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Japan's Political Earthquake. A New Government Ending Economic and Political Crisis?

Japan has a new government after 54 years of almost uninterrupted rule by the Liberal-Democratic Party (LDP).

For decades, Japan's public left politics up to the LDP as long as the party was able to provide economic growth, prosperity and public services second to none.

Japan was "working", experienced rapid economic growth until the late 1980s and the LDP put itself in charge of protecting Japan's enterprises from foreign competition in essentially all industrial and service sectors.

Since the LDP was founded in 1955 it found itself out of power only once, for 11 months in 1993/1994. And even then it was still by far the largest party in the parliament, replaced by a shaky coalition government that lasted less than a year.

Not so after Sunday's elections. Japan's electorate ended Japan's *de-facto* "one-party democracy" voting the Democratic of Japan (DPJ) led by 62-year old Yukio Hatoyama into power and while Hatoyama's DPJ won 308 of the 480 available Lower House seats, the LDP was humiliated.

The Liberal-Democrats experienced the predicted electoral defeat winning only 119 seats down from 300 it gained in the last Lower House elections in 2005.

Japan's electorate voted 480 members from among 1.374 candidates for 300 single-seat constituencies and 180 from 11 proportional representation blocks across the country.

Although the jury is still out there on why the DPJ won the way it did, the crushing victory for the DPJ and the humiliating defeat for the LDP were probably as much an expression of complete disenchantment with LDP as also an endorsement of the DPJ.

To be sure, the DPJ is very unlikely to have much time (and eventually much reason) to celebrate its election victory with the country in the middle of a recession, accompanied by record-high unemployment (5.7%) and fears of a new deflationary spiral, similar to the one experienced in Japan throughout the 1990s. What's more, exports, the centrepiece of the Japan's economy, have collapsed this year. Exports to the US were down by 39.5% year-on-year in July, to China down by 26.5%, and to the European Union down by 45%.

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Abstract

Japan has experienced a political earthquake last Sunday.

Japan's 45th Lower House elections marked the end of almost 54 years of uninterrupted rule of the Liberal-Democratic Party (LDP). The Democratic Party of Japan (DPJ), led by 62-year old Yukio Hatoyama won 308 of the 480 seats in the Lower House while the LDP won a mere 119 seats down from 300 it held before. A landslide victory for the DPJ and the worst electoral setback for the LDP since its foundation in 1955.

Nothing less, analysts widely agree, than the end of Japanese LDP-dominated politics as we know it and possibly the beginning of a two-party system, in case the LDP is able to recover from the election debacle and become a credible and competitive party in the years ahead. The new Prime Minister Hatoyama in the meantime will take over from his predecessor Taro Aso in mid-September being confronted with the tasks of nothing less than leading Japan out of economic recession, record-high unemployment and de-regulating an over-regulated economy in need of economic and structural reforms.

The policy brief will seek to assess whether or whether not a DPJ-led government and Yukio Hatoyama will have what it takes to do just that.

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This Monday the DPJ has begun holding talks with members of its opposition allies – the Social Democratic Party (SDP, 7 seats) and the People's New Party (3 seats) – on forming a coalition government.

Not that it has to invite others to govern Japan with them. Having won 308 Lower House seats, i.e. 68 seats more than necessary to form a government without any coalition partners at all, the DPJ will enter negotiations fairly relaxed knowing that there is no need to make many concessions to its coalition partners to form a government. "Take-or-leave-it" negotiations for the coalition's junior partners, probably. Once the coalition government is up and running, the influence of the DPJ's envisioned junior coalition partners on DPJ domestic and foreign policies will naturally be very limited, if at all existent.

A Political Earthquake

These days, a political era is ending in Japan marking the definitive end of Japanese politics of the last five decades, said Gerald Curtis, professor at Columbia University in New York in an interview with the Financial Times on Sunday.

«This election is not about a ruling party with an unpopular prime minister in a bad economy, this is about the end of the post-war party system in Japan. It's the beginning of a different party system».

Indeed, Japan's political landscape has in recent years changed towards a two-party system with the DPJ and LDP

competing for votes. To be sure, Sunday's LDP election debacle, does not yet (or not anymore) point to anything resembling "real" competition between two political parties with the LDP loosing 60% of its Lower House seats it gained in 2005.

