fully passport- and border-free travel between the 26 member countries of the Schengen Agreement (which does not include Britain) might be suspended in order to restore public confidence in the authorities' control, but to go further would likely create more problems than it would solve – especially by dividing European countries from each other, just when they need to collaborate more if they are to improve security. Temporary border controls are already appearing all over the Schengen Area.

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Collaboration need not, and surely should not, be limited to Europe. The migrant crisis is principally a European issue, certainly, as this is happening in Europe's own neighbourhood. Europeans called the Mediterranean that name, the 'middle earth sea', because in Roman and Greek classical times they thought of it as the centre of their world, and believed that that notion applied as much to the Mediterranean's southern coasts as to its northern ones.

But as with most really big refugee flows – such as Vietnamese 'boat people' from the late 1970s to early 1990s – a bit of help from Europe's friends in the rest of the world, including Japan and the US, will always be welcome. It is notable that the new Canadian government has pledged to take in more Syrian refugees (25,000) than Britain has, which is both inspiring and shaming. It would be splendid if Japan could follow Canada's example and also expose British policy for what it is. Sadly, Japanese policy so far does not make this a likely prospect.

Whether or not that changes, three things are clear. First, that the flow of refugees from the war in Syria, the instability in Libya and the various conflicts and repression in North Africa is going to continue and will probably increase. So this should be thought of as a fact of life, for the time being. Second, that inside Europe the refugee crisis is going to increase tension between and within the

countries of the EU, while it also is severely damaging public confidence in the EU. After all, people are inevitably asking, if the EU cannot find a collective solution to a shared issue such as this, what is the point of it? It was always said that the EU's main function was to solve common problems. Third, it is clear that European countries will have an increasingly noisy and bitter debate between those who are in favour of immigration in principle (whether by refugees or others) and those who see it as a threat to their way of life and culture.

At present, humanitarian issues are at the forefront of the debate. But the argument is bound to move on to the skills the refugees bring, to the ageing and shrinking of populations in some European countries (especially Germany), and to the role that immigration can play in dealing with demographic issues. Opponents will stress the current levels of unemployment in Europe (less true in the UK) and the cultural aspects of immigration, as well perhaps as stressing the dangers of adding to the potential for terrorism.

This debate could develop in worrying directions. Europeans are generally more sympathetic to immigrants on humanitarian grounds – especially as Europe feels so impotent in the face of the Syrian civil war, amid new interventions in Syria by Russia and Iran – than on demographic or other practical grounds. The leader of the UK Independence Party (UKIP), Nigel Farage, struck a chord with many when he said that he didn't care whether immigration might add to UK GDP: he was prepared to sacrifice potential economic gains for reasons of culture and national identity. His candour can be admired, even if one disagrees with his position (and he has not yet had to specify how much poorer he would be prepared to make his country by clamping down tightly on immigration).

The key future benchmark, though, will not so much be Britain as France, and specifically the French presidential election of May 2017. Then the big question will be whether the Front National, the anti-immigrant and anti-EU party led by Marine Le Pen, can succeed in getting into the second round of voting. Unlikely as this may be, it would be reckless to rule out entirely the chance that she could even win in the second round, if circumstances in the French economy and in the migrant crisis move in the wrong direction. The horrors of 13 November 2015 can only have made this prospect more plausible.

To be sure, the immigration issue should not be reduced to a simple question of 'yes' or 'no', 'for' or 'against'. It has long been a natural part of European history, throughout which the crucial questions have been how fast immigration could be and how well the new populations could be integrated. Few people realize that Boris Johnson, the very English mayor of London who made a high-profile visit to Japan in October 2015, had Turkish and Russian ancestors who immigrated to Britain during the mid-20th century. But the questions of both politics and practicality are less about the fact or desirability of immigration than about its speed and about how best to integrate the newcomers.

For Japan, the Rugby World Cup that was hosted in the UK in 2015 has, in one sense, had a positive effect on attitudes to immigration. Japan's rugby team achieved its great triumph over South Africa under a foreign coach, with 10 out of 31 players of the national squad being originally from abroad and with only five of those foreign-born players actually possessing Japanese citizenship. Regardless of their legal status, once in the cherry uniform they are all simply members of the Cherry Blossoms or simply 'JAPAN' – as the national team is traditionally called by Japanese rugby fans – and are national heroes. An article by Masayuki Tadokoro in the monthly journal *Chuo-Koron* therefore calls for serious discussion on immigration policy, arguing for a transformation of 'Nippon', a traditional identity based upon perceived ethnic homogeneity, into a more multi-ethnic and international identity of JAPAN by introducing the dynamism that immigrants bring with them.⁶

⁶ Masayuki Tadokoro, 'Imin to Tomoni JAPAN o Yarou', *Chuo-Koron*, December 2015.

While no country can unconditionally accommodate unlimited inflows of immigrants, in today's globalized world a prosperous and safe country will inevitably attract people from outside. Thus, the choice we are facing is not between a categorical 'yes' and 'no' to immigration. The question we must ask is how best we can maximize the interests of host countries, sender countries and immigrants themselves.

We hope that Masayuki's article will have some impact but acknowledge that he is in a minority. Although Japan is paying lip service to European humanitarian efforts and has always been a major financial supporter of the UNHCR (the UN's refugee agency), the country has so far admitted only 11 Syrian refugees.⁷ Japanese business has long been interested in introducing labour from abroad. A group of politicians from the Liberal Democratic Party (LDP) came up with a plan to take in 10 million migrants over 50 years.⁸ But these ideas have never taken off, and there seems to be no real prospect for a breakthrough under the current government. Why is Japan so reluctant to reform its immigration policies? Japan does have its share of xenophobia, comparable to the sentiments articulated by UKIP or the Front National, but it is hard to believe that such views are particularly influential. The main reason for Japan's extreme resistance to immigration reform is a vague but widely held sense of insecurity on the part of the majority of ordinary Japanese, combined with a long history of relative ethnic homogeneity.

It is widely believed in Japan (probably rightly) that many of the social virtues enjoyed there are due to the high levels of trust and consensus in its society. It is also widely believed that large inflows of immigrants might endanger these very qualities – which include low crime rates, highly reliable services and products, and processes for settling disputes without excessive litigation. Certainly, European reality does not seem to be offering strong counter-arguments. It may be false to assume that immigrants are likely to be more violent, less honest and more litigious than Japanese people. But it is true that the shared language, norms and manners and simple habits of the Japanese contribute to easier communication and effective coordination among members of this society.

Will there be a shift in public attitudes? 'Eventually inevitably but perhaps too slowly' is the best answer. It is inevitable because Japan already has sizeable numbers of de facto immigrants and depends upon them. Japan hypocritically refrains from actually calling them immigrants, but it simply is a fact of life that many of the 200,000 or so 'technical interns', for example, play indispensable roles at factories, construction sites, farms and convenience stores.⁹ The 'technical interns' who are allowed to stay for three to five years in order to 'learn valuable vocational skills' are, as can easily be seen, practically guest workers, and a considerable number of them do not leave after their term is over. Some of them stay on in legal ways, such as through marriage with Japanese partners, while others do so illegally.

