

BEHIND
the
HEADLINES

VOLUME 61 NUMBER 3

The politics of
uncertainty in Japan

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International Affairs

Published quarterly
\$4.95 per single issue
\$19.95 per year
(Canadian addresses add 7% GST)
GST Registration No. 10686 1610 RT

Date of issue – September 2004
ISSN 0005-7983
Publications Mail Registration
No. 09880

Editor:

Robert Johnstone

The politics of uncertainty in Japan

MICHAEL W. DONNELLY

The idea of a Japanese economic miracle lapsed from popular consciousness years ago. In its place the country's prolonged struggle to escape the stubborn economic stagnation and political turmoil that followed the bursting of the speculative bubble in 1991 has become one of the legendary international stories of our times.¹ As many readers will know, there has been all manner of speculation and theorizing in academic and policy-making circles about the nature of Japan's economic and political ills, their impact and the needed cures.

Evaluation of Japan's future prospects rests on an understanding of this domestic economic struggle. An economically weak Japan at home will not be an influential Japan abroad. The most widely accepted assertion is that the nation's inability to recover is related to tightly interwoven "structural" impediments that link macroeconomic conditions, the organization and management practices of a wide range of firms and financial institutions, and the manner in which the government intervenes in the economy. The country's economic troubles are thus political in nature. The eminent economist Eisuke Sakakibara argues forcefully that fundamental economic reform will occur only when the iron triangles—the myriad formal and informal political ties that bind together the ruling Liberal Democratic Party (LDP), the bureaucracy and vested interests—are broken up.²

However, despite more than a decade of economic stagnation and "failed" reform, the LDP-dominated political system has not

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been disabled, nor has the party's mandate to form a government been withdrawn at election time. In upper house elections held in July 2004, the LDP–New Komeito Party coalition retained its control over the chamber, despite widespread voter unhappiness with major domestic and, more ominously, national security policies.

A standard formula for understanding the country's "lost decade" is to assume that the nation's tribulations are rooted in unavoidable tensions that unfold as the economy becomes less government-driven and more market-oriented, along the lines of Anglo-American capitalism. In a period of transformation from state-led to market-oriented capitalism, particular individuals, families, groups, firms, industries and even communities will not necessarily emerge better off. Some may be worse off, and so governments are tempted to take actions to mitigate the costs. Too often, so the argument goes, governments in any country are tempted to give in to the "vested interests."

The Japanese drama in the 1990s is thus framed in stark terms: competitive markets versus heavy-handed and incompetent state intervention. Commentators sometimes use almost utopian standards of economic rationality to find fault with Japanese government and private-sector reform efforts that are deemed not forceful enough. Reformers themselves also tend to exaggerate expectations, leading inevitably to disappointment for pro-market advocates.

A crucial key to unlocking the puzzle of why reform measures have been partial, piecemeal and not always consistent is to understand how Japanese politics is shaped by the search for security. The spectre of unpredictability, insecurity (*fuan*) and vulnerability has long framed foreign policy debate in Japan. Japanese imperialism was rooted in national psychological insecurity as much as overconfident nationalism. The bilateral security arrangements that link Japan with the United States are based on a conviction that the alliance is the only realistic way for Japan to secure its international security environment. What is less appreciated is that avoidance of risk and the search for security shape a broad range of domestic public policies as well.

Running through the many political and economic issues that have been prominent in public life for over a decade now are political power clashes over when and how government authority and resources might be used to lessen pervasive anxiety, be it realistic or otherwise. In a word, it's the politics of "insecurity," as much as textbook standards of economic efficiency, that determines a broad range of Japanese public policies. Recent changes in international politics have added to national unease.

POLITICS AND GROWING ECONOMIC INSECURITY

Uncertainty is a basic condition of human life, for both individuals and societies.³ The management of insecurity is a personal and family endeavour; most humans make efforts to understand how to avoid or at least cope with uncertainties. Collectively, societies evolve ways of managing an unpredictable world. Many of a nation's foreign policy goals, and the instruments chosen to achieve them, are rooted in apprehension about the external world. Security is achieved domestically by empowering governments: to provide a framework of law and order, set administrative and other regulatory standards, assure property rights. Public policies providing for medical, social and other welfare support are in the same category.

Politics is inescapable even in the most market-driven national economies. In democracies, politicians win votes by doing special favours for special interests. A rule or regulation that is acquired by an industry is most often designed and operated primarily for its benefit. The principles of textbook capitalism are continually compromised by government subsidies, tax breaks and creation of special access for the privileged to decision-making processes.