An impressive number of LDP political heavyweights, including incumbent ministers, was defeated in single-seat districts, amongst them Nobutaka Machimura, leader of the LDP's biggest faction, Shoichi Nakagawa, a former finance minister famous for an incoherent press conference performance in Rome under the influence of alcohol and former party Secretary-General Tsutomu Takebe.

Prime Minister Taro Aso announced his resignation as the LDP's party president and New Komeito, the LDP's junior coalition partner, saw its chief and Secretary-General lose their seats too.

LDP-style Politics. The End of It?

Today's LDP is only a shadow of its former mighty and financially well-equipped self. The once "catch-all" party with its numerous factions hosting reformists, anti-reformists, ultra-nationalists, revisionists and others had one central mission over the last 55 years: Serving its "clients", above all big business, the farming and probably most infamously Japan's big construction sector.

In return for generous party funding and more often than not bribes to individual politicians, the construction

companies got the LDP's green light (and the bank's low-interest rate loans) to turn Japan into a constant "state under construction" as the Asahi Shimbun (Japan's second biggest daily newspaper) put it in an editorial earlier in August.

The result of that unhealthy (but for the LDP financially very lucrative relationship) was countless roads, highways and bridges into nowhere financed by Japan's taxpayers.

Tellingly, former reform-minded Prime Minister Koizumi decided to scrap the 300 most unnecessary public construction projects at the beginning of his tenure in 2001. Koizumi's efforts to stop unnecessary public construction projects, however, were only partially successful, partly because of strong inner-LDP resistance, partly due to the fact that construction companies decided to "invest" even more money in Japanese politics increasing the funding for the LDP and politicians promoting their businesses.

The country's big banks joined the game (admittedly under constant pressure from the government and the country's powerful ministerial bureaucracy) over the decades, providing Japan's construction companies with generous low-interest credits, leading to an astronomically high amount of non-performing loans, a near-collapse of Japan's financial system, the burst of Japan's bubble economy at the end of the 1980s, and eventually to more than a decade of zero economic growth until the early the 2000s.

A Demanding Public

Judging by recent opinion polls, the Japanese public has turned from apathetic and apolitical to (more) interested in politics and decisively more impatient with messy and incompetent policymaking. That, one might argue, was about high time given the public's decade-long disinterest in indifference towards politics and politicians.

However, the trust in Hatoyama to change the ways of Japanese politics is yet fairly limited, Yoichi Tanaka, senior account executive at the software company Omniture INC in Tokyo told this author in an interview.

«The Japanese people do not expect Hatoyama to change governance in Japan. I think people are just tired of the LDP and will want Hatoyama to focus on economic policies, securing solid economic growth».

As regards the public's expectations, they are not necessarily attached to specific items and policies on the DPJ's election campaign agenda. Rather, the electorate's approach is more "holistic" seeking fundamental changes to Japan's political culture, Japan-watcher Tobias Harris points out. In fact, the Japanese voters might have voted for change they don't seem yet to believe in, at least judging by recent opinion polls, Harris explains in a newspaper article this Monday.

Indeed, opinion polls seem to show that a majority of voters does not believe in the realization of the key policies on the DPJ's party platform indicating that Sunday's vote

was probably more a vote against the incumbent LDP than one for the DPJ led by Yukio Hatoyama.

Economic Crisis and Reforms

So far, so good, but now for the hard part governing a country in the middle of an economic recession burdened by an overregulated economy, enormous public debt and suspended economic and structural reforms.

Mr. Hatoyama and his aides have so far been very vague on the necessity of continuing economic and structural reforms. Indeed, there are fears amongst the country's reform-minded economists that the new government will not be in a hurry to resume the country's stalled reform process.

There are still a lot questions about Hatoyama's credentials as reformer and many in his party (the left-wingers and ex-socialists in particular) are categorically opposed to economic reforms and deregulation policies.

While during his election campaign Hatoyama pledged to shift away from the "excessive" market reforms of recent years, many economists in Japan say they are needed badly. In fact, there is a near-consensus amongst analysts and economists that Japan needs more American-style deregulation and market-led growth, not less, to invigorate its stagnant economy. However, «Reform has increasingly become a "bad word" in Japanese politics», said Richard Jerram, chief economist for Japan at

Macquarie Securities in a recent press interview. «Japan is now more reluctant than ever to use market forces to raise productivity» he said.

