Abstract

Japan’s (relatively) new government led by Prime Minister Shinzo Abe has got a very ambitious economic and monetary policy agenda. Since Abe took office last December, he adopted a massive economic stimulus package while convincing Japan’s central bank (the Bank of Japan, BoJ) to support and help adopting his plans to achieve 2 per cent inflation through an enormous quantitative easing program. These policies have achieved results: the Nikkei Index has gained more than 40% over the last 4 months and economic growth will most probably be higher this year than previously anticipated. However, inflation and higher interest rates will increase Japan’s public debt and it remains yet to be seen whether Tokyo’s economic stimulus packages will result in sustainable as opposed to short-lived economic growth.

As regards Abe’s foreign and security policy agenda, a territorial dispute with China in the East China Sea will most probably in the months ahead reveal how able and willing Japan’s Prime Minister is to balance his assertiveness and nationalist and revisionist instincts with the need to maintain and extend commercial ties with its biggest trading partner.

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(*) The opinions expressed herein are strictly personal and do not necessarily reflect the position of ISPI.
Introduction

The Liberal-Democratic Party (LDP) led by the ultra-conservative and (in front of nationalist and revisionist audience) nationalist Shinzo Abe stormed back to power winning a landslide victory in Japan's general elections on December 16. An impressive landslide election victory after its crushing defeat in 2009 made the LDP re-conquer 294 seats in the Lower House (the parliament's first chamber) while its coalition partner the New Komei Party won 31 seats in the same chamber. The governing coalition's strength in the Lower House exceeds 320 seats, more than two-thirds of the total seats in the chamber. This qualified majority enables the LDP-led government to override rejections of bills in the second chamber of the Japanese parliament, the Upper House (where the LDP does not command a majority). The Democratic Party of Japan (DPJ) which ruled in Japan from 2009 on the other hand has lost 75 per cent of its seats in the Lower House, an impressive defeat for the party which took power three years ago ending Japan's de facto 'one party democracy'. The DPJ now only holds 57 seats in the Lower House, down from the 230 seats it held since 2009. The Japan Restoration Party, headed by former Tokyo Governor Shintaro Ishihara and Osaka's (very) outspoken (and nationalist/revisionist) mayor Toru Hashimoto, became the third largest force in the Lower House winning 54 seats.

Abe's first tenure as Prime Minister from 2006-2007 lasted a little longer than one year and was back then tainted by financial scandals involving members of his cabinet as well as policies (above all those centered on attempts to create the legal and procedural basis to revise war-renouncing Article 9 of Japan’s constitution), which were not endorsed and supported by the Japanese electorate. Abe, it was concluded back then, wasted 12 months on constitutional revision instead of continuing economic and structural reform policies initiated by his predecessor Junichiro Koizumi. In fact, it is fair to argue that Abe was one of the most hapless Prime Ministers of Japanese post-war history and his return as LDP party president last year came indeed as a surprise to many Japan watchers. Abe back the helm of the LDP confirmed the party's critics that the LDP continues to favor seniority and experience over 'fresh' leaders and ideas.

Two issues have dominated the LDP's domestic and foreign policy agenda so far: monetary policies and the government’s plans to achieve 2 per cent inflation (through amongst others financial stimulus packages and quantitative easing) on the domestic and the territorial dispute with China in the East China Sea on Japan’s foreign and security policy agenda.

Abe's domestic and foreign policy priorities and policies are not uncontested and free from controversy and his economic policies aimed at stimulating economic growth through all too familiar (and in the past very wasteful) economic and financial stimulus packages are subject to an intensive debate inside and outside of Japan. In fact, there are many analysts who fear that a return to LDP-style economic policies will not only fail to create sustainable economic growth but will instead and above all further deteriorate the country’s public finances burdened by public debt amounting to 240 per cent of Japan’s gross domestic product (GDP). Badly-needed economic and structural

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1 'One party democracy' as the LDP ruled-with a brief 11-month period out of power 1993-1994-since 1955 in Japan.
reforms such as deregulation and policies facilitating increased productivity and international competitiveness on the other hand have yet to feature on Abe’s economic policy agenda.

