



A Briefing Paper from

Hudson Institute

Remarks by
Former Japanese
Prime Minister
Shinzō Abe

Hudson Institute
1015 15th Street, N.W.
Sixth Floor
Washington, DC 20005
www.hudson.org

October 15, 2010

Capital Hilton
Washington, DC

Remarks by Former Japanese Prime Minister Shinzō Abe

October 15, 2010

The Capital Hilton

October 15, 2010

Introduction

I would like to express my thanks to the Hudson Institute, one of America's leading think tanks, for providing me the opportunity to speak to you today. It is a great honor for me to address an audience that includes the chairman of the Hudson Institute, Allan Tessler, and its CEO, Dr. Kenneth Weinstein. I have met Dr. Weinstein, Lewis Libby and others from the Hudson Institute on several occasions, and have maintained friendly ties with them ever since. It is my great pleasure to have the chance once again to meet my Washingtonian friends, who are so important to me.

The Erosion of Japan's Standing and Sense of Stagnation

I have a deep admiration for Dr. Herman Kahn, the founder of the Hudson Institute. The phrase that he coined, "thinking the unthinkable," has provided me much food for thought throughout my career as a member of the Diet. My own interpretation of the phrase "thinking the unthinkable" is as follows: "to provide hope for the future, based on a clear understanding of the past and an accurate perception of the present."

In Japan, however, the sense of the people is that it's difficult to find any hope for the future. A contributing factor to this feeling is the fact that China's GDP surpassed Japan's for the first time this August, meaning that Japan has lost its 40-year-long position as the second-largest economy in the world. This development had been predicted several years ago, and most Japanese accept this as "a time that was sure to come." To put a positive

spin on it, this is a measured response. But my concern is that it has led to an atmosphere of resignation.

I myself am alarmed at Japan's declining standing in the world and the feeling of stagnation that has spread throughout the country. At the same time, I am convinced that Japan has the means to revive itself, and I have compelling evidence to back that up. This is the main point that I hope to impress upon you, and it is part of the reason for my visit to Washington.

Challenges Facing Japan [1]: Swelling Fiscal Deficit and Increasingly Burdensome Social Security Costs

Japan faces a number of difficult challenges today. I'd like to focus on two of these challenges, and provide my thoughts on what we can do to overcome them. The first issue I will address is the fiscal deficit, and the second is the rise of China.

To begin, let's consider Japan's enormous fiscal deficit. The United States faces challenges with its own deficit, but Japan's has already passed \$10 trillion, which is twice the size of Japan's GDP, and one of the worst in the world.

There are a couple of aspects that characterize Japan's fiscal deficit. One is the fact that 95% of the debt is held by the Japanese people themselves, which is a marked contrast to Greece, where 70% of the debt is held by foreigners. Another is the value of Japan's net overseas assets, which is now the largest in the world, and once again completely different from Greece's situation. Thus, Japan is in no immediate danger of bankruptcy.

However, it is true that Japan is saddled with a ballooning fiscal deficit. One factor behind this is demographic. Our birth rate is declining while our population is aging. Japan's birthrate is low, hovering around 1.3 child per woman. As a result, Japan's

overall population has already begun to shrink. Forecasts indicate that our current population of 128 million will fall to 100 million by 2050. A declining population means a smaller workforce and fewer consumers, which will be a drag on economic growth and tax revenues. Moreover, as the population continues to age, higher spending on social security will be unavoidable.

What should we do to restore our fiscal situation to health? Reducing government expenditures will of course be necessary, but the best medicine would be revitalization of the economy, for without a growing economy, it is impossible to shrink the deficit. Furthermore, this daunting task must be accomplished despite a shrinking workforce and fewer consumers.

Achieving Economic Growth Through Innovation

There is no silver bullet to bring about economic growth despite our demographic challenges. But I am convinced that Japan can overcome these issues by working steadily and patiently to address them. Innovation will be a key to making this possible.

During my term as prime minister, I positioned “innovation” as one of the pillars of Japan’s national growth strategy. I also formulated “Innovation 25,” which was the first long-term economic-growth strategy ever to be instituted by the Japanese government.

Japan possesses the high educational level and technological expertise required to foster innovation. Our technology in the fields of energy reduction, the environment, nuclear energy, robots and biotechnology is second to none. And while corporations in South Korea, Taiwan and China have advanced technologically, Japan maintains an advantage in many fields.