Indeed, Japan's domestic service sector, which makes up 70% of the economy, is overregulated and inefficient, burdened by very slow procedures and decision-making processes. Unless Japan's economy deregulates, these and other obstacles will continue to limit foreign direct investment (FDI) in Japan and Japan's new government is well-advised to put deregulation reforms on top of Japan's economic agenda.

Until recently, however, populist rhetoric as opposed to sober analysis, featured on top of Hatoyama's campaign speeches.

Amongst others, he called to end «US-led market fundamentalism» and «untrammelled globalization» pledging to protect Japan from both. Although the occasional anti-American sound-bite sate well with parts of Japan's electorate, it has fairly little to do with the reality of Japan's economy. Globalism and globalized trade and business are the basics for Japan's export-oriented economy and no other industrialized country depends as much on exports than Japan.

In fact, and Mr. Hatoyama will come to realize that eventually and inevitably, Japan's economic well-being will continue to depend on growing exports, massive outsourcing and the deregulation of Japan's labour markets. Seeking to reduce dependence on export-led

growth by increasing domestic consumption, as Mr. Hatoyama suggests, is a good idea in principle, but so far he has not offered any details on how he and his government are planning to achieve that.

Handing Out Money

For the time being and the months ahead, the DPJ has chosen to focus on promising extra cash and subsidies to the electorate, including to business, traditionally the LDP's prime clientele. Hatoyama has promised to reorganize Japan's Y207,000 billion (\$2,172 billion) budget to increase social spending, pay parents a Y312,000 (\$3,273) a year child allowance, increase pensions and the number of government-financed higher education scholarships. Additionally, highway road tolls will be scrapped and corporate taxes for small companies will be reduced to 11%.

Furthermore, Mr. Hatoyama has pledged not to raise taxes for four years, failing however to mention that this and other envisioned tax-cuts will be adding to Japan's record high public debt, already close to 200% of the GDP, by far the highest among advanced industrialized nations.

In total, the DPJ's pledges to spend \$160bn on financial support and subsidies although some of the subsidies such as direct subsidies to farmers could be reduced or even abolished in the years ahead.

On a positive note, the DPJ will shift spending from public-works projects to social welfare spending, a priority

that probably makes sense in rapidly ageing Japan.

Japan does not need more highways and tunnels but a massive boost of welfare spending in a society that is already amongst the oldest in the world.

However, there will also be budget cuts under the new government. For starters, the DPJ will be reviewing the 14-trillion-yen supplementary budget that departing Prime Minister Taro Aso has already implemented to cover Japan's economic-stimulus plan. No doubt that some projects planned to be financed by the supplementary budget will be cancelled in the months ahead.

Improving Bureaucracy Accountability

Reducing the influence of Japan's powerful ministerial bureaucracy was one of the DPJ's central election campaign issues. Breaking up the so-called "iron triangle", the close but eventually unhealthy relationship between bureaucrats, big business and politics, is a central part of the DPJ domestic policy agenda in the months to come.

In order to do so, the DPJ has pledged to appoint 100 lawmakers from the DPJ-led coalition in government as senior vice ministers and parliamentary secretaries to improve parliamentary control of Japan's powerful ministerial bureaucracy.

The DPJ has also announced to end the practice of "amakudari", meaning "descent from heaven", whereby

government officials after retirement take up senior positions in the companies they oversaw.

To be sure, the country's top bureaucrats will not give up their influence over policy-making without resistance. Ministerial bureaucracy policy-making rubberstamped by LDP politicians is deeply embedded in Japan's political culture, and it remains yet to be seen how willing top bureaucrats in the Finance and Foreign Affairs Ministries will be to cooperate with the 100 government-appointed watchdogs.

Besides, the DPJ will have to tread cautiously with regards to bureaucratic reform despite its laudable efforts to make the bureaucracy more transparent and accountable. The new government must be careful not to demoralize and alienate the country's bureaucrats, many of whom are very knowledgeable, experienced and capable.

After all, the ministerial bureaucracy was for decades the backbone and promoter of Japan's incredibly rapid and until the late 1980s sustainable economic growth. The DPJ will continue to need Japan's ministerial bureaucracy, confirms Gerald L. Curtis speaking to the press. «To get their business done, the DPJ politicians will have to use the bureaucracy, because it has the expertise needed to run the nation. The DPJ is not calling for the destruction (of the) bureaucratic system. If they did, there would be no way to make policy».