Japan embodies these political and economic habits. The economy is not socialist, but a deep-rooted suspicion exists, especially among government elites, regarding the virtues of national life based primarily on competitive market arrangements. In the words of specialists, Japan is a "coordinated market economy" in which firms depend heavily on non-market relationships, including close ties with government.

In foreign policy too, the Japanese government's decision in the early 1950s to sign a security treaty with the United States was rooted in a conviction that a "security bargain" with a former enemy was the best way to achieve major national objectives: regaining national independence, protection from the military and political threat of Soviet and Chinese Communism, removal of fears about national security from domestic political debate, gradual reintegration of Japan into the East Asian region, assurance of American political, economic and technological support, and freedom to concentrate on national economic recovery and growth. The so-called Yoshida doctrine, named after Prime Minister Shigeru Yoshida, who led the country at the time, eased the nation's military security concerns for decades.

In almost every nook and cranny of organized life, institutional arrangements in the post-war period were designed to help provide security as well: job and income security, educational security,

life-cycle security, financial and market security, organizational security. Of course, a large number of citizens were not privileged. But the ideal of avoiding the unpredictable was deeply woven into the fabric of daily life and reflected in behaviours such as working as smoothly as possible within the group, adhering to the rules of the organization and maintaining high savings rates in preparation for retirement.

Japan is often considered a paternalistic, albeit egalitarian, nation. It is also viewed as a highly regulated and perhaps even repressive society, marked by a propensity for guidance by ruling bureaucratic and political elites and a pattern of decision-making that emphasizes hierarchy, enforced consensus and rigid conformity. To be sure, the landscape of modern Japanese history is filled with numerous examples of “disharmony,” conflict and protest. Nonetheless, a covenant-like social contract emphasizing the values of security, stability, predictability and “fair share” has pervaded institutional life, sometimes irrespective of what economic logic might dictate.

During the past decade, however, the everyday condition for a large majority of the population has been increasingly marked by uncertainty. Unpredictable conditions have always plagued the lives of minorities and poor, unemployed, poorly educated, homeless and chronically ill people. A society’s most vulnerable are invariably hit first by bad economic times. In the case of Japan, familiar systems of economic, political and social protection are all under stress—from the intimacies of family life to the structures of government and the dynamics of the marketplace—influencing personal life assessments, defining the relationships that people wish to maintain with their families and larger social entities and shaping new norms, preferences and daily choices.

Economic stagnation is partly to blame. In the past, government and the private sector were able to react to external events like the oil shock of the early 1970s from positions of economic strength. During the past decade, however, the nation’s political and economic elites have been required to face adversity from a position of relative economic weakness. Not everyone can be protected when the government faces a fiscal crisis, companies are going bankrupt and the economy is in a slump.

The end of the Cold War—although trouble spots on the Korean Peninsula and across the Taiwan Straits remain—fundamentally reshaped the security climate in Asia. The threat of nuclear war was reduced as was the ease with which friend and foe could be simply

designated. A new generation in the country began to insist that Japan must assert its own identity in regional and global politics, although there was no consensus on what it might be or how proactive the country would need to become.

Concurrently, pressures of globalization emerged at the centre of the nation's political and economic agenda, narrowing political and policy options and making it more difficult to shield economic sectors from calls for liberalization and the rigours of international market forces. Growing Asian economic integration led by Japanese firms created new cross-border Asian production networks in the region. Japanese firms began to shift manufacturing production to the region. The rise of regional and international business strengthened voices in politics that favoured more outward-looking economic reform.

Political decisions that have defined the government-led economic reform project added to national anxieties. During the Great Depression, countries like the United States and Canada sought to enlarge national government as a major instrument of security and stability. In Japan the movement has been in the opposite direction. The clear message in the vast outpouring of critical commentary was that recovery required less intrusive government, more independence for the private sector and a withdrawal of systems of protection in both the public and private sectors. A new Japanese economic system must be refashioned, warned many experts, one constructed less along traditional lines of insulation from the marketplace and more on the basis of individualism, competition, unpredictability and unavoidable insecurity.

The management of uncertainty thus became the basic challenge of Japanese politics in the 1990s. Behind disagreements and voices of anger regarding technical complexities of structural reform were differences over more than economic theory or appropriate standards of efficiency. Public policies in any nation are made within the frameworks of ideas that structure individual and collective thinking about what should constitute national values and ideals. At bottom, what is underway in Japan's reform debate is a battle of ideas and beliefs.