A territorial dispute with China centered around the contested but since 1895 Japan-controlled Senkaku Islands (Beijing calls them ‘Diaoyu Islands’) in the East China Sea will in the months ahead likely continue to dominate Japan’s policies towards China.

Moreover, Abe and like-minded pro-defense and revisionist and party friends will continue to spend (and arguably waste) time and resources on making progress towards revising war-renouncing Article 9 of Japan’s (US-imposed) constitution. However, these efforts will due to a number of political and procedural obstacles-continue to make constitutional revision virtually impossible even if the current pro-revision rhetoric coming out of Japan suggests otherwise. Constitutional revision in Japan requires a two-third majority in both chambers of the Japanese parliament plus the public’s approval through a referendum (with an absolute majority in favor of constitutional revision).

Those in Japan who thought that Japan would after the nuclear disaster in March 2011 forgo nuclear energy for good and not re-activate the 50 nuclear power plants it switched off in 2011 will be disappointed by Abe’s energy policies. He has announced to re-start the country’s nuclear power plants “one by one” ignoring opinion polls which show that 80 per cent of Japanese public wants to phase out nuclear power. A full return to nuclear energy would in turn most probably mean that there will be little additional investments into renewable energies and other forms of alternative energies, an energy policy announced by the previous DPJ-led government.

1. Stimulating the Economy, the LDP Hopes

Dubbed ‘Abenomics, Abe has made combining fiscal stimulus from the government with massive monetary easing aimed at resuming economic growth and ending two decades of deflation (standing in the way of creating jobs and investments) the priority of his economic policy agenda. At the beginning of January, Tokyo approved emergency stimulus spending of ¥10.3 trillion ($116 billion). The money will be spent on public works and disaster mitigation projects as well as on subsidies for companies, which invest in new technologies. Funds will also be assigned in form of financial aid to small businesses. However, not all of the stimulus package is ‘new’ spending as roughly ¥5 trillion of the package was assigned to projects before the Abe government took office. What’s more, there are concerns that the envisioned public works, which constitute a significant portion of the stimulus package of the measures in the plan, are-like in the past- at risk of being unproductive creating yet more so-called “white elephants” i.e. infrastructure projects with very limited economic value, and will -like in the past-become numerous roads and bridges to nowhere all over the country.

\[2\] Imposed as the US occupation led by Douglas MacArthur drafted the Japan’s post-war constitution and de facto obliged the Japanese government to adopt the constitution; for details see e.g. A. BERKOVSKY, A Pacifist Constitution for an Armed Empire-Past and Present of Japanese Defence and Security Policies, FrancoAngeli, Milano, 2012.

\[3\] For details see also J. PARKER, Japan’s Economic Stimulus Plan, «The Diplomat», 17 January 2013.
Japan’s new government, however, insists that things will be different this time and maintains that a significant share of the envisioned infrastructure projects will be spent on the reconstruction of the Tohoku region devastated during the March 2011 earthquake and tsunami. Economic stimulus packages are in essence a re-run of what Japanese governments have done over decades, concludes Jesper Koll, Japan Director of Research at JP Morgan in an interview with the The Diplomat. “The key point here is that Abe actually wants to link the central bank and fiscal policy back together — Ministry of Finance [MOF] authorizes public works and infrastructure projects to create demand for credit and goods and services, while the central bank provides the immediate funding by buying the IOUs issued to get these projects off the ground”\footnote{See A. FENSOM, Can ‘Abenomics’ save Japan’s economy?, «The Diplomat» 18 December 2012.}

2. Reflating the Economy

Leaving behind 15 years of de facto uninterrupted deflation standing in the way of investments and increases in wages is another economic policy priority of Japan’s new government. Economic growth has over the last 20 years been very sluggish and indeed in a number of years inexistent. Through the adoption of reflation policies it is hoped that Japan can begin to avoid regular recession and achieve sustainable economic growth.