The World Economic Forum recently released its latest “Global Competitiveness Report,” in which Japan was ranked sixth, up from eighth place last year. The report had high praise for Japan’s technological innovation, which it cited as the basis of our improved ranking. The “Innovation 25” policy that I formulated has finally begun to deliver on its promise.

The Establishment of a Free-Trade Regime

Besides “innovation,” there is another word that I have consistently brought up. That word is “open,” which is fundamental to the establishment of any free-trade regime. I have long attached importance to free trade, and I believe that we must work to make progress on free-trade agreements, which are known in Japan as “economic-partnership agreements,” or “EPAs”.

While Japan’s population shrinks, the overall population of Asia continues to climb. China has 1.3 billion people, India has 1.2 billion, and the combined population of the 10 ASEAN countries is 600 million. Adding these figures leaves us with more than three billion people living within this region alone, accounting for 45% of the total population of the world. Japanese companies clearly must engage more actively with this vast working population and enormous consumer market.

Last month, Japan and India reached an agreement in principle for an EPA between our two countries. The decision to launch negotiations in the first place was made at a December 2006 summit meeting between me and Prime Minister Singh. In view of the fact that the total value of trade between Japan and its EPA partners only accounts for

16.5% of Japan's overall trade, Japan should change its passive stance toward EPAs, and put more energy into increasing the number of EPAs between Japan and other countries.

Challenges Facing Japan [2]: The Rise of China

The second significant challenge facing Japan is the rise of China. In recent years, statements made by Chinese leaders in international forums such as the G20 Summit have drawn increasing attention. Japan is no longer the “spokesman for Asia,” a role that it long played at the G7 and G8 Summits, and a position it used to make its presence felt.

Of course, “the rise of China” is not merely an economic phenomenon. Over the past 20 years, China's military spending has risen sharply, to the point where it is now 20 times as much as what it was in 1990. China has steadily built up its naval strength, and is making progress in new fields with military applications, such as space and cyberspace. What rankles more than anything, though, is the expansion of the Chinese navy. It appears that China hopes to gain control not only over Taiwan, but also over the South China Sea, the East China Sea and, indeed, the entire Western Pacific. Andrew Krepinevich, who is no stranger to you, wrote an article that ran in the September 11th edition of the Wall Street Journal. It was entitled “China's ‘Finlandization’ Strategy in the Pacific.” He put into words what I have been thinking for a long time.

Since the 1980s, China's military strategy has rested on the concept of a “strategic frontier.” In a nutshell, this very dangerous idea posits that borders and exclusive economic zones are determined by national power, and that as long as China's economy continues to grow, its sphere of influence will continue to expand. Some might associate this with the German concept of “lebensraum.”

There has been speculation that the impetus for China's naval buildup was the 1996 crisis in the Strait of Taiwan. Whenever I think back on this incident, I recall the Cuban missile crisis of 1962 and the path that the Soviet Union took in its wake. The Soviet Union in 1962 and China in 1996 both suffered the indignity of capitulation in the face of the overwhelming naval power of the United States, and both countries threw themselves into building up their navies. We all know how well that worked out for the Soviet Union.

I have no way of knowing how the leadership of the Chinese Communist Party would view this analogy. Perhaps the party's leaders, despite their fear of meeting the same fate as the Soviet Union, are unable to resist the call of the People's Liberation Army for a military buildup. In any case, we can state with conviction that China has nothing to gain from an excessive expansion of its military. It has no need to build aircraft carriers, for example. Furthermore, any Chinese attempt to clamp down on Taiwan or the ASEAN countries would not only be an enormous fiscal burden, it would also backfire, because China would lose the trust of other Asian nations, which would do significant damage to its influence.

Just such an outcome has already occurred. The ASEAN nations have reacted with strong anger to China's high-handed conduct in the South China Sea. Further, ASEAN countries have begun to strengthen their relationships with the United States to act as a counterweight to the threat posed by China. ASEAN has thus sent a strong message to China that it will not allow China to do as it pleases in the South China Sea.