The message widely repeated during wrenching economic times can be encapsulated in a single proposition: "If Japan is to continue being rich, if Japan is to become internationally as influential as it should be, we must all be less secure." With respect to economic reform, the need for more uncertainty became the leitmotif of virtually everything that government reformers seemed to be aiming at.

“No pain, no gain” was the message communicated by Prime Minister Junichiro Koizumi, hardly words to inspire the country’s citizens during bad times.

In a society widely reputed to be safe, secure, paternalistic, culturally conservative and deeply cautious about dramatic changes, these are radical ideas. A recurring theme of the debate is that a broad spectrum of private and public institutions no longer serve a useful function and that if they are allowed to continue—even if modestly reformed—they will have harmful, unintended effects. In a competitive capitalist world, the historical survival of a current corporate practice such as permanent employment, a public policy like protection of small business or a political arrangement that privileges unchecked bureaucratic discretion is no longer evidence of its fitness in serving Japan’s needs.

By shaping economic reform measures to lead to increased economic insecurity, the country is engaging in an ideological and moral debate. Where will the burdens of new uncertainties come to rest? How will political power be used to facilitate fundamental reforms and new foreign policy ambitions? What measures can be taken as a defence against insecurity? It is a truism that economic recovery depends significantly on boosting the confidence of the nation. The core message of the reform program has not been especially uplifting or reassuring.

It is a truism as well in the social sciences that a change in a nation’s fundamental values is enormously rare. Edward Lincoln writes: “Viewed broadly, a majority of Japanese adults may well belong to one or more groups that stand to lose from major reform of the system. The breadth of vested interests becomes an important factor in holding back real reform.”⁴ What is at stake is not only the political power of vested interests. The politics of uncertainty centres on value judgments regarding what type of society the Japanese wish to live in.

POST-BUBBLE BLUES

Exactly how bad have times been in Japan and what has been done about it? The gloomy message of official statistics has been unrelenting. Japan’s economic woes started when the Nikkei 225 share price index plummeted from 38,915 at the close of 1989 to 16,924 three years later, falling eventually to less than 9,000. Grossly inflated land prices declined by as much as 80 per cent starting in 1992. The massive loss of wealth that accompanied the collapse of asset prices totalled as much as two years’ worth of national GDP. From 1991 to

1997, annual growth rates declined from 4 per cent during the previous 15 years to a bit over 1.3 per cent. Yet the nation's policy-makers were slow to recognize the rumble of trouble, coming as it did on the heels of exuberant economic success.

Bad times continued to spread despite a string of government financial stimulus packages. Official discount rates dropped from 6 per cent in 1990 to 0.5 per cent in 1995 and then later to zero in a failed attempt to stimulate domestic demand and economic growth. In the mid-1990s these measures helped mitigate some of the difficulties, but business failures continued to increase and unemployment grew. Government officials and politicians remained relatively complacent even as indices of industrial production, investment, sales, construction, consumer confidence and prices continued to drop. Banks and other financial institutions were left with a staggering volume of uncollectible loans as the nation faced the worst banking crisis in over 50 years.

Disgruntled voters, outraged with the corruption, greed and ineptitude which had been exposed among politicians, temporarily ousted the long-dominant LDP from power in 1993. Within a few months, however, the party managed to regain power, initially in coalition with its former political enemy the Japan Socialist Party and most recently with the New Komeito Party. The Kobe earthquake and Aum Shinrikyo's sarin gas attack in the Tokyo subway in 1995 stunned the nation further and became symbols of bureaucratic incompetence and failed political leadership. Signs of a recovery appeared for a brief time in the mid-1990s but its foundations were weak. Many commentators warned that the country's leaders were in deep denial.

A second period from the middle of 1997 to early 2002 was worse. Growth in Japan almost stopped, averaging about 1.2 per cent, which was lower than in all other G7 countries. The period was marked by two serious recessions (when real GDP declined for two or more quarters), an unprecedented financial crisis, a record rise in bankruptcies and unemployment rates, depressed consumer spending, the longest period of deflation in the industrial world and a marked deterioration in the country's public finances as gross public debt rose to over 170 per cent of GDP. The manufacturing competitiveness of many firms grew weaker in many sectors as industrial output declined and business investment hit new lows.