At the request of --or more accurately-under pressure from the government\footnote{See The Bank of Japan-Regime Change, «The Economist» 9 February 2013.}, the Bank of Japan (BoJ) pledged to pump 101 trillion yen ($1.1 trillion) into markets through its asset-purchase program in order to achieve inflation of up to 2 per cent. Furthermore, the BoJ announced to adopt an open-ended asset-purchase program beginning in 2014. While the bank’s determination to end deflation in Japan has been met with enthusiasm (Japan’s Nikkei Index surged by more than 40 per cent over the last 4 months and the yen has lost more than 20 per cent of its value to the US dollar over the same period), it cannot be taken for granted that the envisioned monetary easing will help achieving 2 per cent inflation. The BoJ’s open-ended asset-purchase program will not start before 2014 and when it does, the size of assets the central bank will buy is relatively small compared to the assets it already owns. While the bank currently owns roughly ¥101 trillion ($1.14 trillion), the BoJ has announced to buy assets worth ¥13 trillion per month for an unlimited time.

However, when deducting redemptions the real increase of assets in 2014 through the bank’s asset-purchase program is estimated to be just ¥10 and not ¥13 trillion, which is less than what the BoJ bought in both 2011 and 2012 on a monthly basis. Moreover, after the initial enthusiasm amongst investors about BoJ-sponsored reflacionary policies, there are doubts that the central bank’s monetary policies and asset-purchase program will be able to sustainably create inflation. “We feel the excitement over ‘Abenomics’ is now priced in, and the Bank of Japan has yet again shown it will do nothing dramatic to end deflation”, Gary Evans, chief global equity strategist at HSBC argued indicating that the hope investors placed on action from the Bank of Japan (BoJ) could turn out to be inflated. The BoJ’s new governor Haruhiko Kuroda, however, disagreed with the pessimists on April 4 when he announced to double Japan’s monetary base and the bank’s holdings of Japanese government bonds. Furthermore,
the bank merged its quantitative easing programme into its regular operations announcing that it will “will achieve” inflation of 2% in about two years.  

3. Structural Reforms, Please

The so-called ‘Council on Economic and Fiscal Policy’ the Abe government established in January is charged with the task of identifying and promoting areas in need of structural reforms. Economists widely agree that structural reforms in Japan must above all be aimed at promoting and increasing productivity and economic growth. Martin Schulz, senior economist at the Fujitsu Research Institute in Tokyo estimates that Japan’s economy must grow at a rate of roughly 3 per cent in order to be able to service its debt and finance the country’s social security system. Currently, however, the country’s potential growth rate is as small as 0.5 per cent and in order to come anywhere nearer to 3 per cent economic growth, Tokyo is charged with the task of deregulating the unproductive service sector, privatize the health and finance sectors, liberalize the agricultural sector, create the conditions and incentives for more foreign investment, increase employment amongst the female population and improve the educational system. Moreover, monetary easing and stimulus packages must lead to Japanese companies increasing their actual borrowing in order to create employment and investments. If companies do not resume borrowing, the impact of economic stimulus could-like in the past in Japan-doomed to be very short-lived.

The BoJ too calls for further deregulation and the expansion of Japan’s bilateral and multilateral trade and free trade agreements such as the Trans-Pacific Partnership (TPP). The BOJ-sponsored approach that structural reform in Japan is absolutely necessary to revive economic growth is now part of an official government document whose progress will be reviewed at regular intervals by the ‘Council on Economic and Fiscal Policy’. The BoJ has long argued that such reforms must include deregulation, trade agreements such as the Trans-Pacific Partnership (TPP), and the more efficient use of women and elderly workers in a rapidly ageing workforce. Japan’s working-age population has fallen by about 8 per cent since 1995.

Deregulation such as the easing or indeed abolition of non-tariff barriers to trade and investment in particular is something Japan’s international trade and investment partners (including the EU) have been pushing for over many years and indeed decades. Japan’s heavily regulated market and complex distribution system continue to be responsible for the fact that in comparison to other highly industrialized countries foreign direct investment into Japan remains low.