As in Europe, where the introduction of immigrant workers was not a result of genuine public discussion but started as an easy way to find cheap labour, in Japan the reality precedes serious policy debate. European experiences also suggest that the sooner Japan takes active measures to integrate newcomers into its community, the better the chance of avoiding ghettos. In fact, out of sheer daily necessity, some local governments, which host many foreign inhabitants, are already implementing quite advanced policies, offering various services to the newcomers. Notable success stories such as Japan's rugby team do hopefully have positive impacts on public recognition of the valuable

⁷ Elaine Kurtenbach and Mari Yamaguchi, 'Japan, wary of outsiders, keeps doors closed to refugees', Associated Press, 28 December 2015, <http://bigstory.ap.org/article/1c084b425b9c45b8a03a9831eaa36bc1/japan-wary-outside-keeps-doors-closed-refugees>.

⁸ See the group's report, entitled *Jinzai Kaikoku! Nihongata Iminseisaku no Teigen*, 12 June 2008, <http://www.kouenkai.org/ist/pdf/iminseisaku080612.pdf>.

⁹ <http://www.e-stat.go.jp/SG1/estat/List.do?lid=000001139146>.

contribution immigrants are making, as well as of the pressing need for sensible policies on the national level.

It is unfortunate, therefore, that the terrorist attacks in Paris are likely to strengthen the negative image of immigration among Japanese and further delay serious discussion of immigration policy. Despite the fact that the last major terrorist attack in Tokyo, in 1995, had nothing to do with immigrants but was conducted by a home-grown cult group, Aum Shinrikyo, the incident in Paris will be referred to as evidence of the danger of accepting immigration. Japanese people and institutions, to say nothing of Western mass media, also forget that Japan accepted sizeable numbers of refugees (about 11,000) from Indochina in the 1970s and that these arrivals were generally well treated. Japanese people are learning an incorrect lesson if they assume that social cohesion is attributable to a static historical homogeneity of the population. Rather, such cohesion is something a nation reproduces through constant efforts and adaptation to change.

The issue of inequality

Divisions over immigration in Europe seem to symbolize a growing gap between those who lack the skills to compete in an increasingly globalized market economy and those who are better off under global competition. So alongside immigration, the important question is whether this divide, and rising levels of inequality, could pose future political and economic threats. More pithily, one could simply ask: is Thomas Piketty¹⁰ correct? A quarter of a century since the collapse of the communist Soviet Union, is there any chance we could see a major re-emergence of an anti-market movement? Does Jeremy Corbyn, the newly elected Labour Party leader in the UK, represent a sign of serious popular revolt against capitalism?

Such questions are more readily posed by outsiders than by locals, for locals often fail to perceive trends and movements that are gradual, as is the case with inequality and feelings against globalization. That said, what is remarkable about the European response to its long recession and stagnation since the 2008 financial crisis is how *little* rebellion there has been against capitalism and inequality, rather than how much. The see-sawing results for the Front National in France's regional elections in December 2015 illustrate it: a 'shock' success as the leading party in the first round of voting, but then a total failure to win any councils in the second round a week later, with the party's vote stuck at 27–28 per cent.

Europe is encountering many of the same forces and going through many of the same experiences that Japan did after its bubble burst in the 1990s. Britain currently likes to think of itself as different, thanks to its past two years of fairly strong economic growth and falling unemployment, but it is less different than many people think. Japanese, British and other Europeans can blame many of the same people and institutions: reckless bankers and property speculators; politicians who exploited the excesses of credit-fuelled boom years for their own purposes; regulators who failed to do their job of supervising and intervening; company managements that responded to financial stresses by resorting to fraud. Some of the solutions adopted for an apparent lack of competitiveness are producing similar consequences in Europe to those in Japan. Most notable are supposed labour market 'reforms' that simply create an underclass of low-paid workers; these protect corporate profits but contribute to anaemic consumer demand as wages remain depressed and productivity growth low. Such dual labour

¹⁰ Thomas Piketty, French author of the international bestseller *Capital in the Twenty-First Century* (Harvard, MA: Harvard University Press, 2014).

markets are more a feature of continental Europe – including Italy, Spain, France and Germany – than of Britain, but some of the same issues exist in the UK.

European countries may be more susceptible to political and social upheaval as a result of economic hardship, because they lack the sort of social cohesion that has helped Japan to live fairly peacefully and cozily with long-term economic stagnation. So the persistence of high unemployment – with nearly 23 million people out of work in the EU, compared with less than 8 million in the US (despite a population three-fifths the size of the EU's) – makes it reasonable to worry that eventually patience will snap, in one or more European countries. That is not currently very likely in Britain, despite Corbyn's election as Labour leader, simply because joblessness is now low and wages are at last rising, after seven years of stagnation. However, any reversal of that progress could produce a pro-left backlash. On the other hand, a challenge to the political and social status quo is quite likely in France and other EU countries eventually, especially given the added pressure of immigration.

A key point connecting the immigration issue and inequality is that such sources of alienation are likely to favour right-wing, nationalist forces at least as much as anti-market left-wingers. Unemployment and the loss of a sense of hope and opportunity are arguably more important and more dangerous issues than the inequality examined by Piketty. True, inequality might prompt people to conclude that European democracies are rigged systems in which only the rich – or, rather, wealthy corporate lobbies – have a say, and that justice is no longer available. But this is a theoretical danger rather than a real one. The real danger lies in unemployment and stagnant incomes, which together are feeding a sense of disillusionment and hopelessness. To repeat, this favours right-wing extremists too. So far, left-wing parties have struggled to find a formula both to win elections and govern successfully. This is not dissimilar to the problems faced by the Democratic Party of Japan (DPJ) after its historic election victory in 2009: it worked out how to win, but not how to govern, especially in an environment in which public finances were under tight constraints.

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The funny thing about Corbyn and his very left-wing friends who now run the Labour Party is that they have been so quick to try to convince voters that they are really moderates who do not have extremist views or plans. They want to represent themselves as the authentic voices of reasonable, moderate people, standing up against what they would like to depict as the ideological extremists of the Conservative government. Far from seeking to lead a popular revolt against capitalism, they are trying to paint themselves as tribunes of common sense and of fairness. This posture may not last, but that is how they have begun.

This ought not to be too surprising. Most people understand the basic realities of a modern economy, and are now much less easily convinced by ideas of an interventionist state that uses taxpayers' money to solve social ills. In Japan and in Britain, voters have shown themselves willing to support political parties that they believe are competent to govern, rather than favouring alternative ideologies. This implies that neither the Labour Party led by Corbyn nor the DPJ, which increasingly resembles the old Socialist Party that survived only by attracting protest votes under the former LDP-dominated political system, can be serious rivals to the ruling parties. At the same time, the rise of UKIP in the UK and the

recent increase in popularity of the Communist Party in Japan seem to represent general distrust in the existing mainstream political parties.

What does surprise is how little anger the public has shown about corporate frauds such as the one recently exposed at Volkswagen and its pollution-test ‘defeat-devices’. This was a clear conspiracy to deceive both ordinary car buyers and the regulatory authorities about the true level of polluting emissions from diesel cars. Yet although the consequences for VW may well turn out to be very serious indeed, the public seems collectively to have shrugged its shoulders.

