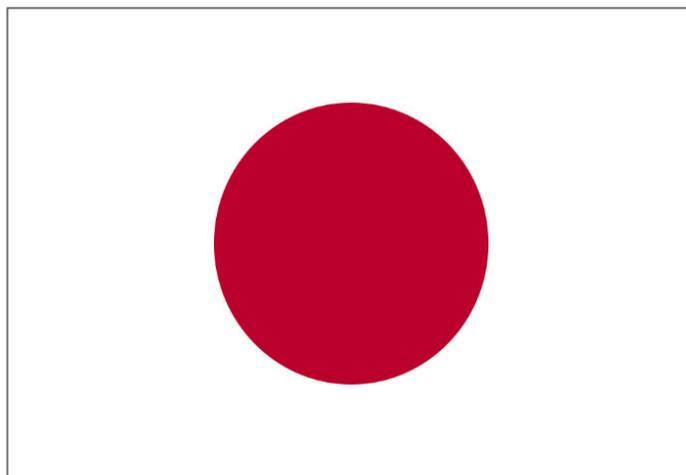


## Japan: Rising sun, rising tension

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July 2022

Japan's business climate can be best described as politely cautious. Its history as an insular nation has been reflected in the corporate culture that moves slowly, makes few concessions to how Western companies would be run and has perhaps a mild disinterest in all but the biggest foreign businesses. This '*keiretsu* culture' – where multiple businesses work as a family, both for better and worse – has defined the Japanese market for years. But in a nation where technical achievement and advancement are second nature, can the market itself evolve?



If Japan's businesses are cautious, then the government is even more so. The operating environment for new companies, whether domestic or foreign, is beset by bureaucratic difficulties and challenges of finding the right *keiretsu* company within a given family either vertical or horizontal, meaning that the flow of decision-making and policy can be obtuse to those without intense familiarity with every company involved. Meanwhile, 'Abenomics', the headline fiscal policy of the late Prime Minister Shinzo Abe, was dedicated towards stabilising the economy at the expense of truly looking to grow it. Perhaps, with the world's largest public sector debt of 245% GDP, Abe felt he had no choice, but it can be argued that the economy was stagnating even before Covid. During the pandemic itself, extremely strict measures were introduced, but by and large the Japanese corporate sector survived, with only 10% of SMEs having to suspend business compared to a global average of 26%. Indeed, a central bank survey of the sector's business confidence only reported a drop in the first quarter of 2022 (due to the invasion of Ukraine) for the first time in two years, meaning that throughout the worst of the pandemic there was still confidence and trust – which perhaps allows for a little caution.

Large-scale corruption in Japan is extremely rare, with the principles of hospitality and transparency in everyday dealings carrying over into the business sector. However, the practice of *amakudari*, whereby retiring government officials are parachuted into top roles at private companies, muddies the waters and this is most prevalent at financial, construction and transportation firms – in other words key industries. *Amakudari* is not illegal but is perhaps the closest Japan gets to institutionalised cronyism. As for

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corruption, the risk of this across assorted political, financial and social spheres is low. Where there is a gap, it is in an apparent laxity in dealing with cases of foreign bribery – only four such cases have been prosecuted in the past twenty-five years – and of firms having insufficient measures in place to detect and prevent large-scale fraud (two 2015 cases, at Olympus and Toshiba, spurred over 50% of Japanese firms to enhance their compliance procedures). However, all such instances are relatively rare.

Japan's foreign affairs are very much in the news, not least because of the tragic assassination of Shinzo Abe. While his signature economic policy is a done deal, his second great idea – of changing the post-war constitution and putting Japan on a more pro-active stance when dealing with regional opponents – was if anything even more controversial, given the legacy of Japan's role in World War Two. However, as both Russia and China rise in power and begin to exert their dominance in a freshly re-polarised world (with China in particular threatening Japan's regional security through its aggressive South China Sea policy and the continuing possibility of an invasion of Taiwan), there is a case to be made that Japan needs to step up and begin to assert itself in its own backyard. It is just that such an attitude would come with a greatly increased risk of cyber-attack and influence operations from China. The challenge for Japan as it looks to embolden itself in all areas, is if that is a risk worth taking.

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