Careful research suggests that the bursting of the speculative bubble need not have caused subsequent years of stagnation. Critics single out as a major reason for prolonged stagnation inconsistent,

contradictory and mistake-ridden government policies and decisions through much of the 1990s. Left to its own devices, the private sector was simply incapable of solving the banking crisis, let alone setting the national economy right. The nation's financial system was deeply flawed and many business sectors unhealthy. Banks, insurance companies, large corporations, small firms and government financial agencies faced different problems and required different policy actions.

The rub was that government was part of the problem as well as a necessary ingredient in resolving what was wrong. Instead of the government serving as a truly powerful instrument of reform, political jostling for power and influence, personal rivalries and lots of vanity most often exacerbated difficulties. Diet members who represented the interests of particular ministries and special interest groups stood at the top of the nation's public works programs, divvying up the spoils in return for campaign funds.

Corruption scandals flourished throughout the 1990s, seeping beyond elected politicians to taint the country's prestigious civil service and major corporations, including the loosely regulated banks that made misguided loans to land developers, some of whom had links with organized crime. In just over 10 years Japan had nine prime ministers, many of whom were hounded from office by scandal. The LDP split apart, reorganized itself, divided for some time and merged to form alliances with other political parties. Japanese citizens grew more cynical and distrustful of government and politics. Politicians of all stripes embraced the clarion call for reform, making it all but impossible to discern who was really in favour of change.

No wonder the 1990s are regarded as the lost decade, as a time when national hopes and dreams of continuing economic prosperity were crushed. Painful choices were avoided for reasons of naiveté or political expediency. It is never easy for elected politicians to strip away privileges, and it is doubly difficult in a stagnant economy. A world of uncompetitive, politically entrenched firms and sectors remained bountifully subsidized and comfortably protected by the LDP and government ministries despite the need for "structural reform."

It is hard to use the word "crisis" to summarize the situation. Some upbeat analysts remained impressed by marks of national affluence, despite a series of aggregate economic figures that suggested a near crisis. By income and other measures the Japanese population on average was better off in 2003 than 1990. For the optimists,

the country was still the home of globally competitive, multinational firms like Sony, Toyota, Honda, Hitachi and many others. Japan remained a superbly well-educated nation, its standard of living, according to most criteria, among the highest in the world. Tokyo seemed to glitter, especially to anyone strolling along the streets of posh neighbourhoods. Sections of the city remained a fashion show. New, towering residential and office complexes transformed the skyline. But times became more difficult. Consumer confidence was badly shaken. Private investment tailed off. Public opinion polls showed widespread anxiety and concern about the future. A government survey in 2000 showed that among those aged 55 to 69, slightly over 70 per cent of males and 44 per cent of females were still working. The main reason was economic necessity.

The impact of the country's economic problems was broad and palpable, going well beyond what is captured by aggregate economic measures. A broad range of familiar systems of protection and security were cast into doubt. Some were clearly breaking down. Uncertainty and insecurity affected not only economic and political life but society, culture and even national identity. Loss of employment and financial hardships increased tensions at home. Incidents of family violence and divorce rates increased. Cardboard shantytowns set up by the homeless proliferated in parks, underground train stations and public spaces of Japanese cities.

Television dramas and movies regularly framed their plots against the background of bleak times. Newspaper columnists complained about rising crime rates and the dangers of a growing foreign population. Fiction writers deployed their imaginative talents by crafting tales of thefts, murders and grim night-shift factory work that gave shuddering form to the psychological fatigue and anxiety lurking just beneath the surface. As a symbol of a nation falling apart, Ryu Murakami described in his novel *Symbiosis Worm* a growing generation of "socially withdrawn" young people, kids who lock themselves in their bedrooms and refuse to have any contact with the outside world, spending their days watching television or playing video games.

PARTIAL ECONOMIC REFORM IN UNCERTAIN TIMES

The concept of reform is elusive in any national context. But what is clear is that what is being proposed and implemented in Japan does not add up to an across-the-board rescue plan.

In political terms the central idea is the creation of a competitive party system, discouraging personality and pork-barrel partiality

toward vested interests in favour of less localism, greater transparency and accountability and elections based on fewer but more competitive political parties clashing openly in policy-oriented campaigns. Reform has meant an election system substantially revised, election laws more stringently applied, political party factions abolished and the opportunities of prime ministerial leadership enhanced.