This, in fact, is fairly analogous to the public reaction in Japan to the Olympus and Toshiba scandals. Do we all now have such low expectations of legal and ethical behaviour by big corporations that we don’t care any more? This brings with it the worry that a fundamental aspect of accountability might be disappearing, perhaps amid a widespread and dangerous sense of complacency. For accountability, surely, has been a key incentive for action, innovation and even economic growth in our capitalist systems. Without it, don’t we risk fading away in a morass of debauchery, rather like the Roman empire or, arguably, the Chinese imperial system?

It is no idle comparison. Even if parties competent to govern have been re-elected in both our countries, following the failures by the DPJ and by Labour, there can be seen alongside this a more disturbing mood of alienation and even some shedding of a sense of democratic responsibility. Declining rates of electoral turnout are one sign of this;¹¹ another is the rise of street politics as an apparent substitute for full political activism; a third, in Britain at least, is the rise of Scottish separatism, as alienation with ‘Westminster’ has led to a search for solutions closer to home, in a development that has been disastrous for Labour. This can also be seen in the public opposition in Japan to Prime Minister Abe’s collective self-defence legislation and in Britain to the renewal of the Trident nuclear deterrent programme. Neither yet represents a majority view. But both might well cause concern in political circles in our major mutual ally, the US.

A sense of insecurity in Japan, worsened by ageing

It has been widely perceived among Japanese that inequality in their country has been growing as business has become ever more globalized and as the domestic economy has adjusted to the bursting of the financial bubble 25 years ago. A simple international comparison of statistics (Gini coefficients) tells us that Japan’s level of inequality stands somewhere between the highly unequal Anglo-American economies and the relatively equal continental European countries. It also tells us that the level of inequality in Japan has increased considerably over the past two decades, during which the country’s economic growth has been largely stagnant.

There has been intensive discussion among experts over how to interpret such statistics. It is now widely accepted that the increase is more due to the ageing of the population than to a widening gap between rich and poor. The stronger perception of growing inequality seems to be related to a low level of income growth. It is hard, for example, to find major grievances towards the new super-rich in the contemporary Japanese discourse. Rather, the main problem is a sense of insecurity resulting from a loss of confidence in major institutions (both formal and informal) that previously sustained high levels of trust throughout society.

¹¹ ‘国政選挙における年代別投票率について’, Ministry of International Affairs and Communications, http://www.soumu.go.jp/senkyo/senkyo_s/news/sonota/nendaibetu/ (last accessed on 14 January 2016).

A major example is reduced job security. Although Japan's unemployment rate is very low by European standards, at 3.1 per cent of the workforce, job security has constantly deteriorated over the past two decades.¹² It is true that Japan's famous 'lifetime employment' system was largely a myth, as the system covered only a fraction of white-collar workers. Still, it represented an important 'social contract' between loyal employees, who worked hard and put in ultra-long hours; and their employers, who retained staff over the long term regardless of business cycles, and who invested a great deal in training. This arrangement underpinned the stability of the Japanese middle class, offering a model for a decent lifestyle in postwar Japan. But as the Japanese economy has stagnated, even major companies can no longer afford to maintain excess labour capacity under increasingly competitive market conditions. At least, that is what they say. Despite the much-predicted 'race against the machine', there is little sign in the Japanese labour market of workers being replaced by automation. Technological progress is there in theory, but is not evident in productivity statistics.

Thus, an increasing part of employment now consists of low-paid part-time jobs, which are less secure and offer fewer employment benefits than full-time and regular contracts. This shift is the product of successive relaxations in labour law, which have facilitated a two-tier labour market. Almost 40 per cent of workers are now subject to part-time and irregular contracts,¹³ a far cry from the old image of the Japanese labour market as guaranteeing lifelong employment and a strong social contract. Now the Japanese middle class feels much more insecure, and young people are much less hopeful about the future than their parents or grandparents were.

Corporate governance is another area in which the loss of confidence in once-trusted institutions is increasingly in evidence. Competition has had many positive impacts on Japanese business – improving efficiency, reducing oligopolistic corruption and creating more opportunity for entrepreneurs. It has, however, also created perverse incentives that risk encouraging corporate misbehaviour in the absence of effective oversight and governance. Thus, rather than seeking to maintain their company's reputation and investing with a long-term view, managers are often tempted to cheat in the search for quick profits or to cover up losses. Both Olympus and Toshiba, traditional blue-chip firms, carried out fraudulent accounting, while construction firm Asahi Kasei's falsification of data about foundation piles resulted in a scandal involving tilting apartments.¹⁴ Japan needs an effective corporate oversight mechanism for today's more competitive trading environment, one that reduces the business sector's traditional dependence on informal arrangements among trusted insiders.

The value of corporate governance and reputation in potentially offering businesses a competitive advantage is evident in the tourism boom that Japan is currently enjoying. The industry is seeing a rapid increase in visitor numbers, with many of the arrivals coming from China. Chinese tourists are surprisingly high spenders, making large purchases in Japanese shops rather than buying the same items in their home country. One of the main reasons why they prefer to travel to Japan to shop, rather than buy imported Japanese goods at home, is that they do not trust Chinese businesses; many purportedly believe that Japanese goods sold in China are fakes. In contrast, Chinese consumers trust the safety, quality and authenticity of goods sold in Japan. This illustrates the value of brand credibility.

¹² Robin Harding, 'Japan unemployment falls to 20-year low', *Financial Times*, 27 November 2015, <http://www.ft.com/cms/s/0/0afd60ba-94a7-11e5-bd82-c1fb87bef7af.html#axzz3x4ZKD9tH>.

¹³ '労働力調査', 10 November 2015, p. 2, available at http://www.stat.go.jp/data/roudou/sokuhou/4hanki/dt/pdf/2015_3.pdf (last accessed on 14 January 2016).

¹⁴ See Michael Woodford, *Exposure: Inside the Olympus Scandal: How I Went from CEO to Whistleblower* (Portfolio, 2012); Kana Inagaki, 'Toshiba says it inflated profits by nearly \$2bn over seven years', *Financial Times*, 7 September 2015, <http://www.ft.com/cms/s/0/febd9638-5506-11e5-b029-b9d50a74fd14.html>; and Leo Lewis, 'Tilt piles pressure on Japanese Reits', *Financial Times*, 16 November 2015, <http://www.ft.com/cms/s/0/f00de660-8c6f-11e5-a549-b89a1dfede9b.html>.

It is ironic that Chinese consumers – some with anti-Japanese views stirred up by nationalism at home – are sometimes more trusting of Japanese businesses than are many Japanese themselves.

All in all, however, while Japan shares many problems with Europe, the country's socio-economic conditions continue to be characterized more by a gradual decay than by any prospect of immediate crisis. One could describe Japan as a kind of laboratory for the concept of 'secular stagnation', as proposed most notably by a former US treasury secretary, Professor Larry Summers. Indeed, in contrast to the economic hardships witnessed in Europe, Japanese people have been living a rather comfortable kind of stagnation ever since the financial bubble burst in the 1990s. The problem is that this is not sustainable. Rather than promoting reforms, policy-makers have responded to the weak economy largely through ineffective government spending, financed by public borrowing. As a result, Japan's gross public debt has risen to over 240 per cent of GDP.¹⁵ Unlike Greece, Japan can still largely finance its public borrowing internally, but there are limits to its ability to do so indefinitely. People know that the existing pension, healthcare and social-welfare systems are unsustainable and unreliable; this encourages risk aversion and stymies entrepreneurship, which in turn weakens economic growth. Underlying all these issues is the rapid ageing and shrinking of the population.