The Hatoyama government will also form the so-called National Strategy Bureau, a

body that will map out budgets as well as basic foreign and national security policies. The newly-established so-called Administrative Reform Council (a body with ministry status) reporting directly to the Prime Minister's Office, will watch over wasteful spending and financial irregularities among central government bureaucrats. This too will offend Japan's elite bureaucracy, but recent high-profile ministerial bureaucracy scandals have made sure that the public will probably stand behind Mr. Hatoyama's plans to keep a close eye on the bureaucracy limiting its financial and policymaking autonomy.

Shadow Shogun Politics

The DPJ is far from being a coherent and homogenous political group, essentially made up of LDP defectors, ex-Socialists who politically and ideologically had very little in common before joining forces in 1996 to challenge the LDP's monopoly of power. There are bound to be disagreements with regards to economic and structural reforms, deregulation and foreign and security policies amongst DPJ party members and it will depend on Yukio Hatoyama's ability to mediate between the party's various factions and interest groups to formulate and implement coherent policies.

But it won't be Mr. Hatoyama alone in charge of running the party and eventually Japan. The controversial and outspoken political heavyweight and DPJ founder Ichiro Ozawa is back in the party

front line after having been temporarily marginalized over a financial scandal earlier this year (admittedly a minor issue for a politician who has been involved in Japanese politics for all of his adult life).

Ozawa is widely regarded as the architect of the DPJ's election triumph (he was e.g. the first one promising the public cash and subsidies without consulting with anybody) and is very unlikely to leave running the DPJ and Japan up to Hatoyama alone.

Not least as Ozawa has fought for more than 15 years to bring down the LDP (to which he belonged until 1992 acting amongst others as Secretary-General). In recent years increasingly on a come-what-basis seeking to block or at least slow down Japan's LDP-initiated lawmaking and policymaking process using the DPJ's Upper House majority gained in 2007.

Amongst others, Ozawa is feared as a "shadow shogun" by many in his own party and is in turns is being referred to as "dictator", "unpredictable" and worse. Many DPJ lawmakers are reportedly concerned about a possible a dual Ozawa-Hatoyama power structure resulting in inner-party conflicts and Ozawa-style backroom dealings.

But not Ozawa alone is the problem. Hatoyama has to manage his party with a parliament caucus dominated by many first-time members in the Lower House who essentially got there for not being the LDP candidate.

The number of first-time Lower House members is indeed impressive and

encouraging and worrying at the same time. There is nothing wrong with fresh faces and potentially new ideas and approaches, but inexperience and youth could jeopardize (or at least slow down) Mr. Hatoyama's plans to have the bureaucracy supervised by DPJ lawmakers.

Foreign and Security Policy

And then there are the foreign and security policy issues on Japan's and the DPJ's agenda. Above all and as usual, relations with Washington, Tokyo's security alliance partner present with 50.000 US troops on Japanese soil.

While Hatoyama and the DPJ have in recent months announced to build a «close and equal Japan-US alliance while developing an autonomous foreign policy strategy for Japan», Washington is clearly worried about the DPJ's assertiveness and plans to abolish some of the asymmetries of the US-Japan security alliance.

Hatoyama e.g. announced to propose a revision of the Japan-US Status of Forces Agreement (SOFA), including provisions for the extradition of criminal suspects belonging to US forces in Japan.

Furthermore, he plans to re-examine the realignment of the US military forces in Japan. While this February Tokyo and Washington agreed to complete the transfer of the US Marine Corps' Futenma Air Station on Okinawa to the coastal area of Camp Schwab in Nago (Okinawa) by 2014, Hatoyama envisions a

possible relocation outside of Okinawa.

And there is more on the DPJ's list. The DPJ is reportedly planning to demand a cut in funds Tokyo is providing for the stationing of 50,000 US troops in Japan. Japan is currently funding the US military presence with \$5 billion per year and has for years unsuccessfully sought to discuss a reduction. Also because the LDP made only very half-hearted attempts pay less for the stationing of US military in Japan over the years.