Administrative reform, which has long been on the political agenda in Japan, means smaller, more transparent, more accessible and more efficient government. Civil servants in the 1990s were no longer seen as impervious to failure. As noted below, massive government reorganization took place in 2001 as part of the nation's reform campaign. Administrative reform means reorganization, downsizing and streamlining of government. It also means deregulation, decentralization, privatization and, in the words of Prime Minister Koizumi, "structural reform without sanctuaries," especially with respect to 26,000 or more public corporations, which are managed and usually subsidized by national and local governments and which become the places for retired officials to pursue a lucrative second career.

In terms of broad economic policy, reform means less ambitious industrial policy, far fewer public works projects, reduction of public debt, expanded trade liberalization, strengthened competition policies, restructuring of the financial sector, freer and more transparent markets, and fiscal and monetary reforms, including lower taxes.

In the private sector, structural reform includes reduced reliance on bank loans, adoption of stricter accounting rules, enhanced corporate governance, reduced company welfare, less commitment to permanent employment, reduction of labour costs, merit-based hiring and promotion, and less fixed coordination among firms, including loosening of traditional, family-like *keiretsu* ties linking large corporations and small firms.

The idea of reform reaches every citizen, embracing jobs, taxes, daycare, pensions, health, education and even legal rights. Government progress has generally been judged modest. An Australian scholar recently wrote in compelling detail about "Japan's failed revolution."⁵ Much blame has been levelled at the feckless LDP for failing to provide the vision, the political will and the bold measures of the sort necessary to prevent the collapse of the bubble from blasting through the economy as a whole. By the mid-1990s, it was clear that the country was caught up in something

more than a routine business-cycle downswing. With different government policies, the country might have recovered in time. Bold reforms might have been more energetically pursued to bring an end to the lost decade.

But politics seemingly got in the way. Ministries were divided. Politicians were divided. The country was divided. No Cabinet, even if so inclined (and many were not), was able to override the quasi-sovereign fiefdoms that constitute the LDP political order. The fiefdoms of intertwined networks provided political protection and worked to sabotage any policy initiatives that threatened the country's non-competitive sectors, which formed major portions of the country's economy, including agriculture, large portions of small business, banking and finance, transportation, construction, the post office and the distribution system.

NASCENT SIGNS OF PRIVATE-SECTOR-LED ECONOMIC RECOVERY

Japanese economic performance has suddenly and unexpectedly exceeded expectations. The country is apparently on the way to economic recovery in 2004. A decade of commentary has not prepared us for this. Economic adjustments adopted by firms may have begun to have an impact. Indeed, the debate is now framed by the question of how sustainable the recovery will be.

Overall economic growth rates have been positive since early 2002. In the fiscal year ending in March 2004, the economy expanded by 3.2 per cent, the highest figure since 1996. Unlike two previous brief recoveries, this one is being led by business investment and consumer spending rather than government stimulus programs. Corporate profits in the large export-oriented sectors have improved after years of downsizing and harsh restructuring, debt reduction and scrapping of old equipment. Bankruptcies are down. Capital spending and industrial output have improved. Consumer spending, which represents more than half of the GDP, showed the highest growth rates in 21 years in early 2004.

Disposal of non-performing loans is said to be "on track," according to the Financial Services Agency, the industry regulator; five of the country's seven major banks swung into the black in 2003. Although the struggle to deal with trillions of yen in bad loans is not over, major banks have expanded their hiring plans as earnings improve. Bank stock prices are on the rise. Standard & Poor's, the credit ratings agency, reported that the disposal of non-performing loans and sales of cross-shareholdings had reduced the banks' risk

exposure and increased their capital reserve. The international agency upgraded eight banks, including the core units of Mizuho, Mitsubishi Tokyo Financial Group and Sumitomo Mitsui Financial Group, Japan's top three lenders.

The country's joblessness rate of 4.7 per cent remained unchanged in early 2004, although 240,000 new jobs were added to the workforce during the previous year. An improved sense of job security is clearly lifting consumer spending. Growing exports by major manufacturers, especially to China and other parts of Asia, are gradually having a positive impact on non-manufacturers as well as on small and medium-size firms. The Nikkei index climbed from 8,578 in December 2002 to 11,578 in June 2004. Deflationary pressures have eased, with the core consumer price index close to zero. The IMF reported in late June 2004 that the end of deflation was "at close hand." The decline in land prices in many areas has levelled off, and in some parts of Tokyo, prices are on the rebound.

