EVENT SUMMARY:

Japan’s Lost Decades: A Call for Fundamental Statecraft Reform

Seminar by Dr Takashi Inoue, Paul Drechsler, Waichi Sekiguchi and Yukihisa Fujita

Friday 6 March 2026

1. Dr Inoue’s Talk:

Good evening, and thank you very much for attending tonight's seminar. My name is Takashi Inoue. I have a diverse background, including working as a corporate businessman and founding my own public relations consultancy firm. In my career, I have worked with Silicon Valley companies such as Intel and Apple, as well as the MIT Media Lab, and have been involved in resolving US-Japan trade issues, particularly in the telecommunications, semiconductor, and automobile sectors.

Since we only have ten minutes, let's look at what has happened to Japan. This year, India's economic ranking is projected to exceed Japan's, placing India fourth and Japan fifth in global GDP. In 1989, Japan was a dominant global economic force; out of the top 25 global companies by market capitalisation, Japan held 18 spots, and the top five were all Japanese companies. Today, none of those companies are in the top ranks, and even Toyota ranks around 50th. This is a challenging situation, and it led us to form our research committee to study Japan’s "Lost Thirty Years"

To illustrate the contrast: over the last 36 years, the Nikkei Index has shown a net loss of 1.32%. Conversely, the US Dow Jones Index has grown by 10,545% over the same period, approximately a fifteen- to twenty-fold increase.

I would like to reference Maslow's Hierarchy of Needs, which defines five stages. The bottom is the physiological stage, and the second is the safety stage. In my view, the Japanese political scene remains stagnant in these first two stages. Instead of making progress, politicians seem content fighting small-scale political battles within a small cup.

Furthermore, the conflicting goals of powerful stakeholders prevent necessary reforms. While US public relations is traditionally based on communication management, my approach defines public relations as multi-stakeholder relationship management. This goes beyond simple communication to managing complex relationships with diverse stakeholders to achieve shared goals. Japan sorely lacks this capability.

To illustrate, let me share a case study from the US-Japan auto talks during the Clinton administration, involving automotive parts. Most Japanese citizens believed their domestic market was fair, but US companies like Tenneco (an aftermarket auto parts supplier) had made no progress selling to Japan for 20 years.

Our research revealed the core issue: the Ministry of Finance (MOF), the Ministry of Economy, Trade and Industry (METI), and the Ministry of Transportation were still enforcing outdated regulations from the 1950s in the mid-1990s. We compiled these findings into the "Tenneco Report". It was shocking to the Japanese side, as most did not realise how unfair the market rules were.

However, Tenneco was concerned about publicising the report under their name, fearing retaliation from major customers like Toyota, which could ruin their multi-billion-dollar business. They asked us not to disclose the report publicly in Japan. We distributed a limited number of copies directly to directors within each ministry, but the information stalled at that level and was not escalated to senior leadership.

At the time, Ryutaro Hashimoto, who was the head of MITI (now METI), firmly believed the Japanese market was fair. Frustrated by constant US pressure, he famously threatened that Japan might sell its US government bonds. However, the Tenneco Report eventually reached the Clinton administration. President Clinton, realising the extent of market barriers, announced sanctions under Section 301 of the Trade Act, threatening a $5.2 billion impact on the Japanese automotive industry.

At that time, the US and Japan combined represented 45% of global GDP (compared to the US and China representing 42% today). Following intense negotiations, the exchange rate surged in April 1994, peaking at 79.75 yen per dollar, extremely high compared to today's rates of over 150 yen per dollar. Ultimately, Japanese regulations and rules were reformed. Consequently, Tenneco experienced a 150% sales growth, and Hashimoto became Prime Minister the following year.

This case demonstrates our self-correction model, which consists of three key elements:

1. Engaging with and understanding stakeholders.
2. Committing to self-correction guided by ethical standards.
3. Designing win-win solutions.

While authors like Yuval Noah Harari discuss self-correction on a macro level, my work has focused on the critical importance of self-correction at a micro level, which is highly relevant in the modern AI era.

Rebuilding Japan today is highly complex because everything is so heavily regulated and controlled, unlike the post-war era when we rebuilt from nothing. This is why public relations, viewed as multi-stakeholder relationship management, is so vital.