4. Higher Prices Maybe yes, Higher Wages Definitely not

“Regardless of gender, age or occupation, the ‘price stability’ that most Japanese want is the sort where the economy improves in a sustainable and balanced way, with employment, salaries and corporate profits rising, and mild price increases following as a result”, former central bank governor Masaaki Shirakawa said in January. While it is hard to disagree with the conclusion that inflation needs to be accompanied by

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6 See Opening the Floodgates, «The Economist» 13 April 2013
7 In an interview with the author.
increased salaries and disposable income, Japan’s companies have for many years in a row refused to do just that: increase their workers’ salaries, even when they enjoyed solid corporate profits. This in turn continued to stand in the way of creating the conditions and the environment for modest inflation, which in turn would have created the environment for job creation. Indeed, Japan’s main business association, Keidanren, has in the very recent past repeatedly stated its refusal to increase wages citing a economy technically still in a state of recession. To be sure, raising wages is the only way of tackling Japan’s deflationary pressure sustainably. What’s more, after numerous years of pay freeze, Japan’s workers are indeed entitled to some—even modest—increases in wages and Keidanren continuing to cite sluggish economic growth for its refusal to consider an increase in wages has arguably only very limited credibility: if wages do not increase, Japanese consumers will continue not-through e.g. increased domestic consumption— to be able to make a more meaningful contribution to economic growth. Prime Minister Abe too has realized that higher prices will have to be accompanied by the increase of wages. In order to get companies to consider raising wages, his government is considering idea of offering tax cuts to companies in return for increasing wages and bonuses.

5. The Pros and Cons of a Cheaper Yen

Policymakers in Asia and Europe have over the last four months at times voiced harsh criticism of Japan’s new monetary policies and monetary easing which have pushed the yen down by per cent against the US dollar over the past three months. The yen has lost 20 per cent of its value against the euro and fallen by 13 per cent versus South Korea’s won. If the yen continues to appreciate against other Asian currencies in the months ahead, Asian countries such as Korea, Taiwan and countries in Southeast Asia could turn to currency intervention themselves in order to increase their foreign exchange reserves and keep their currencies from strengthening\(^8\). Recent news that Japanese companies like Sony and Panasonic have thanks to the weak yen returned to being profitable over the last few months will confirm countries such as South Korea and South Korean corporations like Samsung and LG directly competing with Japanese electronic companies that Tokyo is ‘manipulating’ its currency distorting fair trade and exports.\(^9\)

However, economists also point out in this context that the yen’s current weakness needs to be understood against the background of a context of a lengthy period of relative strength which made Japanese exports too expensive to contribute to sustainable economic growth for a number of years. Monetary policies aimed at rendering Japan’s export industry more competitive, analysts conclude, do not come as a surprise in view of a 20-year period of sluggish economic growth. To be sure, there is a downside to a cheaper yen too: gas and electricity prices are bound to rise, as importing energy will become more expensive. Given that Japan is obliged to import a

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\(^8\) See e.g. D. RANASINGHE, Yen Meddling. What has Japan started?, in CNBC Asia, 25 January 2013

\(^9\) The initial idea to enable the BoJ to buy foreign-government bonds in order to further weaken the yen, however, has not—at least not yet—made it beyond the drawing-board. Leaving aside that would require changes to the Bank of Japan law, those who have accused Japan of currency manipulation over recent weeks, would without resume their criticism, accusing Japan of manipulating its currency to make Japanese exports cheaper.
large amount of the energy to run its economy, a cheaper yen could in the longer run have a negative impact on economic growth.

While there is a near-consensus amongst analysts that it is high time to aim for inflation after 15 uninterrupted years of deflation in Japan, there are also fears that an overly aggressive monetary policy could backfire if inflation started to rise too quickly. "They are going to have inflation on their hands and consumer prices will rise to a point where there will be pressure on the BOJ to tighten," Peter Schiff, CEO at Euro Pacific argued in an interview with CNBC Asia\textsuperscript{10}. Pushing too aggressively for inflation (initially the LDP had 3 per cent in mind\textsuperscript{11}) when Japan’s consumer price index has risen by only more than 1 per cent for decades could also turn out to be a strain for the banking system which owns massive amounts of Japanese government bonds. This adds to concerns that inflation combined with massive quantitative easing could have a negative impact on underlying JGB (Japanese government bond) yields should international investors become worried about the risk of Japanese sovereign debt. Low sovereign bond yields are at the core of the state’s ability to service its debt and higher and internationally comparable yields would inevitably undermine the sustainability of Japan’s fiscal position.