Meanwhile, I am concerned that Japan has sent the wrong message to China. Last month, a Chinese fishing vessel intruded into Japan's territorial waters near the Senkaku Islands, and intentionally rammed into a Japanese Coast Guard patrol ship two times. Such a

barbaric act cannot be overlooked. The captain of the vessel was detained by Japanese authorities, but Japan relented in the face of strong pressure from China and released the captain, which was a very foolish move. In light of Mr. Krepinevich's point, that China's ultimate goal is to "Finlandize" Japan and South Korea, I must say that the interpretation of the situation by the Prime Minister's office was frighteningly naive.

Of course, Japan must work to strengthen its cooperative relationship with China, while also competing where competition is called for. But that must be accomplished in a way that is conducive to peace and stability in Asia, and, by extension, the world. That is the guiding principle that China should follow, and if it strays from that path, it should be admonished. This principle forms the foundation of the "strategic and mutually-beneficial relationship" to which I and my Chinese counterpart agreed.

Single-party rule by the Chinese Communist Party has been sustained by the assurance of "equal results," but the party's legitimacy today depends on "patriotism and economic growth." The party has stoked the patriotism of its citizens, and it will do whatever it takes to drive economic growth. What frightens China's party leaders more than anything else is an end to that economic growth. They fear that economic dissatisfaction on the part of the people could combine with their narrow-minded patriotism and end up channeling their anger toward the leadership of the party.

Japan and the United States have much to gain from continued economic growth in China. At the same time, the path that China should pursue to maintain that growth does not lie in foreign-policy adventurism, but rather in respect for values such as freedom, democracy, fundamental human rights and the rule of law—values long embodied by the US and Japan. Together, we must help China to understand how important these values are.

The US and Japan as Peers

The US and Japan must work together to help lead China in the right direction.

Earlier, I said that a firm message must be sent to China—a message that must be backed up by substantive actions. Whenever I have the chance, I point out the fact that the exercise of collective self-defense is a natural right for any country. Certain elements within Japan continue to proclaim—completely without merit—that exercising collective self-defense would needlessly provoke China and other Asian nations. But it's exactly that type of thinking that poses a threat to Japan's national interests.

It is imperative that Japan conduct a review of its Three Principles on Arms Exports. It appears that the DPJ administration has finally come to realize this, but the administration needs to work more quickly to turn policy into practice. Japan has neither the intention nor the need to become a major weapons exporter, but we should not be afraid to pursue innovation in the arena of military technology.

The outstanding corporations that support Japan's defense industry have been hit hard by the recession, and several of them have been driven into bankruptcy. As a result, Japan is on the verge of losing some of its advanced manufacturing technologies, such as precision molding. In recent years, the nature of warfare has been rapidly evolving in the direction of Network Centric Operations, (or NCO). As NCO has developed, the boundary separating commercial technology from military technology has become increasingly blurred. Our nation seems to be afraid to use the word "military." As a result, it is possible that our IT industry, which is critical to future economic growth, could lose its competitiveness. We must not allow that to happen.

Conclusion

I'm afraid that the time I've been allotted is about to come to an end, but I would like to say that in the audience today are some of the warriors who fought the good fight and helped to achieve victory over the Soviet Union in the Cold War. And I'm sure that you are fully aware that the Cold War persists today in Northeast Asia. I hope that you will lend us your expertise as we attempt to address this state of affairs in our region.

President Reagan, one of the heroes of the Cold War, provided hope to the American people when he proclaimed in his 1981 Inaugural Address, "we are too great a nation to limit ourselves to small dreams." I would like to deliver this optimistic message to my fellow citizens, who are mired in pessimism.

To my American friends, I would like to say that I do not stand alone. There are many Diet members and policy intellectuals in Japan who agree with my point of view. And I'd like to leave you with the message that Japan is certain to rise again.

Thank you for your attention.

Hudson Board of Trustees

Allan R. Tessler, Chairman	Ebby Moussazadeh
Walter P. Stern, Chairman Emeritus	Yoji Ohashi
Linden S. Blue	Carolyn Parlato
John Catsimatidis	E. Miles Prentice III
Jack David	Steven Price
Gerald Dorros	Jack Rosen
Russ Gerson	Nina Rosenwald
Lawrence Kadish	Joseph Schmuckler
Deborah Kahn Cunningham	William D. Siegel
Marie-José Kravis	Susan M. Steinhardt
George Jay Lichtblau	Sarah May Stern
Herbert I. London	Kenneth R. Weinstein
Bill Matassoni	Curtin Winsor, Jr.
Stephan Minikes	John C. Wohlstetter



HUDSON INSTITUTE