Our research project utilised a life-cycle model, starting with SWOT analysis and situation research, which culminated in the publication of our book. We conducted 42 comprehensive interviews with leading thinkers, including ex-prime ministers Yoshihiko Noda and Shigeru Ishiba, as well as the Governor of the Bank of Japan.

We developed a list of core recommendations across several fields:

- Political reform
- Foreign diplomacy
- Economic policy
- Labor market reform
- Measures for the declining birth rate
- Medical and elderly care
- Education, cultural, and scientific research

Education is particularly critical; teaching young children helps build political literacy, which is a fundamental requirement for change.

A major systemic barrier in Japan is Article 7 of the Constitution, which grants the Prime Minister the unilateral right to dissolve the Diet and call snap elections at will. We have seen this repeatedly, most recently with figures like Sanae Takaichi and Shigeru Ishiba. Consequently, elections are held every one-and-a-half to two years.

This frequency is counterproductive. Instead of focusing on long-term national policy and the well-being of citizens, politicians focus entirely on short-term survival and maintaining their factions. If they lose an election, they lose their offices and must fire their staff, so their primary incentive is self-preservation. In comparison, the average tenure for a Prime Minister is 4.5 years in the UK, 7.8 years in Germany, 6.8 years in the US, but less than two years in Japan.

We are working to change this. Recently, Japanese media outlets like *Yomiuri* and *Nikkei* have begun reporting on our society's work, and we expect NHK to follow. This media coverage is essential because Japanese politicians rarely initiate change on their own; media influence is a major driver of legal and political reform in Japan.

We are currently establishing business targets and communication channels for this project, and I am confident that over the next few years, Japan will begin to change. Thank you very much.

2. Paul Drechsler’s Talk:

Good evening, ladies and gentlemen. It is a great pleasure to be here. My relationship with Japan began in 1988 when I supported the development of polyester film exports. Some years later, while working with ICI, we invested $150 million in a factory in Ibaraki Prefecture. Over the years, I have developed a deep affection for the country. Last year, Fujita-san shared this research paper with me and asked for my views. I found the committee's work on the last 30 years to be thoughtful, serious, provocative, and direct in confronting difficult issues. I would like to offer a few reflections on the observations of Japan's senior leadership.

First, the phenomenon of governments being aware of problems yet failing to implement sufficient solutions is not unique to Japan; it is a universal challenge for modern democracies. The primary issue is rarely diagnosis; the real hurdle is execution. The question is how to convert long-term awareness into decisive, sustained action when political incentives are inherently short-term. Cross-party collaboration on structural reform is essential, but in both the UK and Japan, it remains incredibly difficult to achieve. Without it, national renewal remains fragile.

The GDP data presented in the report is incredibly sobering. Watching Japan's share of global GDP rise from 3% in 1950 to 18% by 1994, only to slide back to 3%, is extraordinary. However, a country capable of such a historic ascent undoubtedly retains the capability to do so again. The decline in GDP per capita rankings is particularly critical because it directly impacts the daily lives and pockets of citizens.

The committee notes that delayed support for financial institutions during the Japanese financial crisis prolonged economic stagnation. This is a persuasive argument. However, from a Western perspective, crisis management is not just about speed; it is about legitimacy. In the UK and elsewhere in the West, bailing out the banks preserved financial stability but severely damaged public trust, which ultimately fueled the rise of populism. Economic recovery without social legitimacy is an unstable strategy.

The report also suggests that accommodating US priorities contributed to Japan's economic decline. This raises a broader question: was the issue external pressure from the US, or was it a lack of confident statecraft within Japan? This tension between alliance management and strategic autonomy is a challenge that many democracies face today.

In the 1980s, economic renewal in both the US and the UK followed decisive structural reforms. Today, however, politics operates in a continuous feedback loop of public opinion, making leadership reactive rather than visionary. There is a vital distinction between being led by the public and exercising true leadership on behalf of the public.

The central thesis of the committee's report is the erosion of effective statecraft. This is a powerful argument, and the loss of long-term strategic capability and integrated state management is visible across many Western democracies. Managing a state patiently and strategically over decades is a lost art.