While more than 90 per cent of Japanese government debt is owned by Japanese borrowers (largely because of the low yields amounting to a very (very) modest 0.7 per cent are fairly unattractive to international investors), the public’s ability to buy Japanese government bonds indefinitely cannot be taken for granted. Japan’s society is ageing rapidly and the public’s ability to continue buying enough government to keep the state finances afloat will almost inevitably decrease in the years and decades ahead. Even if estimates vary on when Japanese borrowers will no longer to buy the amount of government debt necessary to enable the state to repay debt at very low interest rates, there is a consensus amongst analysts that the country’s borrowers will sooner or later be forced to spend less of their disposable income on government bonds and more on care for the society’s elderly population.

It is estimated that Japan’s working working-age population will shrink so dramatically that by 2050 it will be smaller than it was in 1950. By then four out 10 Japanese will be older than 65 years. When that happens, the Japanese state could be obliged to sell its debt on international markets offering significantly higher interest for the country’s government bonds. In view of such a scenario, Japan’s enormous public debt could have catastrophic consequences for the country’s financial system.

6. Trouble the East China Sea

On January 30, a Chinese naval frigate directed weapons-targeting radar at the Japanese destroyer Yudachi in waters off the disputed Senkaku Islands, which is typically considered to be one step away from opening fire. While Beijing has (unsurprisingly) denied these charges, the Japanese government (admittedly)

\textsuperscript{10} For more details see also I. FUJIWARA, \textit{Japanese inflation: a monetary or fiscal phenomenon?}, East Asia Forum, 8 January 2013.

\textsuperscript{11} For details see also \textit{Monetary Policy in Japan: Policy in Battle of the BOJ}, «The Economist», 20 November 2012.
understandably offered to publish evidence that the Chinese frigate did indeed lock its weapons-tracking radar on the Japanese destroyer\textsuperscript{12}. The incident in January was one in a long list of bilateral clashes in the East China Sea since Tokyo bought three of the disputed islands from its private owner in September 2012. While Tokyo back then and today insists that the purchase of the islands last September constituted nothing more than a legitimate change of ownership of what was already Japanese-controlled territory and does hence not constitute a change of the territorial status quo, Beijing argues that it was just that: a change of the territorial status quo.

While China’s Ministry of Foreign Affairs made it very clear that it was not aware of and informed on what the country’s navy did in the East China Sea on January 30, Beijing’s Ministry of Defense on February 7 insisted that the Chinese ship’s radar maintained regular alerting operations and did not use fire control radar\textsuperscript{13}. This led Tokyo to conclude that the Chinese military and not the government had taken the initiative to threaten Japanese coast guard vessels, increasing—at least potentially—the possibilities of a military Japanese-Chinese clash not endorsed or ordered by Beijing.

7. A Military Hotline?

As a reaction to the Chinese weapons-targeting radar incident the Abe government proposed to follow-up on previous plans to set up a bilateral military hotline with Beijing to avoid a military confrontation in the East China Sea. Tokyo’s proposal included the setting up of a seaborne communication mechanism between military officials of both countries and the definition of radio frequencies to enable aircraft pilots or warship commanders from both countries to contact each other\textsuperscript{14}. Abe’s February 2013 proposal is the follow-up of a Japanese-Chinese agreement to establish a military hotline after a series of bilateral naval incidents in the East China Sea in 2010. While talks on that hotline were initiated between military officers in 2011, they were interrupted in the same year when the DPJ-led Japanese government decided to buy three of the disputed islands in the East China Sea from its private owner. The first proposal to set up such a hotline dates back to 2007 when Shinzo Abe during his first tenure as Prime Minister agreed with his Chinese counterpart Wen Jiabao to begin working on the hotline.