Many Japanese think-tanks expect recovery to continue, and IMF officials forecast that growth could reach 4 per cent in fiscal 2004. To be sure, some skeptics are still convinced that this may yet be another false dawn. The weight of opinion is behind the prediction of good growth for the next two years, but beyond that the picture remains uncertain. Recovery remains brittle. A minority see the possibility of not simply cyclical recovery but a real long-term boom.

EMERGENCE OF NEW FORMS OF GOVERNANCE

What are still only obscurely visible and all but ignored by most economic studies are the political changes that emerged during the past decade. Remarkably, during a period of uncertainty, the country has undergone legal and political changes in governing that are perhaps greater than at any time since the Allied occupation period of 1945–1952. Reforms have been undertaken.

Governance is a commodious term referring to the many ways that individuals and institutions, private and public, manage their common affairs. Political governing is a dynamic process in which power is acquired and exercised for the management of a country's economic and social resources. What I have in mind is (1) electoral processes by which governments are selected, monitored and replaced, (2) how governments are organized, and (3) the relationships between centres of political authority, including the links connecting organized interests such as business and the state. Governance is the exercise of power; it is also necessarily an exercise in political values and ideas.

There has always been controversy about the election system in Japan. The current reform movement began in the late 1980s following a steady stream of scandals, many involving leaders of the ruling LDP, including prime ministers. After the temporary collapse of LDP rule in 1993, pressure for change was overwhelming. The non-LDP coalition government that followed enacted the most significant reforms of the election system since the Allied occupation.

Changes since 1994 have created a lower house election system that is dramatically different from those of the past, combining proportional representation with single-member districts. Some redrawing of district boundaries to reflect rural and urban population trends more accurately has occurred, but the country is still far from a system that equalizes the weight of every citizen's vote. The number of seats was reduced, electoral constituencies were redesigned, a system of proportional representation was refashioned. Public financing of political parties was introduced; restrictions on political donations were tightened. The electoral system for the upper house was also revised.

So the electoral rules of the game have changed. There is more accountability, transparency and policy-based political party competition in Japan. The most reliable specialists on elections report an increase in the influence of elected politicians in most areas of government policy-making. All politicians listen more carefully to citizens than they did in the past. There is a bit less certainty in elections although the advantages of name recognition, incumbency, political campaign money and established group support all favour the LDP.

Bureaucracies are never eager for major administrative reform and can be threatened by prime ministerial leadership. In the case of Japan, the bureaucracy is notably powerful, although there is a lively debate among experts over how independent officials have been and what impact government policies have had on the performance of the economy. The critique is that government is too big and costly, inefficient, poorly organized, unwilling and unable to respond creatively to the nation's needs, loath to embrace reform and too intrusive in the wrong way in the economy. In light of recent scandals, officials are sometimes seen as less than honest, too responsive to special interests, too secretive, too powerful, too undemocratic and too eager to feather their own nests.

What is also notable in the case of Japan is that the prime minister must negotiate on a regular basis with the LDP, which is rarely united behind his policies and initiatives. For example, custom requires that the prime minister get the approval of the LDP's executive council

before submitting legislation to the Diet. Not only party leaders but members of the Cabinet as well are not always totally committed to the priorities of the prime minister; cases of Cabinet officers and party leaders sharply criticizing and sabotaging reform measures of the prime minister are common.

The administrative reform and deregulation agenda can be traced back to the early 1980s. Much of the fuss was about growing public-sector debt. In the 1990s pressures for reform were renewed. The steady drumbeat of criticism in the media aimed at the country's bureaucracy was unceasing. Former prime minister Ryutaro Hashimoto is generally credited with providing the impetus for the most recent changes, which were adopted by a series of laws enacted by the Diet culminating in 2001, when the most significant reorganization of the Japanese bureaucracy since the end of the Second World War took place. The overall intent of the changes has been to enhance the power of the prime minister. Japan has never been as centralized a state as it is often made out to be, and recent changes have also enhanced the importance of prefectures in policy-making.

Stated briefly, the "rebirth" of government saw 22 ministries and agencies merged into 12 super-ministries. More politically appointed positions were placed in each ministry as a way to redress the perceived imbalance of power and authority between permanent officials and elected representatives. The laws contained provisions both to strengthen the Cabinet's executive functions and responsibilities and, most important, to enhance the leadership of the prime minister over the Cabinet and the government. The Cabinet Secretariat serves the Cabinet and is empowered to manage the complete machinery of government. Its actual responsibility for the most part is to assist the prime minister and not necessarily the Cabinet as a whole. It is headed by the chief Cabinet secretary, who is a member of the Diet and a Cabinet minister and is often considered the deputy prime minister, standing as the second most influential politician in the government.