Relations with the US

Both Britain and Japan depend economically, politically and in security matters on their close relationship with the US. Relations with their respective neighbourhoods – the EU, and East and Southeast Asia – also matter greatly, although in neither case are those relations easy. Moreover, there is an inextricable link between the British and Japanese alliances with the US and these neighbourhood relationships, since America necessarily sees both countries as instruments of influence in Europe and Asia.

Despite that common thread, there is a basic difference between Japan and Britain in security terms. For Japan, the alliance with the US has been the ultimate guarantor of the country's security. This has always meant that any differences of opinion or matters of domestic controversy have been subsumed by the broader imperative of keeping the Americans on-side. That is also a fair analysis of the new security legislation passed by the Abe government in the late summer of 2015: these laws are based on reinterpretation by the Abe cabinet of the country's constitution, in order to permit the government to exercise the so-called right of collective self-defence which allows the Self-Defense Forces (SDF) for the first time to come to the aid of one of Japan's allies if it were to be under attack. In theory, the new legislation gives Japan more freedom to provide military support for America or other allies. In practice, the conditions under which the right of collective self-defence can be exercised are still very restrictive. Thus the new security legislation represents only a modest and technical evolution rather than a fundamental change in Japan's military outlook, and its principal effect is to reassure America.

For the UK, in contrast, the 'special relationship' with the US has principally been a framework for continuing to play a global role, rather than a means for dealing with immediate threats. In that relationship, the UK enjoys a greater sense of independence from the US than Japan does, even if it is generally reluctant to risk offending its American partner. However, the UK's potential exit from the EU – should voters choose to leave the EU in the in/out referendum promised by the current

¹⁵ 債務残高の国際比較 (対GDP比), Ministry of Finance Japan, https://www.mof.go.jp/tax_policy/summary/condition/007.htm (last accessed on 14 January 2016).

government by the end of 2017, but that will quite probably be held during 2016 – constitutes a challenge to the basis of its relationship with the US. While Japanese politicians and officials rarely comprehend quite how toxic the issue of Europe has become in domestic British politics, they surely understand Britain's instinct towards some separation or distance from Europe, as they have similar feelings towards Asia. But whether Japanese politicians and officials would follow those feelings so far as to threaten Japan's relationship with the US must be doubted.

The EU is not a security community as such. Nevertheless, the US has made it clear publicly that it would prefer Britain to remain a member of the EU. America values British influence over the EU in matters of foreign and security policy, especially given the challenges of dealing with the EU's unstable neighbourhood. If Britain were to leave the EU, it would clearly risk being bypassed in the future by US foreign policy, not as a matter of hostility but as a matter of pragmatism. Already, Berlin has become America's most important point of contact in Europe, especially over policy towards Russia, but Britain has so far remained in a position of close second.

The situations are different, but Japan shares Britain's worry about being bypassed in US foreign policy. American 'freedom of navigation operations' in the South China Sea, which involve sailing warships through the implied territorial waters around China's artificial reefs, provide Japan with some comfort in this regard. If America is willing to make a show of force in resisting Chinese territorial assertiveness in areas disputed with the Philippines, Malaysia and Vietnam, then there can be little doubt that it would also do so in the case of Japan's Senkaku Islands in the East China Sea, which are also claimed by China as the 'Diaoyu Islands' and are subject to China's own freedom of navigation operations. The Abe government's determination to resist efforts by local politicians in Okinawa to push out American bases also reflects this concern.

Britain still feels confident that, if push came to shove, America would stand by its side. But if it were to withdraw from the EU after a vote in 2016 or 2017, its influence in Washington would be diminished, even though America would remain an ally. American eagerness to strike big regional trade agreements in the Pacific (through the Trans-Pacific Partnership or TPP, now agreed but still to be ratified by Congress) and in the Atlantic (through the Transatlantic Trade and Investment Partnership or TTIP, under negotiation) could provide an early test of that future distancing between America and Britain. Japan will be firmly in the TPP, if the agreement survives the US Congress. According to the US trade representative, Michael Froman, if Britain were to leave the EU, it would be left outside TTIP. He may or may not be making an accurate forecast, but the threat is there.

What of America's future foreign policy intentions? The cycle of presidential elections, with all their standard bombast about standing tall in the world and making America great again, always serves to cast long-term trends in a short-term fog. The 2016 election campaign is no exception. Yet it is always near and present dangers that serve to provide real tests of American engagement around the world, and today's challenges to international order from ISIS, Russia and China are creating just such a test. From the Obama administration, the response has been to remain firmly engaged, even if with a caution about the use of ground troops that returns American policy to that of the 1990s. Whether the next resident of the White House will continue this attitude remains to be seen.

About the authors

Bill Emmott is an independent writer and consultant on international affairs, based in London and Somerset. He was editor of *The Economist* (1993–2006), before leaving to focus on writing, documentary films and a new educational charity about the decline of Western societies, the Wake Up Foundation.

He studied politics, philosophy and economics at Magdalen College, Oxford (1975–78), and in 1980 joined *The Economist's* Brussels office. In 1983 he moved to Tokyo to cover Japan and South Korea, from where he returned in mid-1986. He has published 13 books, eight of which have been on Japan. Bill contributes regular columns to the *Financial Times*, *La Stampa*, *Nikkei Business* and Project Syndicate. He was chairman of the London Library in 2009–15, is a board member of Ofcom, the UK communications regulator, is a member of the Swiss Re Advisory Panel, the ANA UK Advisory Panel and Tokyo University's President's Council, and is a visiting professor at Shujitsu University in Okayama. He holds honorary degrees from Warwick and City universities in Britain and Northwestern University in America, and is an honorary fellow of Magdalen College, Oxford.

Masayuki Tadokoro is a professor of international relations at Keio University. He is also editor of *ASTEION*, a biannual intellectual journal in Japan. Previously he was a professor at the National Defense Academy Japan. His primary field is international political economy, though he also works on Japanese foreign and security policy. His recent publications in English include 'Changed Discourses on Demography in Japan', in Silvio Beretta et al. (eds), *Italy and Japan: How Similar Are They? A Comparative Analysis of Politics, Economics and International Relations* (Milan: Springer, 2014). Together with David Welch and Yoshihide Soeya, he also edited *Japan as a 'Normal Country'?* (Toronto: Toronto University Press, 2011). He studied mainly at Kyoto University and its graduate school (1975–84), but spent two years at the London School of Economics and Political Science for his graduate research (1981–83).

Meeting Summary

The Future of Capitalist Democracy: UK–Japan Perspectives

Challenges to democratic legitimacy

Professor John Dunn began the discussion by making the point that any regime's legitimacy oscillates between evaluations of its merit and judgments of its viability. While effectiveness can be measured and judged in many different ways, it is much more difficult to measure legitimacy, which is itself a mental rather than material reality. Both the Japanese and UK regimes can be considered legitimate, but this legitimacy is not necessarily a function of their efficacy as governments.