The US of course disagrees with all of the DPJ requests and earlier in June Hatoyama and colleagues already got a taste of what could lie ahead in terms of discussing Tokyo's plans to review or worse revise existing agreements.

Washington e.g. insists that the relocation of US forces to Nago is a prerequisite for the realignment of US troops in Japan, including moving the US Marine Corps in Okinawa Prefecture to Guam, said Michele Flournoy, US under-secretary of defense when meeting with DPJ Secretary-General Katsuya Okada on June 25 in Tokyo. She said back then:

«Tokyo would lose the opportunity to solve US bases-related problems in Okinawa Prefecture».

The new Hatoyama-led government, it surfaced in recent months, could also seek to revisit an agreement between the previous LDP-led government and Washington on Japan's financial contributions to the relocation of 8.000 marines from Okinawa to

Guam by 2014. While Tokyo has this February agreed to pay 6 out of the 10 billion dollars it will cost to relocate the marines, parts of the incoming DPJ-led government will want Japan to pay much less.

Wait-and-See, for Now

For the time being, Gerald Curtis, writes in a recent Pacific Forum CSIS paper, the US needs to wait and Japan needs to develop a few ideas of its own as regards the nature of the alliance and actual co-operation. Curtis writes:

«The US needs to embark on a strategic dialogue with Japan that amounts to more than a dialogue about how Japan can do more to help achieve US policy goals. But to do so requires that Japan be prepared to put forth its own ideas about how to enhance US-Japan cooperation. US President Obama should wait until the Japanese government's new leaders have had a chance to absorb the reality that some of the foreign policies they need to pursue are necessarily different from what they said they would do when they were in opposition».

Indeed, the DPJ has to yet to decide on what it really wants in terms of security policies in general and US-Japan alliance policies in particular in order to be taken seriously in Washington, says Aurelia George Mulgan from the School of Humanities and Social Sciences at the University of New South Wales at the Australian Defense Force Academy in

Canberra in a recent interview with this author.

«The only way to make the alliance more equal is for Japan to do more for the alliance, not less. If a DPJ government were to liberalize the constraints on participating in collective self-defense operations, the US would have no choice but to grant it a greater voice within the alliance – in areas such as US base policy».

U-Turning Already

The DPJ's policy changes on the future of Japan's refueling mission (since 2001) in support of US-led anti-terrorism operations in Afghanistan are another source of US-Japanese friction. Previously the DPJ had staunchly opposed the dispatch of Japanese navy ships to the Indian Ocean to provide US military with logistical and medical support. The Japanese mission without UN mandate violated Japan's war-renouncing constitution, the DPJ insisted over the last two years. Now and probably much to Washington's relief, Hatoyama has indicated that the mission will continue, at least until January 2010 when the law authorizing the mission in the Indian Ocean expires.

But that's not all yet. The DPJ has yet to make up its mind whether it is in favour of continuing the navy's current anti-piracy mission off the coast of Somalia. At first and while in opposition, the DPJ was opposed to this mission on a come-what-may basis, but now seems to be no longer so sure that withdrawing Japanese destroyers from the

Gulf of Aden is really in Japan's national interest.

Roughly 2.100 oil-tankers are using the Gulf of Aden to transport crude oil towards Japan every year and the DPJ is advised not to abandon a mission directly relevant to the well-being of Japan's economy.

The Weeks and Months Ahead

Back in Japan, a special parliament session will be called for the week beginning of September 14 to elect Mr. Hatoyama as the country's Prime Minister. The DPJ chief has announced that he will not nominate the members of his cabinet before then leaving two weeks to speculate who will get which post around Hatoyama's cabinet table.

Once the government and the cabinet is in place, the DPJ's honeymoon with the electorate could turn out to be a very short one, writes the Asahi Shimbun in a recent editorial.

«The honeymoon will probably last for not more than 100 days, from mid-September to December. This is when the work to compile the state budget for next fiscal year has to be finished».

Then, or possibly even earlier, it will be clearer how many of the expensive election promises made to the electorate Mr. Hatoyama will be able to keep or obliged to break in the years to come.

On foreign and security policy issues, and on relations with the US in particular, Mr. Hatoyama is likely to be obliged to re-adjust his rhetoric and policies in the

months ahead given the centrality of US military and security strategies to Japanese security.

For now, however, Japan's voters wanted change and change is what they got, maybe.

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