

The Guillotine: demographics and Japan's security options
by Brad Glosserman and Tomoko Tsunoda

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The next few months will be critical for Japan's defense and security policies. The National Defense Program Guidelines (NDPG) that outline the framework for national security policy are due by year's end. This in turn provides the foundation for the Mid-Term Defense Program, which translates that outline into specific programs and purchases. The NDPG is being prepared in a particularly sensitive time as Japan (like the rest of the world) reels under the North Korean nuclear and missile tests and tries to make sense of China's military modernization effort. Hanging over all these deliberations are increasingly strained relations with the U.S. and the prospect of a historic change in government when the country holds general elections.

Little discussed is an even more powerful influence on security policy: Japan's impending demographic transformation. The country's population has started to decline and is projected to shrink nearly 30 percent by 2055; by then Japan will have 89 million people, ranking it 18th among nations (it's number 10 today). Blame a plunging fertility rate or an increasingly long-lived population. Making matters worse, the elderly share (age 65 and above) of Japan's population is 21.5 percent, and is projected to reach 38.9 percent by 2050, making Japan the grayest nation in the world.

These changes have profound implications for Japan's future. The number of working-age citizens is shrinking. This limits economic growth, cuts tax revenues, squeezes government budgets, and reduces financial options: all will have a powerful impact on foreign and defense policy. A demographic transformation will also influence values and preferences, affecting priorities and transforming national goals.

Make no mistake: Japan will continue to be wealthy. But rather than generating new capital, it will be living off that wealth. It's estimated that Japan's real GDP could fall 20 percent over the next century compared to what it would be if population size remained the same. Household wealth will stop growing and enter an absolute decline over the next two decades. By 2024, household wealth will have returned to 1997 levels.

It's hard to sustain economic competitiveness when a population falls. Markets shrink and innovation is hampered.

The cost of doing business rises and foreign investment is diverted to more dynamic markets. As GDP contracts, tax revenues and savings will diminish. Tokyo will face increasingly difficult choices about priorities and the provision of services.

Defense spending is always a tough sell in Japan. It will be even harder to justify to an older society that is more conservative and risk averse. New and expensive weapons systems will compete with more immediate social needs. Most significantly, there will be reluctance to send an increasingly precious resource – the younger, most productive members of society – into military service. The Self-Defense Forces is already feeling the pinch. A military career has never been popular in postwar Japan; it will be harder still to compete with the private sector in the future.

Other elements of foreign and security policy will be impacted, too. Official Development Assistance, already falling, will be cut more. Contributions to international peacekeeping operations, already low, will be even harder to make. Defense industries will shrink and some, if not many, will disappear.

Of course, all isn't negative. An older society will be "greener" with a smaller ecological footprint. An older Japan will put to rest the bogeyman of remilitarization and allow Tokyo to move past World War II in relations with neighbors. Success in managing this transition will allow Japan to be a model for other countries experiencing this demographic shift – and it promises to take place throughout the developed world.

There are several ways Japan can reverse the demographic tide or its negative impact – immigration policy, changing roles for women, innovation (in the form of robotics or other technological "silver bullets," including the nuclear option) – but none have much prospect of success. A more moderate foreign policy, that of a "middle power," is the most likely alternative, although neutrality will have supporters too.

The demographic transition will have profound effects on the region. Japan is likely to lose status relative to its neighbors. But its transformation will make it harder to demonize the country and thus drain tensions in Northeast Asia. There will be a greater inclination toward regional cooperation, not only because obstacles will be reduced but also because a country with diminished resources will be more inclined to reach out to other nations for help in dealing with shared problems.

The U.S.-Japan alliance must be prepared for this change. Japanese contributions to the alliance – whether in terms of personnel or funds – will diminish. Equally significant will be the fall in Japan's indirect support for the U.S. through

recycling foreign exchange reserves, which will be increasingly needed at home.

To deal with these changes we recommend that Japan:

- reach a national consensus on its role in the world, within Asia, and in its alliance with the U.S. Japanese ambitions (and U.S. expectations) must be scaled back.
- embark on an intensified effort to strengthen ties with the U.S. That means creating constituencies in both countries that see Japan as more than just another ally or the alliance as merely one more tool in the U.S. diplomatic arsenal.
- redouble efforts to conclude a U.S.-Japan free trade agreement. This will tighten links to the U.S. and balance Japan's growing integration into Asia; negotiators should focus on medium- and long-term benefits rather than protecting political constituencies.
- press for deeper integration within Asia. Norms and institutions that bind all nations in rule-driven relationships will safeguard Japanese interests.
- build a new partnership with South Korea. To remake this relationship, we suggest that Tokyo renounce its claim to Takeshima/Tokdo. Eliminating this irritant would allow two medium-size powers to work together more effectively on issues of shared concern.
- turn the Rokkasho reprocessing facility into an international fuel processing facility. This would make Japan central to Asia's future by providing the energy that would make possible regional development and prosperity, and help set the stage for Southeast Asia to become a "Reprocessing and Enrichment – Free Zone," as it begins moving down the nuclear energy path.

The U.S. should:

- change the language of engagement to reflect Japan's new circumstances. Forget *quid pro quos*: alliance discussions should focus on how contributions serve broader public interests. They should focus on nonmilitary contributions by Japan. The U.S. should expect less ambition from Tokyo and a desire to focus increasingly limited resources on areas of more immediate concern, like Asia.
- get its economic house in order. As other countries make this demographic shift, consumption patterns will change and the U.S. will lose access to much of the cheap capital that allowed it to live beyond its means for decades.
- push for regional security mechanisms to pick up the slack before Northeast Asian "spokes" weaken. New multilateral institutions should be formal and inclusive.
- encourage the Asian integration process. Creation of an Asian community will stabilize relations in the region, create shared interests, and help minimize regional tensions. Japan's deep integration into the region will give it a mechanism to exert more influence in Asian affairs, and by virtue of its alliance with the U.S., tether the U.S. to the region as well.

The world has likely seen the high-water mark of Japan's international presence and assertiveness. In the future, the country will be increasingly inward focused and the U.S. should adjust its expectations accordingly. That does not mean giving up on the alliance. Especially as Japan navigates a difficult political and social transition, a sense of security and confidence in the U.S. commitment to its defense are vital. An enduring U.S. commitment to Japan's defense even in the face of these trends will demonstrate the sort of leadership that will enhance U.S. standing. An enduring alliance between our two nations that rests on a shared sense of purpose and eschews a crude assessment of costs and benefits sets an example for all nations.