One common challenge for both the UK and Japan is how to manage their economies in the aftermath of the global economic crisis, as well as to manage the social welfare consequences of the policies they employ. Professor Dunn voiced his concern that it would be hard for the UK to retain its legitimacy over the course of the next four and a half years even if Prime Minister David Cameron proves successful in managing a future referendum on EU membership, which he has not managed thus far.

A distinct challenge that the UK faces concerns the integrity of its own territory – something which Professor Dunn argued Japan does not face. Professor Dunn later made the point that the ethnically diverse and pluralistic nature of British society is a factor in rising levels of sympathy for violent opposition to the UK government. While Japan does have its own extremists, its immigration policies mean that the problem is not on the same scale as in the UK.

Professor Dunn noted the importance of rising popular anxieties and resentments as the roots of populist politics, warning that Jeremy Corbyn's election as leader of the UK's Labour Party was a 'canary in the mine'. Corbyn's leadership victory, argued the professor, was an outcome of economic choices made across the EU about who should pay the costs of the economic crisis. High levels of economic inequality will impair regime legitimacy as time goes by, especially in areas of low economic growth and recession. As a final point, Professor Dunn stated that this was a critical time for liberal democracies, and would become more critical if the political classes continued to perform poorly.

Professor Hiroshi Nakanishi offered an historical perspective of current challenges to democratic legitimacy, noting the Western experience of 'hubris' at the end of the Cold War. Though much of this sense of triumphalism subsided, Western states retained the perception that liberal democracy could be exported and ultimately work anywhere.

Professor Nakanishi argued that the challenges for the democracies of the world today are structural, and that these democracies face significant internal threats, such as the widening gap between public perceptions of entitlement and what the state can in practice provide, and disillusionment with the democratic process itself. The electoral turnout in the last Japanese general election reached an historic low figure of 52.66 per cent.

In terms of external threats, while today no threat of the same proportion as the Soviet Union exists, the rise of China and Russia presents real challenges for both Asia and the West. Answering the question of whether populism in Japan is driven by a desire to challenge the capitalist system currently in place, Professor Nakanishi responded that much of this movement is more concerned

with the Trans-Pacific Partnership than market reforms, adding that there were limited similarities between Tōru Hashimoto (who led the Japan Restoration Party) and Jeremy Corbyn. Professor Dunn added that there is little ‘flamboyance’ in Japanese populist politics today, and that in contrast with Japan’s 1960s leftist opposition movement, its opposition is now disorganized.

As a final point, Professor Nakanishi argued that there were no instant solutions to the problems faced by democracies today, and that they would have to – in English parlance – ‘muddle through’. At the same time, governments should think more strategically about how capitalist democracies should work on a long-term basis.

What is the future of neoliberal economics?

Professor Edward Lincoln assessed the three ‘arrows’ of Japanese Prime Minister Shinzo Abe’s economic policies, commonly referred to as ‘Abenomics’: quantitative easing in monetary policy; a temporary burst of stimulus to buttress the impact of monetary policy, followed by fiscal consolidation; and regulatory reform to invigorate competition and long-term growth. Prime Minister Abe’s legitimacy depends on his government’s ability to achieve economic prosperity, and Professor Lincoln stated that the Liberal Democratic Party (LDP) had gained a parliamentary majority largely because of Abenomics. The preceding Democratic Party of Japan government had struggled to tackle key issues such as Japan’s low rate of development (the lowest rate of OECD countries), and its declining and ageing population.

The ‘third arrow’ of Abenomics marks a continuation of economic policies aimed at deregulation, initiated following the collapse of the asset bubble at the beginning of the 1990s. Between the end of the Second World War and this collapse, successive Japanese governments had taken an intrusive role in micromanaging industries. Although many of the reforms outlined by Abe’s government would benefit Japan’s economy, previous efforts at reform have been hesitant and incomplete, and it is unlikely that Abenomics will break from this trend.

In terms of recommendations, Professor Lincoln suggested that Japan should pursue labour market reform and invest in continued education for workers, actively encouraging corporations to initiate programmes to this effect.

Bill Emmott argued that although there is a broad consensus over liberal policies (namely, the role of the market in providing innovation), these policies require a number of vital state interventions in areas such as education, science and technology, migration, pensions and the labour force. The issues that economies face are therefore more political than they are economic. In dealing with current and future crises, capitalist economies now have a problem with power blocs, such as banks, lobbies and other interest groups, standing in the way of liberalization and change. There is therefore no consensus on how governments can best intervene in order to rectify problems in capitalist economies. Furthermore, while there is no evidence of massive dissatisfaction in Japanese society as yet, the widening of the income gap can only serve to foster resentment and unhappiness, and ultimately erode social trust.

Emmott also considered the economic implications of Japan’s ageing population. The primary burden of healthcare provision for elderly people with chronic health problems still falls upon the family in Japan, despite reforms in the 1990s. At the same time, more people over the age of 65 continue to work compared to in the UK – he questioned whether these workers can be as productive as younger

workers, and whether this negatively affects investment in human capital. Emmott concluded by recommending that the LDP fully carry out Abenomics, and not just quantitative easing.

Professor Kiyohiko Nishimura returned to the definition of neoliberal economics, highlighting that if it is regarded as the theoretical core of neoclassical economics, the model will continue to dominate economic thinking and policy consideration. He noted that the Washington Consensus remains strong even after the global financial crisis. Yet he highlighted that perfect markets do not exist, and that individuals are not fully rational economic actors.

Professor Nishimura identified three seismic shifts that will have an impact on the global economy: an ageing population, ‘employment-unfriendly’ and price-reducing information communications technology (ICT), and continued fallout from the global financial crisis. With regard to the ageing population in Europe and Asia, he noted that income and wealth inequality among the elderly is in fact higher than it is among young people. Regarding ICT, the replacement of white-collar workers with technologies and software has caused prices to fall, and has resulted in a deviation from the principle of price-led resource allocation. He closed by recommending that politicians in Japan should be much more blunt about the kinds of problems Japan faces today.

During the Q&A session, a member of the audience commented that the sharply contrasting economic ‘models’ of Japan and the UK were not in fact models, but rather outcomes of policy. He noted that the UK has not set out to deliberately achieve high levels of foreign ownership; and that in contrast for the past 20 years Japan has sought to encourage foreign direct investment, abolishing its previous inward-looking approach of the 1980s. Yet foreign companies have not flooded into Japan as they are doing in the UK; a possible reason could be that acquisitions are more difficult in Japan (even though legal and regulatory frameworks for mergers and acquisitions in the country are not too dissimilar from those in the UK).

Responding to the question of whether immigration could invigorate Japan’s economy, a panellist argued that Japan would need to take in approximately 100,000 workers each year, which would be ‘socially impossible’. Another panellist made the distinction between foreign workers and immigrants, noting that those categorized as the former would be less likely to settle in Japan for the long term.