The disclosure that Beijing considered to deploy maritime surveillance vessels to the East China Sea late last year further confirms that a military hotline between the two countries is overdue. While Beijing will without a doubt continue to remain defiant on its aggressive actions in and around disputed territories in the East China Sea, it can nonetheless be hoped that Beijing will—albeit most probably not immediately-agree to resume negotiations on the establishment of a military hotline.


\textsuperscript{14} See e.g. \textit{Japan: Hotline needed after Chinese warship ‘threatened force’}, «The Asahi Shimbun», 7 February 2013.
8. Compromising? You must be joking

At the end of January Beijing requested the United Nations to verify the scientific validity of its claim that the islands are part of Chinese territory. In a submission to the ‘UN Commission on the Limits of the Continental Shelf’, China claims that the continental shelf in the East China Sea is a natural prolongation of China’s land territory, which includes the disputed islands. Japan, however, is-at least so far-opposed to the UN’s involvement insisting that the territories are-at least from a Japanese perspective- not disputed and are instead an integral part of Japanese sovereign territory. Under the ‘UN Convention on the Limits of the Continental Shelf’ a country can define a 200-nautical-mile Exclusive Economic Zone (EEZ) if it can prove that the continental shelf is a natural extension of its land mass. While the UN commission examines the scientific validity of such claims, it does not have the mandate and authority to resolve territorial between nations.

There are suggestions coming from within Japan that Tokyo should offer to settle the dispute through international arbitration such e.g. through the International Court of Justice. To be sure, while Beijing would most probably not accept the court’s intervention at the request of the Japanese government, it would nonetheless demonstrate Tokyo’s willingness to settle the issue peacefully and through negotiations. Speaking of which: at the end of January Shinzo Abe also suggested to hold a bilateral summit or high-level talks with Beijing to calm tensions over the disputed territories in the East China Sea. However, on the same occasion he also said there was “no room for negotiations” on whether or whether not the Senkaku Islands belong to Japan. “The Senkaku Islands are our land and China has taken provocative steps against them. We have been clear that there is no room for negotiation on this matter”. Such a statement (together China insisting that the islands belong to Chinese territory) would-at least under the current circumstances-render the usefulness of such a bilateral encounter obsolete if Tokyo and Beijing merely agreed to disagree to whom the disputed islands belong.

Moreover, Abe’s announcement to consider permanently basing civil servants on the disputed islands added to the Chinese perception that Tokyo has unilaterally changed the decade-old status quo in favor of establishing full and formal sovereignty over the disputed islands. There is little doubt that Beijing would interpret the permanent presence of Japanese people on the Senkaku Islands as a Japanese policy to establish formal sovereignty over the islands, a de facto declaration of war as far as Chinese defense hawks and Japan hardliners are concerned.

In sum, even if Tokyo and Beijing decided to talk to and not only about each other on disputed territories in the East China Sea, they are very unlikely to come anywhere close to finding a solution to the dispute-neither Tokyo nor Beijing will renounce territorial sovereignty over the disputed island chain and hence, joint exploration of natural resources around the island (gas and oil) as formulated in a memorandum of understanding in 2008 as part of what in the past has been referred to as ‘functional cooperation’ will most probably continue to remain the only option of trying to address

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15 See Abe says permanent basing of civil servants on Senkakus is ‘one option’, «The Asahi Shimbun», 1 February 2013.
the territorial conflict constructively. However, under the current circumstances and the hardened positions in both Tokyo and Beijing on questions centered around the sovereignty of the disputed islands, the possibility of jointly exploring natural resources around the island are currently very limited, if at all existent.