Most important, a new Cabinet Office was created, widely portrayed as the most important element in the administrative reform measures adopted in 2001. The Cabinet Office is headed by the prime minister and is assigned a higher status than any ministry. In essence, it is the planning, coordinating and research office of the Cabinet Secretariat. Provisions were made for Cabinet Office councils to deal with important crosscutting national issues in four major areas: economic and fiscal policy, science and technology policy, disaster prevention and gender equality. While the prime minister

serves as formal chair of each council, the de facto head is a Cabinet member who is a minister without portfolio.

Each council consists of permanent members and several members from outside the government, appointed for limited terms. The most important policy-making council is the Council on Economic and Fiscal Policy, whose duties include drafting the annual budget and assisting the prime minister in making economic policy decisions. It is generally believed that the new council has broken the Ministry of Finance's monopoly of power and influence in budget making.

It is still too early to determine how dramatically political power in Japan has been restructured as a consequence of administrative reforms. Some scholars are convinced that the changes are mere window dressing and that the iron triangles still thrive. If he so wishes, the prime minister is able to get involved more firmly in cases of ministry sectionalism, including major questions regarding economic issues and structural reforms. He remains the most important actor in security issues and has a relatively free hand, although clearly Prime Minister Koizumi's support of American involvement in Iraq may cause him some grief.

My view is that while in rhetorical terms the prime minister is committed to major structural reform, the record to date suggests that his major concern is to artfully manage the consequences of uncertainty so as to move only very cautiously toward deep and far-lasting change. As in any political system, politicians seek to reallocate authority to achieve their political and policy agendas. Power relations are always in flux and do not migrate mechanistically according to reorganization plans. Power and authority migrate as the result of deliberate and strategic manoeuvring by political actors. Politics is always contentious, often frustrating and not always efficient since it is based on compromise and concessions as much as on the exercise of power and authority.

In this respect it is important to note that citizen involvement in politics has grown substantially since the late 1980s, coinciding with a decline in public confidence in government. Many scholars believe that civic groups have helped diversify the nation's politics, making it more competitive, generating more ideas about the purpose of government, giving the nature of policy-making a more negotiated character. A number of laws were passed in the 1990s that have the potential of restructuring relations between citizens and the state. Recently, the rights of women, children and minorities have been strengthened because of the advocacy and political skill of non-governmental networks.

As we have seen in the discussion of electoral changes, bureaucrats and politicians are learning to talk and respond to new groups in politics that sometimes compete for attention with the old, established vested interests that form the socio-economic supporters for the status quo.

MILITARY SECURITY AND GROWING PUBLIC ANXIETY

Japanese foreign policy has long been characterized as American-oriented, low-risk and highly reactive. Without a clear strategic vision and constrained by public opinion and a so-called peace constitution, the country's leaders sought to secure overseas power and influence mostly through the nation's economic and financial prowess, including direct investment and foreign aid.

The end of the Cold War marked the unfolding of a much more complex environment for security-conscious Japan seeking to guarantee its national interests.⁶ New ideas and new patterns of diplomacy emerged during the "lost decade." The Soviet Union collapsed while China continued to embrace the practices of a market-based economy. Cross-border capital and other commercial flows were stitching together countries in the region in new ways. While Japan's economic presence in the region was somewhat diminished during the 1990s and talk of "passing Japan" in favour of China was heard in North America, the nation's corporations remained firmly planted in Asia, linked by complex production networks. A shift toward more multilateral institutions that spanned the globe, like the World Trade Organization, or regionally based institutions such as Asia Pacific Economic Co-operation (APEC) strengthened the scope of multilateralism in Japanese foreign policy.

The strategic calculations in Japanese foreign policy became more complex. Pressures on Japan to play a more active role in regional and global security in alliance with the United States grew. During the Gulf War in 1990 the government was unable to gain sufficient political support in the country's parliament for any initiative beyond financial contributions to the United Nations effort, well after the immediate crisis had subsided. Since then Japan has gradually expanded its role both within the Japan-US security alliance and in relation to UN activities.

Certainly at the elite level, policy-makers became more concerned about balances of power, more sensitive to national security, more anxious to pursue an active and "independent" foreign policy, more focused on Asia and more determined to establish a clear national identity in foreign policy that would go beyond the legacies

of the Second World War. The International Peace Co-operation Law enacted by the Diet in June 1992 enabled participation of the Self-Defence Forces (SDF) in UN-sanctioned collective security activities. Japan subsequently played a significant part in initiating moves in ASEAN to create regional dialogue on security matters.