New forms of state (in-)security: cyber security and terrorism

Baroness Neville-Jones considered the range of threats faced by Japan and the West, and what can be done to combat them. She outlined that terrorism, while a serious threat, is not an existential one and will have to be managed indefinitely. Baroness Neville-Jones added that the age of ‘clean’ war is over, and that it is highly likely that hybrid war will increasingly become the norm, with state-sponsored elements such as those fighting in Ukraine becoming more prominent.

ISIS is a greater threat for intelligence agencies than previous challenges due to the technologies it uses, and its techniques. Although terrorist conspiracies themselves have become simpler and smaller, the fact that they have little interaction with a central command means that it is less clear where to find pertinent intelligence on them. Proselytization is also more sophisticated, with one-on-one recruitment of potential terrorists taking place over social media. Cyber technologies also have potential benefits and pitfalls. In regard to the latter, the lack of international norms of cyber governance and application of international law in the cyber domain has allowed for electronic interstate harassment; cyber warfare is not an integral element of physical combat. Baroness Neville-Jones’s concluding recommendations were that governments should be more open about the reasons

why they need greater cyber intelligence powers and, in the UK, be willing to spend money and effort on integration of the Muslim community into society.

Professor Satoshi Ikeuchi began by identifying two urgent issues which need to be faced: that of refugees, and the current Russian build-up in Syria. To an extent, Professor Ikeuchi regarded the current refugee crisis as Europe's history of colonial engagement in the Middle East coming full circle. Professor Ikeuchi highlighted that those who view the Assad regime in Syria as a 'lesser evil' in comparison to ISIS or Jabhat al-Nusra do not grasp the fact that the extremist groups and Assad reinforce one another, relying on the oppressive nature of the adversary to support their narratives. In this regard, the recruitment campaigns of ISIS or Jabhat al-Nusra would not be as successful without the Assad regime's brutality, so that – in effect – support for Assad is tantamount to support for ISIS and Jabhat al-Nusra. He suggested that Japan could become an important partner in a volatile and hostile part of the world (i.e. the Middle East) by playing the role of mediator or 'bridge'.

Paul Nicholas set the context for what all governments will face in the next five to 10 years, when an unprecedented diffusion of power and insecurity will be driven in large part by technological innovation. National governments and sovereign states will continue to struggle with cyber technologies, one of the problems being that governments will both regulate and exploit cyber capabilities and activities. Some 17 governments have already admitted or been revealed as having offensive capabilities in cyberspace.

Cities may also begin to wield more power than they have done at any time since the ancient era. There are at present 28 'megacities', and this number will soon rise to 40. As these cities become 'smarter', able to anticipate the movement of people, the question is how we can prevent these cities from turning into surveillance cities. In the context of democracy, three attributes of cyber technology will prove challenging. The first is accountability and transparency, with nothing we do in the future likely to remain secret. The second is agility, in the sense that technology is moving faster than we can imagine or anticipate. The third is how cyber technology could be used in asymmetric forms of warfare, as well as in planning and carrying out acts of terrorism or violent extremism. As a final point, Nicholas identified regulation and the growth of big data, as well as the emergence of the 'internet of things', as looming issues that both the UK and Japanese governments need to address.

Answering a question regarding the extent of the terrorist threat in Japan, Professor Ikeuchi highlighted that Japan is relatively insulated from the threat of Islamist radicalism. However, in the area of cyber terrorism, Japan is on the 'frontline'. With regard to the extent that the UK and Japan can cooperate, and where there can be improvement, Baroness Neville-Jones stated that there is already growing cooperation in the exchange of intelligence concerning cyber threats, and that the UK considers any rising threats in East Asia an important issue. Professor Ikeuchi added that Japan is in a position to provide unique intelligence on the terrorist threat from Southeast Asia, thanks to its networks in the region.

Nicholas addressed a question concerning how states can retaliate in the cyber domain, arguing that retaliation is difficult due to the problem of locating the origin of an attack. It would also be inadvisable for the private sector to become concerned with carrying out retaliatory attacks. Instead, there should be more of an emphasis on making it more costly for others to carry out attacks against domestic cyber infrastructure.

Demography and migration: the challenges to social cohesion

Professor T. J. Pempel opened the session by highlighting issues related to demography and gender as the most serious challenges to Japanese social cohesion. Gender inequality, in particular, is inextricably linked to Japan's economic stagnation. Many of these problems result from practices that succeeded in the past, but that are now unsuccessful and difficult to jettison. According to the World Economic Forum, Japan ranks 104th out of 142 countries in the Gender Gap Index of 2014. The proportion of women in the Japanese workforce is very low, and persistent gender inequality has resulted in a considerable loss of human capital. At the core of these problems are the cultural ideal of a male breadwinner and female homemaker and the slow pace of change with regard to views on gender equality.

Regarding demographic problems, young people in Japan are not being integrated in ways that will help them develop their talents and fulfil their potential, and ultimately allow them to contribute to the Japanese economy. Promotion in corporations is largely based on seniority, making it difficult for young people to rise to high positions. Young people in Japan have grown up with an expectation that a university degree will guarantee them job opportunities upon graduation. This is no longer the case.

Nevertheless, Professor Pempel argued that 'demography is not destiny'. If Japan were able to abandon the social practices leading to gender inequality, it could expand its labour force even without resorting to immigration. Employers, in particular, have a duty to stop treating women as second-class citizens, and to eradicate harassment or discrimination on the basis of maternity.

However, demographic trends may also be misinterpreted. An increasing number of women in the workforce may initially result in lower levels of fertility, but this trend reverses itself over time as economic prosperity increases. Considering the question of why Japanese business has been ineffective in addressing problems of demography, Professor Pempel argued that many corporations are headed by aged men resenting the idea of retirement.

Professor Noriko Tsuya focused primarily on Japan's 'demographic deficit'. In 2013, a quarter of Japan's population was aged 65 or over, rendering it the oldest society in the world. By 2060, this proportion will reach 40 per cent. Additionally, Japan's population is expected to shrink by 32 per cent in the next 50 years, from 128 million in 2010 to 87 million in 2060. This rapid population ageing will undermine Japan's social insurance schemes, its public pension system and long-term care insurance. Professor Tsuya noted that having children outside marriage remained rare in Japan, but that the number of weddings was declining. Given that families bear the primary burden as a safety net for the elderly, the prospect of a generation 'never married and likely childless' poses serious policy challenges for the future.

Meanwhile, the problem will not be solved by immigration alone: in 2001 the UN estimated that if Japan was to have the same working-age population in 2050 as it did in 2000, it would need to take in 650,000 migrants per year. So far, efforts by the Japanese government to introduce policies and programmes that can help couples balance work and domestic roles have been ineffective. The government should introduce policies aimed at alleviating the burden on working parents of caring for small children, and make the workplace more family-friendly.

Addressing the question of why the Japanese government is so ineffectual in responding to its demographic problems, Professor Tsuya suggested that this could partially be explained by governments' tendency to prioritize macroeconomic phenomena (such as GDP) over microeconomic ones: 'you cannot bear children with fractions'. She added that gender equality should be pursued for its own sake, regardless of the demographic problems Japan faces.