9. Boosting Japan’s Defense

After taking office, Abe lost no time announcing an increase of Japan’s defense budget, the first time in eleven years. The budget increase stands in contrast to what the predecessor DPJ-led government wanted to do with the armed forces: reduce their budget by 3-5 per cent over the next four years. Instead, the budget will be increased by 2 per cent to strengthen what the government calls the defense of Japan’s national territory in general and Japanese-controlled territories in the East China Sea in particular. In this context Tokyo announced to spend an extra 180.5 billion yen on missiles, fighter jets, helicopters and PAC-3 surface-to-air anti-ballistic missile systems, all of which will be financed by the above-mentioned economic stimulus package (and will hence not be part of Japan’s regular defense budget). However, the increase of the country’s defense budget for the coming fiscal year is still relatively modest and Japan will continue to spend roughly 1 per cent of its gross domestic product on its military, as compared with 2 per cent in China and 4.7 per cent in the US. Given, however, that Tokyo assigned roughly 20 per cent of the above-mentioned economic stimulus package to the armed forces, combined with the 2 per cent regular increase, Japan will in 2013 spend roughly a 5 per cent more on defense than it did in 2012.

In January, Tokyo also announced to create a special coast guard unit comprising 10 new large coast guard patrol boats to improve the surveillance of the Senkaku Island chain. The unit will be financed out of a new supplementary budget (i.e. not come out of the regular coast guard budget), will be completed within three years, consist of 600 personnel and will be accompanied by the acquisition of additional helicopter-carrier vessels. The unit will be based in Okinawa’s Ishigaki Island, roughly 175 kilometers southeast of the disputed Senkaku Islands.

10. Revisionist Ambitions

Abe has for a long time seem himself charged with the mission to complete his grandfather’s (Nobusuke Kishi, Prime Minister in the late 1950s) vision to revise the US-imposed constitution in general and the constitution’s war-renouncing Article 9 (which strictly speaking does not even allow the country to maintain armed forces, the reason why Japan’s military is called ‘Self-Defence Forces’) in particular.

While numerous opinion polls conducted over recent years provide evidence that the majority of the electorate is in favor of constitutional revision to legalize the status of Japan’s armed forces to e.g. enable them to make more frequent and substantive contributions to UN peacekeeping operations, arguably the same majority is not favor

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16 See e.g. J. SOBLE, Japan to raise defence spending, «The Financial Times», 29 January 2013.
17 While defense procurement will rise by 4.5 per cent, soldiers’ payroll costs will to shrink by roughly 4 per cent through salary cuts.
18 For further details see also A. BERKOFSKY, A Pacifist Constitution ..., cit.
of revising Article 9 if that meant to allow Japanese soldiers to get engaged in international military combat operations abroad. Advocates of constitutional revision in Japan tend to omit this and instead limit themselves to point out that constitutional revision has the support of the majority of Japan’s public.\textsuperscript{19}

While announcing to revise the US-imposed constitution to once again turn Japan into a ‘truly sovereign country’ as the country’s revisionists typically argue sounded good on Abe’s campaign trail, even Japan’s revisionists today admit that achieving constitutional revision is next to impossible under the current rules formulated in Article 96 of the Japanese constitution. Constitutional revision requires a two-thirds majority in both chambers of the Japanese parliament plus the approval of Japan’s electorate through a national referendum (with an absolute majority). Abe and like-minded revisionists in the LDP are obviously aware of that and hence suggest to revise Article 96 of the constitution in order to change the requirements for constitutional revision: reducing the approval from a two-thirds to an absolute majority in both chambers of the parliament. However, that too is problematic (well, impossible) given that the revision of Article 96 too requires a two-thirds majority in both chambers of the parliament.

Underlining his nationalist and revisionist credentials, Abe has announced to visit the controversial Yasukuni Shrine\textsuperscript{20}, last resting-place of Japan’s war dead, including convicted Japanese A-class criminals of war. Visits of Japanese politicians—above all the regular visits of former Prime Minister Junichiro Koizumi—to the shrine have led to a de facto freeze of Japanese-Chinese high-level political dialogue and exchanges between 2001 and 2006. The large majority of Abe’s cabinet members have a record of being in favor of visiting Yasukuni and there is no doubt that visits by cabinet members would inevitably lead to further bilateral diplomatic problems with China. Much will in the months ahead depend on the Prime Minister’s ability to conduct pragmatic and result-oriented policies towards China characterized by enormously beneficial bilateral trade and business relations\textsuperscript{21}. In 2012, bilateral Japanese-Chinese trade amounted to an impressive $440 billion.