Demographics represent another urgent crisis. It is incredibly difficult to raise birth rates without economic confidence, just as it is difficult to sustain economic growth without immigration or massive productivity gains. In this regard, Japan is a leading indicator for other developed nations, especially as climate pressures intensify global migration debates.

I would also like to highlight the importance of science and soft power. The report's finding that Japan's science rankings have fallen is an important warning. Long-term prosperity depends on robust innovation ecosystems, combining universities, capital, talent, and a coherent industrial strategy. While Japan's cultural soft power remains immense, there is an excellent opportunity for deeper UK-Japan collaboration in science, research, and education.

Technology today is simultaneously an amplifier and a destabiliser. The pillars identified in your paper of ethics, two-way communication, and the capacity to self-correct, are essential for democratic resilience. Without self-correction, statecraft ultimately fails.

In conclusion, this paper is a mature and vital contribution to the debate. National renewal requires a shared diagnosis, clear priorities, and urgency in execution and sequencing. Ultimately, such transformation requires pace and courage. The central question of the last 30 years is not whether Japan failed, but whether the global economic system changed faster than Japan adjusted. The modern world rewards speed over perfection, mobility over hierarchy, active capital over patient accumulation, visible accountability over implicit trust, and, until recently, global integration over domestic isolation.

None of this invalidates Japan's core strengths. Long-term thinking, enduring excellence, institutional loyalty, and social cohesion are major strategic assets in a volatile world. The challenge is calibration, not abandonment: Japan needs a little more speed without losing discipline, a little more risk-taking without losing stability, and a little more openness without losing its unique identity. History shows that when Japan decides to reform, it does so decisively, as seen in the Meiji Restoration, the post-war industrial transformation, and the technology surge of the 1970s and 80s. This gives us every reason to be confident.

This is where the UK enters the story, as we face similar structural questions: How do we increase productivity? How do we mobilise capital for growth? How do we accelerate innovation while balancing stability and dynamism? Despite having different economies, our advanced democracies share similar structural hurdles. This creates a fertile ground for deeper bilateral collaboration in fields like science and technology, life sciences, advanced manufacturing, digital trade, AI governance, clean energy, critical materials, and capital market reform. By combining the UK's strengths in global finance, venture capital, and research universities with Japan's industrial scale, engineering excellence, and long-term capital, we can create a formidable partnership. The future does not belong to isolated national models, but to nations willing to adapt and collaborate. Japan will not lose the next decade by losing its identity, but by refining it and working with trusted partners like the United Kingdom to shape global growth. Thank you.

3. Waichi Sekiguchi's Talk:

Hello everyone. My name is Waichi Sekiguchi. I am the President of the MM Research Institute, a former editorial writer and columnist for the *Nikkei Shimbun* (the parent company of the *Financial Times*), and a former Washington correspondent covering US-Japan trade issues. I was also one of the 42 experts interviewed for this report, focusing specifically on digital technology.

I would like to start by discussing the Consumer Electronics Show (CES) held last month in Las Vegas. CES is the world's largest information and communications technology (ICT) trade show. While the US naturally dominates the event, Japan ranks sixth in terms of the number of exhibitors. However, we are seeing a concerning trend: major Japanese companies are increasingly withdrawing from the event.

During the COVID-19 pandemic, many Japanese companies pulled out and later returned. However, we are now seeing a second wave of withdrawals from giants like Sony, Honda, Toyota, Suzuki, Nikon, Canon, Seiko, Komatsu, Kyocera, and Olympus. While the depreciation of the yen makes exhibiting very expensive, the deeper issue is an inward-looking corporate attitude. Many Japanese companies are focusing purely on the domestic market rather than trying to expand abroad. For example, Nikon used to supply the official bags for the trade show, but that role has now been taken over by the Chinese company Insta360.

Looking at the comparison of global market capitalisation between 1989 and 2024, Japanese companies have largely disappeared from the top rankings [34]. Similarly, Japan's share of global GDP has declined dramatically. After World War II, Japan's share rose from 3% in the 1950s to a peak of 18% in 1994, but it has since slid back down to 3% as countries like China and India have expanded. Furthermore, Japan's GDP per capita, which was the highest in the world in 1994, has stagnated and is now the lowest among the G7 nations.