Jonathan Portes began by noting the contrast between Japan's problems, arising from its status as a closed economy, and those of the UK, stemming from the openness of its economy. While the UK, which has been open to immigration, has experienced problems with congestion, a shortage of affordable housing and inadequacy of transportation infrastructure, Japan has faced none of these issues. In the UK, many also struggle with a congested labour market. These problems have been blamed by some on immigration, and thus have fed into discontent with political elites and the rise of the UK Independence Party (UKIP). Nevertheless, immigration could provide the Japanese economy with a much-needed 'shock', and Portes made a comparison between Japan and Italy. In Italy, migration not only boosted the labour supply, but also encouraged more highly skilled Italian women to enter the workforce due to an increase in affordable childcare and cleaning services. He added that gender equality is a prerequisite for any successful developed economy.

Considering how governments could play a bigger role in encouraging fertility, Portes argued that while poster campaigns were unlikely to work, Japan could introduce measures similar to the UK's tax credits and childcare system, and exploit IVF technology.

Challenges to rules-based order in Europe and Asia

James Nixey explored three areas: Russia as a challenge to the European security order; the illogic of Russia's pivot to the east; and the measures that the UK, Europe and Japan can take to meet these challenges.

Russia now has radically different aims and ambitions from those of the post-Cold War order, and hence should be considered a competitor rather than a partner. Some should even consider it an existential threat. Russia's attempts to redefine sovereignty have undermined the rules-based system of which the country has hitherto been part. Nixey argued that Russia's intervention in Ukraine was motivated not so much by a desire for territory as by its ambition of establishing command and control over ex-Soviet countries. However, he emphasized that Russia is not inherently expansionist.

Nixey argued that Russia, like the US, is 'pivoting' towards Asia. However, its policy to this end is emphatically Sino-centric, despite the fact that Russia's interests are markedly different from those of China. In contrast to Russia, China does not seek to overturn the post-Cold War order; nor does it want a role as balancer either in the region or in relation to the West as a whole. Considering potential solutions, Nixey argued that common problems demand a common solution, and that increased cooperation between Japan and the West was the most promising path. In addition, there is a need for a bifurcated policy towards Russia, based upon both containment and engagement. As engagement is not working at present, states should be consistent in pursuing containment. Finally, Nixey emphasized the importance of the West upholding its values and principles, even (or especially) if it enters a second Cold War with Russia: 'if you do not retain your principles under stress, then they are not principles in the first place'.

Professor Yuichi Hosoya voiced his opinion that Japan can be an important partner to the UK in creating rules and norms in the international system that may make the world safer and more predictable. In this regard, a basic pillar of Japanese foreign policy is to defend and protect important international rules. Professor Hosoya corrected the 'misunderstanding' that Japan is attempting to contain the rise of China, highlighting that China is Japan's biggest trade partner, and that Japan is the biggest direct investor in the Chinese economy. In his words, 'China is not an enemy, but an opportunity.'

One role that Japan could play in the future is to bring China into the international order. Although Beijing for a long time had a peaceful foreign policy, China has recently attempted to revise certain international norms and rules, notably in the South China Sea. One reason for this may be the belief of some Chinese leaders that the current international order was created by and primarily serves the US. A member of the audience proposed that Russia and China wish to challenge a Western-centric rules-based system rather than the principle of a rules-based system *per se*.

Asked for Tokyo's policy towards Russia, Professor Hosoya responded that, the alleged friendship between Vladimir Putin and Shinzo Abe notwithstanding, Russia's actions in Ukraine have diminished the utility for Japan of its comparatively strong relationship with Russia. On the other side, Japan's good relations with the US, which has imposed sanctions on Russia, have reportedly angered the Kremlin.

Jonathan Fenby began by stating that China has never known democracy, having been ruled for over 2,000 years by top-down political systems (the emperor, the Kuomintang and eventually the Communist Party). Similarly, China has never known the rule of law, but rather the rule *by* law in the sense that those in power have used the law as a way of coercing people to conform to certain behaviours or systems. Democracy cannot exist in such a system. Today, China seeks an 'imperial tutelage system' in East Asia.

While China has tremendous economic appeal, it does not act as a 'model' to any state, and is unable to export its system to countries such as Venezuela or Zimbabwe. China is inevitably in conflict with the rules-based system that has overseen East Asia and kept peace in the region since 1945, given the ambitions of its nationalist leadership and the size of its economy and armed forces. China conducts most of its diplomacy through bilateral channels rather than multilateral organizations, and rarely offers constructive or cooperative alternatives to the existing order. Fenby argued that there was no coherent Chinese foreign policy with which the UK or Japan could engage. He furthermore challenged the idea that Japan and China should establish good relations, citing the intense hostility towards Japan in patriotic education in China, which has even penetrated the Chinese middle classes.

Two island nations and alliance politics: how best to engage a weary eagle

Professor Masayuki Tadokoro examined how Japan's alliance with the US – while having its ups and downs – has served as its ultimate security guarantee, providing the fundamental framework on which its postwar foreign and security policies have been based. Without this alliance, Japan's postwar identity would have shifted considerably. Nevertheless, it is conceivable that the US could in the future 'strike a deal' with China and leave Japan to fend for itself given the much wider policy options for the US.

Professor Tadokoro identified two options for Japan in East Asia: increasing its military forces in order to compete with China; or 'bandwagoning' with it. In his final remarks, Professor Tadokoro recommended that there be increased multilateral maritime security cooperation involving Japan, and that Japan offer more of its expertise in outer-space issues.

Professor Ian Buruma stated that although the US is still indispensable in Japan and Europe, its role is not unproblematic: although the *Pax Americana* has served both Japan and Europe well, allowing both to rebuild after the Second World War, the status quo has come to resemble the 'late imperial dilemma' faced by the UK in India in the 1940s, in which dependencies are difficult to abandon. Historically, if imperial powers retreated too soon, they created chaos and disorder; equally, if they stayed too long, they complicated their colonies' eventual independence. Although the US is not a conventional

colonial power, it faces a similar dilemma in East Asia: if it were to withdraw, there would be disorder and chaos; but the longer it stays, the more difficult it becomes for Japan and other states to come up with their own solutions. Professor Buruma offered an alternative set of options for Japan to those presented by Professor Tadokoro. The first would be to accept China as East Asia's hegemon. The second option would be for Japan to partner with South Korea and Australia, which would allow the US to withdraw from the region.

Finally, Professor Buruma emphasized the need for future Japanese governments to confront the country's role in the Second World War before revising its constitution (particularly concerning Article 9). However, he conceded that this was highly unlikely in the foreseeable future, and certainly would not happen under the Abe government. In terms of Japan offering an official apology for the war, a panellist pointed out that 'an apology is only an apology if it is accepted'. As two final recommendations, Professor Buruma stated that the UK should do everything in its power to convince its citizens to vote to stay in the EU, and urged the Japanese government not to counter China's 'patriotic education' by offering a Japanese equivalent.

Robert Cooper addressed the different approaches to foreign policy of the respective administrations of presidents Bill Clinton, George W. Bush and Barack Obama. He characterized the Clinton years as being driven by cautiousness, particularly concerning intervention in the Balkans. George W. Bush was much less cautious, not only with respect to the war in Iraq, but also in relation to the prospect of Ukraine becoming a member of NATO. The Obama administrations were referred to as 'hyper-cautious', essentially resulting in the abandonment of foreign policy. Perhaps the greatest foreign policy success under Obama has been the Joint Comprehensive Plan of Action with Iran. Cooper stated that the UK should conduct its relations with the US 'in the EU, with the EU and through the EU', and that it would suffer from acting in isolation.

