

# Japan wasting opportunities afforded by crisis

WAYNE ARNOLD, Tokyo

Machiavelli warned never to waste the opportunities afforded by a crisis. Japan today is struggling with an epic catastrophe: an anemic economy struck by a once-in-a-millennium disaster that may have killed 24,000 people, left hundreds of thousands homeless and destroyed nuclear reactors that spewed poisonous radiation over an estimated 600 square kilometers. Summoning their traditional spirit of "gaman" -- enduring the unendurable -- the Japanese have united to persevere and rebuild.

Yet even as Tokyoites trudge into their dimly lit offices to endure a sweltering summer without air-conditioning, elevators or escalators to prevent power shortages, the risk is that they cope without changing, rebuild without renovating. Japan has for the past two decades been in the grip of an economic paralysis inflicted by a sclerotic political and financial system. Beset by deflation, it has not seen GDP growth above 4 percent in a generation. In a country that prides itself on full employment and income equality, it has developed a chronic 5 percent jobless rate.

True, Japan still enjoys a trade surplus with almost every nation, boasts some of the world's largest companies and has unrivalled engineering prowess. Japan has some of the world's most prosperous citizens, the longest life expectancies and one of the lowest crime rates. It is a nation of cordiality, where dazzling technology and efficiency meet breathtaking aesthetics and precision.

These achievements disguise Japan's real dilemma. Its population is shrinking, forcing a diminishing workforce to shoulder the growing burden of financing retirement for baby boomers born after World War Two. This youthful underclass labors in a pseudo-socialist system of developmental capitalism that has outlived its usefulness, valuing harmony and continuity at the expense of profitability and dynamism, and leaving the economy in the control of a nomenclatura of bureaucrats, politicians and giant corporations. This isn't news to Japanese: it was rejection of this system that prompted them in 2009 to oust the Liberal Democratic Party, or LDP, that ruled for almost 54 years.

Yet the opposition has proved little better: teetering before the disaster, the government of Prime Minister Naoto Kan may not last the month. The LDP, now in opposition, plans to launch a no-confidence vote as early as this week. Kan also faces rivalry within his own party from erstwhile reformers. With any luck, Kan will be forced out and his Democratic Party can then forge a grand coalition with the LDP and a third party.

That could allow the DPJ to revive plans for a vital, second emergency spending package for



A pedestrian passes before a share prices board in Tokyo.

AFP

reconstruction as well as reforms necessary to sustain recovery. It might also eliminate the LDP's opposition to legislation needed to issue bonds for financing the deficit, a predicament reminiscent of attempts by the Republican Party in the United States to suffocate its own government. The risk is the same: not default, but drastic spending cuts that could delay recovery and force the government to pay off long-term liabilities with shorter-term borrowing.

That would intensify one of Japan's most pressing issues: trimming a government debt twice the size of the economy. Japan has promised the G20 to whittle that down. The first step is to rein in spending, in particular pension costs. Japan's pension system worked when the population was growing, but not now that only 3 out of 4 Japanese can still work. Pension outlays consume 30 percent of the government budget.

In late June, the government is due to present a

plan for fiscal reform, including an overhaul of the pension system. The plan should restore caps on benefits and co-payments by the elderly on medical bills. It should raise individual contributions above 16 percent of their income and remove exemptions for housewives that favor wealthy single-income households. Most painfully, it should admit to retirees that it cannot afford to pay them as much as promised. Benefits will inevitably have to fall.

The June plan will also include tax reform. Japan has already delayed plans to cut its corporate tax rate, among the highest in the world. Proposals for increasing government revenue include raising taxes on incomes and property, even levying a tax on bank deposits. Most debate centers on how much Japan should raise its consumption tax, now at 5 percent. Proposed targets range from the government's 10 percent, to incremental annual increases that would push the tax

rate to 25 percent on par with Scandinavia.

Critics of raising the consumption tax consider it regressive and warn that it would hurt consumer spending, as did a hike in 1997. But that increase coincided with a region-wide financial crisis that pushed many Japanese banks and companies into insolvency. Voters have in the past punished any government that raised it; polls now show they are convinced of the need to help pay for reconstruction. If announced with enough prior warning and linked to the Tohoku earthquake crisis a consumption tax increase could even stimulate the economy by prompting consumers to accelerate purchases.

But Japan needs to do more than revamp spending and taxation. Again, the crisis could provide the impetus for enacting sweeping reform of the political system, corporate behavior, the labor market and immigration policy. Among the changes Japanese leaders now have an unprecedented opportunity to tackle:

- Japan's legislature. The Diet is absurdly large, with 722 members for 128 million citizens. Aging rural areas are over-represented relative to younger urbanites. Seats need to be reapportioned to address this imbalance and constituencies consolidated to reduce the Diet's size.

- Corporate governance: Companies are focused on protecting jobs rather than profits, an attitude that would be commendable if it wasn't slowly destroying Japan's wealth. The broadest index of Japanese stock prices has sunk 49 percent in the past five years. Regulators, including the Financial Services Authority and stock exchange, need to push companies to elect more independent, non-executive boards, which in turn need to restore the animal spirits of executives by giving them a stake in reviving profitability.