China, to be sure, is not alone worrying about Abe’s nationalist and revisionist instincts. South Korea too will make itself heard once Abe get serious about reviewing the so-called ‘Kono statement’ (1993) in which then Chief Cabinet Secretary Yohei Kono acknowledged that the Japanese military obliged South Korean women to prostitute themselves in so-called ‘comfort stations’, i.e. Japanese-run brothels for the soldiers of the Imperial Army. Abe on the other hand sustains that it has yet to be proven (with the help of historians, as he argues) that the prostitutes ‘working’ for Japan’s Imperial Army did so not voluntarily. If he sticks to that historically wrong and revisionist assessment, relations with South Korea will very quickly reach new lows.

\textsuperscript{19} Japan’s biggest daily newspaper, The Yomiuri Shimbun e.g. has often produced evidence (through its opinion polls) that the Japanese electorate is in favor of constitutional revision without clarifying that the Japanese public is in favor of constitutional revision if this were to be accompanied by enabling Japanese armed forces to participate in international military combat operations.

\textsuperscript{20} A Shinto sanctuary in downtown Tokyo.

\textsuperscript{21} On the impact of diplomatic tension on the bilateral business ties see e.g. Rattling the supply chains, «The Economist», 12 October 2012.
To make matters—at least potentially and from a Chinese and South Korean perspective—worse, Abe has also announced to replace Japan’s 1995 official World War II apology adopting what the Prime Minister calls a “future-oriented statement appropriate for the 21st century”. While he has yet to add contents and substance on how exactly such an allegedly ‘future-oriented’ statement would look like, there is little doubt that a statement or apology short of assigning full and unambiguous to Japan for the Pacific War in general and Japanese imperialist and colonialist policies in particular would in China and South Korea be interpreted as Japan continuing to be unable and unwilling to come to terms with its militarist and imperialist past.

Conclusions

Whether or whether not the above-mentioned economic stimulus measures combined with looser monetary policies will create sustainable economic growth remains yet to be seen. While the policies’ initial impact seems to be positive pointing to a return to albeit yet modest-economic growth towards the end of the first economic quarter, there are justified concerns that economic stimulus will-like so many times in past in Japan—not be followed-up by economic and structural reforms. While Abe’s economic and monetary policies are a return to (bad) old days LDP-style economic policies centered around potentially wasteful economic and financial stimulus, they seem to have produced some results since the government took office: the cheaper yen has boosted Japanese exports and have increased parts of the corporate sector’s international competitiveness.

Unless Japan’s major multinational companies introduce (dramatic) changes to their employment and wage policies (which seems unlikely), their determination to continue holding down wages will stand in the way of achieving the kind of inflation the Abe government wants to achieve. If Japan’s corporations do not agree on raising wages this spring, there are already considerations amongst the Abe government to launch a second stimulus package closer to the upcoming Upper House elections (taking place this summer). This of course would further drive up the country’s public debt beyond the 240 per cent of its GDP it is expected to reach by the end of this year.
Although it remains yet to be seen whether the negative impact of the Japanese-Chinese territorial dispute in the East China Sea is more than temporary, bilateral Japanese-Chinese trade has fallen because of unofficial consumer boycotts of Japanese goods in China over the last six months. Unless the territorial dispute results into a military confrontation, economic and trade relations, however, will most probably not suffer sustainably if Tokyo and Beijing are successful at managing the territorial dispute more quietly and less publicly in the months ahead. For that to happen, however, at least two things need to take place: first both Tokyo and Beijing must resist the temptation to make the territorial dispute a top item on their respective foreign policy agendas. Secondly-and probably more importantly-the Chinese leadership must order its vessels to stop intruding into Japanese-controlled territorial waters in the East China Sea.

Both of which however is—at least for now—unlikely to take place.