A major driver of this decline is Japan's failure to adapt to digitalisation. Until the mid-1990s, Japan was considered number one because the global economy was analog. Japanese companies excelled at manufacturing perfect physical products, earning immense consumer trust. However, when internet technology emerged in the mid-1990s, the paradigm shifted toward software. Companies like Apple and Tesla have succeeded by continuously upgrading their software to deliver innovation. In contrast, Japan's digital competitiveness fell to 38th in the world by 2024, placing it very low even within Asia, far behind leaders like Singapore and Hong Kong.

According to an analysis by Nomura Securities, the last three decades of stagnation began in 1990 when the Japanese government burst the real estate bubble. The seeds of this bubble were planted in 1985 with the Plaza Accord, where international pressure forced the appreciation of the yen to reduce Japan's trade surplus, followed by the US-Japan Structural Impediments Initiative.

The bubble burst led to massive financial failures in 1997, including the bankruptcies of Hokkaido Takushoku Bank and Yamaichi Securities. This was compounded by subsequent crises: the 2008 Lehman shock, the devastating Great East Japan Earthquake and tsunami in 2011, and the COVID-19 pandemic in 2020. While there were several opportunities for economic recovery, the economy was repeatedly disrupted.

The core systemic failure, however, remains underinvestment in IT. In the mid-1990s, IT investment in the US, France, and Japan was comparable. Since then, the US and France have aggressively leveraged internet technology, investing three times more in IT than Japan, where investment has completely stagnated. For example, Nippon Telegraph and Telephone (NTT), Japan's largest telecom company, has seen flat sales for decades, while US tech giants (GAFA) have grown exponentially and are now leading the AI revolution.

This underinvestment has created a massive digital trade deficit. In 2012, US cloud providers like Amazon, Microsoft, and Google held 30% of the cloud infrastructure market; by 2020, their share rose to 60% (and nearly 70% when including IBM, Salesforce, and Oracle). Japanese organisations only realised the necessity of cloud computing after the 2011 tsunami destroyed their physical servers. However, because there were no viable domestic cloud providers, Japan became entirely dependent on US infrastructure. This has resulted in a digital trade deficit of 6.7 trillion yen across IT services, intellectual property, and consulting—outstripping Japan’s 6 trillion yen in annual revenue from inbound tourism.

Compounding this is a severe shortage of digital talent. Unlike the US, India, or the UK, which attract or export highly skilled engineers, Japan is in a "Galapagos" situation: virtually no international talent comes to Japan, and very few Japanese engineers go abroad.

However, there is some positive news. Prime Minister Sanae Takaichi, despite any differences in political philosophy, has proven to be highly skilled at industrial policy. She has launched a new national strategy targeting 17 strategic investment fields, including AI, semiconductors, quantum computing, aerospace, digital security, content industries (anime, games, manga), green technology, and fusion energy, where Japan possesses advanced technology. Notably, 9 of these 17 strategic fields are digital-focused.

Thanks to these policies, international interest in Japan is returning. At the Future Investment Initiative (FII) conference in Saudi Arabia, often called "Davos in the Desert", Prime Minister Takaichi's speech was highly praised by global investors. I remain hopeful that through these targeted industrial policies, Japan can stage a successful comeback in the near future. Thank you very much.

4. Yukihisa Fujita’s Talk

Good evening. I am Yukihisa Fujita. To build on the introduction, I would like to clarify two points. First, while I was introduced as a politician, I have also been a peace activist since I first came to London 50 years ago, focusing on humanitarian issues, conflict resolution, and reconciliation in Asia. My time in the Diet was a continuation of this work. Second, I was honored with an imperial decoration by the Emperor two years ago, meaning I am no longer running for office and do not belong to any political party. I am completely neutral, but I remain deeply committed to reforming Japan.

The core of our report is Japan's need for fundamental statecraft reform. Looking at the recent election, Prime Minister Sanae Takaichi led the LDP (Liberal Democratic Party, transcribed as ADP) to a historic victory, winning 316 out of 465 seats. This is the largest majority for the LDP in 70 years, dating back to 1955. In contrast, the opposition alliance, a merger of the Constitutional Democratic Party and Komeito, won 123 fewer seats than before [44]. I used to belong to a predecessor of that opposition party.

