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Toyota and the End of Japan

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Japan was morbidly fascinated by the spectacle of Toyota president Akio Toyoda apologizing to the U.S. Congress for the deadly defects that led to the recall of 10 million of its cars worldwide. The appearance of the "de facto captain of this nation's manufacturing industry," as Japan's largest newspaper referred to Toyoda, seemed to symbolize a new bottom for a nation in decline. Once feared and admired in the West, Japan has stumbled for decades through a series of lackluster leaders and dashed hopes of revival. This year, Japan will be overtaken by China as the world's second-largest economy. Through it all, though, Japan could cling to one vestige of its former prestige: Toyota—the global gold standard for manufacturing quality.

And now this. Toyota is getting lampooned all over the world in cartoons about runaway cars. Japan's reputation for manufacturing excellence, nurtured for half a century, is now in question. Shielded by the U.S. defense umbrella after World War II, Japan focused its energy and money on building up only one aspect of national power: quality manufacturing. A foreign policy commensurate with Japan's economic strength was subordinated to industrial policies aimed at creating the world's best export factories. No matter how quickly Chinese and South Korean rivals grew, Japan could argue that its key competitive advantage was the quality of its brands. "Toyota was a symbol of recovery during our long recession," says Ryo Sahashi, a public-policy expert at the University of Tokyo. Now Toyota's trouble "has damaged confidence in Japanese business models and the economy at a time when China is surpassing us."

There was some sign of slippage even before the Toyota recalls. Many other top Japanese manufacturing brands lost their made-in-Japan luster, says Michael J. Smitka, an economist who specializes in the Japanese auto sector. Sanyo is gone, its pieces sold off in a restructuring. Toshiba and Fujitsu also are reorganizing. Sony is as much a Hollywood hitmaker as a Japanese manufacturer, and Mitsubishi Motors, Mazda, and Nissan have all had tie-ups with foreign companies through the years. In the early part of the last decade, particularly under the maverick administration of celebrity prime minister Junichiro Koizumi, Japan made fleeting attempts to promote itself as the land of the new new thing: nano-this, bio-that. Nothing stuck. There is still no Japanese Google.

So Toyota remained special, the largest and virtually the last remaining face of Japanese manufacturing and trading prowess. With \$263 billion in sales last year it remains Japan's biggest company by far and the world's largest auto manufacturer. But the recall has now exposed problems there, too. Like many Japanese companies, even global ones, it has suffered from an insularity and parochialism, and a hierarchical structure that discouraged innovation or input from others. Robert Dujarric of Temple University—Japan says that most of the core management team is Japanese, and the company's suppliers are part of Toyota's vertical structure, limiting contact

with outsiders. The public-relations response has been plagued by Japanese cultural tendencies to dodge controversy and conflict, even to the point of denying glaringly dangerous problems, like sticking accelerating pedals.

In many ways, Toyota is symptomatic of a nation that has lost its way. According to a 2008 Pew survey, Japanese were more dissatisfied with the direction of their country than almost any other nation, including Pakistan and Russia. As a result, the Japanese electorate in August 2009 threw out the old guard Liberal Democratic Party after a half century of nearly unbroken rule. The new government, led by Prime Minister Yukio Hatoyama, promised change—a "revolution," even. Hatoyama talked about Japan taking a larger role in the world, but it was telling that his first big international splash was on a local issue: urging the U.S. to shrink its military base on Okinawa. In his first six months, Hatoyama's approval ratings have plummeted from 75 percent to 37 percent. An Ipsos/Reuters poll in February showed that just 14 percent of Japanese were confident that their country is headed in the right direction, the lowest level of confidence in any of the 23 countries surveyed. For many, the Toyota debacle suggested a further step in the wrong direction. "Toyota represents Japan all over the world in terms of Japanese culture and Japanese economy," says Masayoshi Arai, a special adviser to Japan's Ministry of Economy, Trade and Industry. "We are proud of Toyota, so this story has damaged our pride."

Toyota's fall from grace caps a 20-year economic malaise that is infecting the popular culture, manifesting itself in a preference for staying home, avoiding risk, and removing oneself from the hierarchical system. A generation of people in their 30s and 40s—the prime working and family-raising years—are said to be unwilling to take any risk, no matter how small. *Sugomori* (nesting) people spend their days seeking bargains online. With wages declining, *soshoku-kei danshi* (grass-eating men) avoid going out or trying to find a career for themselves. According to some surveys, this generation has reported preferences for avoiding cars, motorcycles, and even spicy food. Entrepreneurship is seen as an unpromising career prospect. Estimates of the number of *hikikomori* (shut-ins who have given up on social life) have risen. Japanese psychologist Tamaki Saito, the foremost authority on the trend, speculated in 1998 that the number of such Japanese could be 1 million; last month authorities said it may be as high as 3.6 million. The country's suicide rate—more than 30,000 per year for 12 years—is double that of the United States and second only to Russia among the G8 nations, and getting worse.

This all has dire economic effects. Low birth rates and out-migration patterns mean the country's population is predicted to fall from 127 million to 95 million by 2050, creating unparalleled demographic pressures. A shrinking, bargain-hunting, risk-averse population translates into a deflationary spiral, low wage growth, and decreased tax revenues. Japan's debt is now more than twice GDP, by far the highest rate of any industrialized nation. In a March piece entitled "Japan's Slow-Motion Crisis," Kenneth Rogoff, the former chief economist at the International Monetary Fund, wrote that Japan was "a poster child for economic stagnation," noting its "legendary" inefficiencies in agriculture, retail, and government. His conclusion: Japan's fiscal situation grows more alarming by the day. The stock market stands at a quarter of its 1989 high, and now Toyota's stock has fallen 20 percent since the recalls began.

The optimistic view is that Toyota's travails will spur Japan, finally, to become less insular and more open to new ideas. Initially, many in Japan denied the problem, called the controversy an American overreaction, and concocted conspiracy theories about the U.S. government or unions sabotaging Toyota cars to boost sales of the government-supported General Motors. Now, however, the

Hatoyama administration is moving to push change on Toyota in ways its business-friendly predecessors in the LDP never would have, says Jeff Kingston, a professor of Asian studies at Temple University–Japan. Transport Minister Seiji Maehara has "not missed a chance to berate Toyota," accusing it of failing to listen to customer complaints, says Kingston. The mainstream media have also taken off the gloves, he notes, with some of the biggest newspapers saying that Toyota has embarrassed Japan in the world, and that Toyota must regain the trust of its customers.

The less rosy scenario is that Japan will respond to this humiliation by retreating deeper into its shell. Since Koizumi's term ended in September 2006, three prime ministers have had to step down within a year. The elite now understands the problems Japan faces, but the cultural shift required to confront them may just be too great, says Edward Lincoln, a New York University Japan scholar. Rather than, for example, competing with China for the leadership role in Asia, it is quite likely that the Japanese will cede that ground while feeling sorry for themselves, says Lincoln. In other words, Japan will continue to give up, fade away, and blame its limitations on demographics and the changing international balance of power. In this bleak view, the Japanese will return to their mantra of *shoganai* (nothing can be done). Indeed, it seems that Japan's long decline may not be accelerating, but the prevailing sentiment is that nothing can be done to apply the brakes.