Dr Kori Schake began her presentation by highlighting the fact that those countries most capable of solving their own problems are the allies of the US. She proposed that the transfer of responsibilities from these allies to the US has resulted in good outcomes for both, and that Japan should not be forced to accommodate China independently of the US. Also, she stressed that other states would 'envy' the dilemmas of assurance brought about by the 'special relationship' between the US and the UK.

She argued that since the Second World War, every US war has been a 'war of choice', and that US citizens on the whole support this approach as they view themselves as proactive shapers of the international order. China is not a threat at present to the US. Ironically, the behaviour of both China and Russia in the past five years has served US foreign policy, pushing other countries into closer relationships and alliances with America.

As a final point, Dr Schake recommended that the US be more active in convening a trilateral British/EU–Japanese–US policy dialogue and that one of the discussions focus on China's actions in the South China Sea.

Agenda

The Future of Capitalist Democracy: UK–Japan Perspectives

Day One: Monday 21 September

09.30–10.00 Registration

10.00–10.45 Opening remarks

Yohei Sasakawa, Chairman, The Nippon Foundation (presented by *Tatsuya Tanami*, Executive Director, The Nippon Foundation)

Robin Niblett CMG, Director, Chatham House

HE Keiichi Hayashi, Ambassador of Japan to the UK

SESSION 1 | CHALLENGES TO DEMOCRATIC LEGITIMACY

10.45–12.15 Why have the problems of capitalist democracy emerged? How can politicians in Japan and the UK re-engage with their electorates to ensure effective public discourse about challenging policy issues?

How acute is the risk of growing public disaffection with mainstream liberal democratic politics in Japan, the UK and more widely? Which countries are most at risk?

What are the solutions?

Speakers: *Hiroshi Nakanishi*, Professor, Kyoto University

John Dunn, Emeritus Professor, King's College, University of Cambridge

Chair: *Sir David Wright*, Vice Chairman, Barclays

12.15–13.15 Lunch break

SESSION 2 | WHAT IS THE FUTURE OF NEOLIBERAL ECONOMICS?

13.15–14.45 How much consensus is there on the future of neoliberal economics? What role can neoliberal economics have in both promoting economic prosperity and in anticipating major economic change?

How should the state seek to address problems of income inequality?

Does the recent growth experience of Asian economies, post-1997 and 2008, provide useful insights into viable alternative models of economic development that might be applied in Europe?

Speakers: *Kiyohiko Nishimura*, Dean, Graduate School of Economics, and Chairman, Faculty of Economics, University of Tokyo

Bill Emmott, Author and Adviser

Edward J. Lincoln, Adjunct Professor, Department of Economics, Columbia University

Chair: *Bronwen Maddox*, Editor and Chief Executive, *Prospect* magazine

14.45–15.00 Coffee break

SESSION 3 | NEW FORMS OF STATE (IN-)SECURITY: CYBER SECURITY AND TERRORISM

15.00–16.30 How acute is the terrorist threat of radical Islam to state security in both Japan and the UK, and how might the two countries work together to protect their respective nationals overseas, whether in the Middle East or elsewhere?

What is the role of states and non-state actors with regard to cyber crime, cyber security and cyber warfare, and how well equipped are the UK and Japan in confronting threats to cyber security?

How should protecting against terrorist and cyber security threats be balanced against the need to protect the civil liberties of citizens in an open society?

Speakers: *Paul Nicholas*, Senior Director, Global Security Strategy and Diplomacy Team, Microsoft Corporation

Satoshi Ikeuchi, Associate Professor, Research Center for Advanced Science and Technology, University of Tokyo

Rt. Hon. Baroness Neville-Jones, Member, House of Lords; Minister of State for Security and Counter-Terrorism (2010–11)

Chair: *Raffaello Pantucci*, Director, International Security Studies, Royal United Services Institute

16.30–17.15 Wrap-up Day One

Robin Niblett CMG, Director, Chatham House

17.15–18.00 Drinks reception

Day Two: Tuesday 22 September

10.00–10.30 Registration

10.30–10.45 Opening remarks

John Nilsson-Wright, Head, Asia Programme, Chatham House

SESSION 4 | DEMOGRAPHY AND MIGRATION: THE CHALLENGES TO SOCIAL COHESION

10.45–12.15 What is the likely impact of Japan’s demographic deficit in undermining social cohesion over the medium to long term?

How well prepared is the Abe administration in meeting this challenge, both in terms of pension provision, social care and healthcare for the elderly, and in confronting the labour shortages arising from a shrinking working-age population?

What role should migration and gender equality play in tackling the demographic deficit in both the UK and Japan?

Speakers: *Noriko Tsuya*, Professor of Economics, Keio University, Japan

T. J. Pempel, Professor of Political Science, University of California, Berkeley

Jonathan Portes, Director, National Institute of Economic and Social Research

Chair: *Roger Goodman*, Head of Social Sciences Division and Nissan Professor of Modern Japanese Studies, University of Oxford

12.15–13.15 Lunch

SESSION 5 | CHALLENGES TO RULES-BASED ORDER IN EUROPE AND ASIA

13.15–14.45 To what extent is it correct to view Russia and China as non-status quo powers that are increasingly challenging the liberal international order, whether in Europe (Ukraine) or in East Asia (East and South China seas)?

How can the UK and Japan work together, either via active security cooperation between their respective armed forces, or politically (via international institutions such as the UN) to minimize the risk of territorial conflict?

What lessons from successful institution-building in Europe might be applied to East Asia, where there is less immediate consensus on the relevance of existing and potentially new architectures?

Should and can the UK play a contributory role in advancing this debate in conjunction with a Japan that seems increasingly proactive when it comes to thinking about new security mechanisms both regionally and globally?

Speakers: *Jonathan Fenby*, Managing Director, China Research, Trusted Sources

Yuichi Hosoya, Professor, Faculty of Law, Keio University

James Nixey, Head, Russia and Eurasia Programme, Chatham House

Chair: *Kiichi Fujiwara*, Professor of International Politics, University of Tokyo

14.45–15.00 Coffee break

**SESSION 6 | TWO ISLAND NATIONS AND ALLIANCE POLITICS:
HOW BEST TO ENGAGE A WEARY EAGLE**

15.00–16.45 To what extent is the US still seen as the indispensable power in the UK and Japan?

Does the US see itself as needing to remain engaged?

Speakers: *Ian Buruma*, Professor of Human Rights and Journalism, Bard College, New York

Robert Cooper, Former Advisor to the EU High Representative for Foreign Affairs and Security Policy, European External Action Service

Kori Schake, Research Fellow, Hoover Institution, Stanford University

Masayuki Tadokoro, Professor, Faculty of Law, Keio University

Chair: *Sir David Warren*, Associate Fellow, Chatham House

16.45–17.00 Closing remarks

Akiko Yamanaka, Special Ambassador for Peacebuilding of Japan; Vice Minister for Foreign Affairs of Japan (2005–06)

17.00–18.00 Drinks reception

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