While the LDP won 86% of the legislative seats, it actually received only 49% of the votes cast, representing just 26% of eligible voters. This is an important distinction to remember. Furthermore, because the LDP does not hold a majority in the Upper House, the administration must navigate a complex legislative landscape there. This shift reflects a global trend where right-wing leadership has disrupted the status quo, similar to movements in the US and elsewhere.

A unique phenomenon in this election was the explosion of support for Takaichi on SNS (social media), particularly among young people, which skyrocketed and propelled her to victory. Regarding the statecraft of Japan: in a parliamentary system, the Prime Minister's power to dissolve parliament is immense, even surpassing the authority of a US President, who cannot dissolve Congress or the Senate. A Japanese Prime Minister can abruptly dissolve the Diet, stripping elected members of their status [46]. Ironically, when the dissolution is declared, members of parliament shout "Banzai!", even though their legislative heads have effectively been cut off.

While some Japanese academic theories claim the British Prime Minister has a free power of dissolution, in reality, most parliamentary democracies hold elections close to the end of fixed terms. In Japan, however, snap elections are called on average every less than two years. This frequency is deeply detrimental to the national interest, yet the Diet has no constitutional power to stop a snap election

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In Western democracies like the UK, Germany, and France, government bills are submitted directly to all MPs and are amended through open, transparent parliamentary debate. In Japan, however, bills are decided beforehand through prior screening by ruling party lawmakers before they ever reach the Diet floor. This reduces the Diet to a rubber-stamp body, undermining popular sovereignty itself. When I met with British, French, and German MPs last year, they were astonished to learn how bills are processed in Japan and asked, "What is the actual power of your parliament?"

Compared to Western legislatures, the Japanese Diet lacks adequate investigative authority, verification functions, and policymaking capabilities. Unlike other OECD nations, Japan is the only country without an Independent Fiscal Institution (IFI) or a congressional watchdog similar to the US Government Accountability Office (GAO). Furthermore, there are no clear boundaries restricting interactions between politicians, bureaucrats, and the media, which has entrenched bureaucratic dominance and fostered a culture of excessive deference. In the UK, we have seen deputy prime ministers resign over ethical concerns regarding a cabinet minister's conduct; such accountability is rare in Japan.

Another contrast is the British tradition of cabinet ministers carrying the "Red Box." This practice ensures that individual ministers are clearly accountable for specific policy decisions, and they resign if those policies fail. That level of accountability does not exist in Japan.

Many of you are familiar with the Japanese concept of Kaizen, defined by my friend Masaaki Imai as gradual, continuous improvement in quality and efficiency, rather than major disruptive innovations. Toyota famously succeeded using this philosophy. However, what we have witnessed in Japan's parliamentary democracy is what I call Kaiyaku, meaning gradual deterioration or decline. Instead of implementing visible, structural reforms, the system has set and achieved progressively lower standards.

This structural failure, the lack of statecraft capable of formulating long-term national strategies and managing crises, is the primary driver of Japan's economic stagnation. We should not call it "the lost thirty years," but rather "the thirty years we lost." This was not caused by external influences; we simply lacked our own statecraft.

To move forward, Japan urgently needs a new model of cooperation among politicians, bureaucrats, business leaders, and citizens to engage with the world. Historically, post-war leaders like Prime Ministers Shigeru Yoshida and Ichiro Hatoyama preserved Japan's peace constitution and secured its future. Business leaders paved the way for reconciliation and diplomatic relations with China, and political leaders across party lines cooperated on the reconstruction of relationships in Korea.

Before the last three decades, Japan possessed leaders in politics, bureaucracy, and business who worked for the greater good of the nation, transcending institutional boundaries. Today, we lack leaders who can work beyond party lines. We must look beyond mere stakeholder sharing and embrace true statecraft, where leaders from all sectors of society work together. By doing so, we can collaborate more deeply with international partners like the UK and return to the core values and conduct of a true parliamentary democracy. Thank you.