- Labor: The hiring market needs to be made more flexible and, essentially, female, allowing greater use of part-time and contract labor. This would benefit not only employers, but provide greater choice to would-be entrepreneurs and would-be parents. Politicians are bickering over how to incentivize childbearing. One answer might be to discourage the unproductively long hours workers typically spend in Japanese offices.

- Immigration: Japan needs to have a frank discussion about importing labor to care for its aging population. The nation's homogeneity has undoubtedly contributed to its vaunted harmony, but a strong, modern society must be able to withstand newcomers and absorb their skills and energy. One that cannot risks becoming a museum to quaint manners and interesting customs but ultimately endangered and irrelevant.

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# Elite schools lead education boom in Asia

AFP, Hong Kong

A strong brand name can go a long way in Asia. From watches to cars, clothes to fine artwork, food to handbags -- even education.

The offspring of the booming region's wealthy elite are enrolling in some of the world's most famous schools and universities. But they don't have to get on a long-haul flight to do so.

Many of the world's most prestigious institutions have built, or are building, new campuses in some of Asia's thriving cities.

Harrow School is one of England's most famous fee-paying schools with a long and impressive list of "old boys".

British wartime leader Sir Winston Churchill, the poet Lord Byron, India's first prime minister Jawaharlal Nehru, King Hussein of Jordan and even the pop singer James Blunt once wore the school's famous straw boater hat.

Next year Harrow will open a new campus for 1,200 students in Hong Kong, which follows Harrow schools already opened in Bangkok and Beijing, to help satisfy a growing demand for ultra high-end schooling in Asia.

It won't be cheap. Parents will have to pay a debenture -- basically a deposit -- of HK\$600,000 (\$77,000) to secure a place plus annual fees of up to HK\$145,000.

Mark Hensman, the executive headmaster of Harrow International Schools, says the demand for expensive schooling is being driven by parents whose ambitions for their children have risen in line with their incomes.

"These aspirations result specifically in the need to learn English and gaining qualifications that will facilitate access to western universities," he told AFP.

"The trend in recent years has been for the growth of international schools to be sustained by a rapidly increasing



Chinese university freshmen queue up to register as they arrive at the prestigious Tsinghua University in Beijing.

demand from local parents rather than from expatriate parents.

"Governments in these countries are struggling to meet these expectations in their local education system and so international schools are increasingly filling the vacuum."

One of them is Marlborough College, another famous old English fee-paying school, which is building its first overseas campus as part of a massive new education hub in Malaysia.

The EduCity hub in Iskandar, Johor state -- which sits on the southernmost tip of peninsular Malaysia opposite Singapore -- aims to enrol around 16,000 students by completion of the site in 2016.

The Netherlands Maritime Institute

of Technology opened in May and Britain's Newcastle University will welcome the first students to its medical school in September. Southampton University is building a campus.

From the US, the Massachusetts Institute of Technology (MIT) is jointly creating Asia's first Institute for Supply-Chain Innovation with a Malaysian partner and Johns Hopkins University is expected to set up a medical school.

A sports complex and international student village with housing are also planned.

Khairil Anwar Ahmad, who heads the company behind the complex, said the aim was to provide talent, stimulate the local economy and put Malaysia on the education map.

EduCity will offer students a cheaper way to get a good foreign degree -- in the case of Newcastle University Medical School at about 65 percent of the cost.

"Asian parents always place a lot of emphasis on education," Ahmad told AFP. "There are more parents who can send their kids abroad but probably not Europe or the US so that this is a more affordable option."

"It's more affordable... but you get the same quality."

The EduCity institutions hoped to attract a 50-50 mix of local and foreign students from mostly China, India, the Middle East and other regional countries.

In Singapore, a sapling of the US's

prestigious 'Ivy League' college circuit has been planted with Yale University setting up the city-state's first liberal arts college at the National University of Singapore.

International schooling is a huge global business worth \$26 billion in school fees alone. But this figure is expected to double in a decade, says analyst firm ISC Research as the number of schools also doubles.

"International education is now very big business," Nicholas Brummitt, Managing Director of ISC Research, told AFP.

"Two of the most noticeable changes in the market are the increase in the number of local students and the increase in the number of schools run for profit.

"In the year 2000, international schools were still perceived largely as an expatriate and non-profit phenomenon. Now many international schools, especially new ones, are for profit and cater in large part for wealthy local families.

"We estimate that, overall, 80 percent of international school students are now from local families, a complete reversal over the last 20 years."

It was Harrow's links to the Thai royal family that originally brought the school to Asia -- 23 princes were educated at the original Harrow school over a 100 year period including the present king's father.

A visit to Thailand by the teachers of the crown prince's sons in the mid-1990s led to a proposal the school open a branch in Bangkok in 1998, as many Thai parents were already sending their children to the UK and the US.

"Significantly, more and more British public schools are opening schools abroad and some of the British public schools which have previously opened international schools are looking to open more," Harrow's Hensman said.

"We are looking to open up to another two schools in the region."

**Demand for expensive schooling is being driven by parents whose ambitions for their children have risen in line with their incomes. The offspring of the booming region's wealthy elite are enrolling in some of the world's most famous schools and universities**