But the US remained at the very centre of Japanese security policies. American and Japanese naval forces routinely engaged in joint military operations, bilateral co-operation in military research was accelerated, and some evidence suggests that military appropriations for the SDF were made to complement and even strengthen US military capacities. When the Japan-US defence co-operation guidelines were signed in 1997, some observers believed that the two countries were preparing for a possible conflict on the Korean Peninsula. Japan joined a joint research and development initiative on missile defence in 1999.

Despite a changed international environment and the evolution of new ideas and patterns in Japanese foreign policy, the bilateral security relationship linking the United States and Japan remains firmly intact. Prime Minister Koizumi has aligned the country vigorously behind the United States under President George W. Bush even as the President has enunciated a vigorous and far-reaching “doctrine” that calls for America to assert its primacy in world politics. A minority view in Japan continues to focus on a more collective approach to security through the United Nations, but most policy-makers believe that the alliance with the United States remains indispensable for the security of the country, especially in light of immediate threats posed by North Korea and longer-term uncertainties about a geopolitically ambitious China. Moreover, Japan’s post-war diplomacy demonstrates that the country can employ diplomatic tactics to avoid being drawn too deeply into larger American geostrategic aims without endangering long-term co-operative ties or literally being abandoned by America.

Following the Iraq War, the Koizumi government received parliamentary approval of the Anti-Terror Special Measures Law and the Law Assisting the Reconstruction of Iraq. Most recently the LDP and its coalition partner agreed to have the SDF join a multinational force that would remain in Iraq following the handover of sovereignty to an interim government. Senior coalition party members initially agreed to have the SDF take part on the condition that Japanese soldiers would stick to humanitarian duties and not operate under the unified command of a multinational force. However, at a meeting with President Bush in the late spring of 2004, Prime

Minister Koizumi, apparently with little prior consultation at home, agreed to have Japan join the multinational force. This action was widely criticized and clearly placed the prime minister well ahead of public opinion.

Until recently the record in Japan could be seen as incremental expansion of military capabilities within the framework of the country's constitution and the Japan-US security alliance. Now the government under Prime Minister Koizumi has pushed possible constitutional interpretations of what is acceptable to the utmost. The broadening of its mandate enabled the SDF to participate in an international military arrangement for the first time in its history. Criticism of the Japanese troop deployment is based on concern that it violates the constitution and will further expand the country's military role overseas. Conservative politicians have been speaking openly for some time about the need to revise the American-authored constitution. Heretofore, the debate has centred on various interpretations of Article 9 of the constitution, which states, in part, "The Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as a means of settling international disputes."

In the past few years the public has increasingly supported changes in the nation's constitution. Press reports indicate that two Parliamentary panels are set to recommend amending the constitution in reports due out in May 2005. The LDP has announced that it plans to release a draft of its proposed revisions to the constitution in late 2005. The major opposition Democratic Party will come up with its own. Japan's defence policies are now at a turning point whose significance extends beyond the issue of Iraq. The government has formally decided to introduce missile defence systems and has announced a basic concept for a new defence plan that would drastically alter the role of the SDF. Restrictions on the export of weapons are also being reviewed.

Recent opinion polls indicate that around 50 per cent of respondents favour some kind of constitutional revision. However, the debate over security could make rancour over such reform issues as privatizing the postal system, freezing national expressway projects, rescuing the banking system and reforming the pension system appear civilized and orderly by comparison. Any amendments to the constitution require a two-thirds majority in both houses of parliament and a majority of votes in a national referendum. These are tough requirements. The American-authored constitution put in place during the Allied occupation has never been amended.

CONCLUSION

People on all sides of the economic reform debate are largely in agreement on the desirability of change. After all, who likes bad times? However, given uncertainty about the outcome of economic reforms and in light of concern about the difficulty of reversing them, once undertaken, the general pattern has been vacillation, gradualism, compromise and compensation. In foreign affairs the country is gradually playing a more active role in regional and global security but until now in the name of national self-defence and not collective self-defence. Japanese soldiers have not yet seen combat, and the sanctions of the UN are extremely important for the government in selling decisions at home.

In light of the so-called Bush doctrine, the threat of North Korea and the spread of global terrorism, it is extremely doubtful how much longer the framework of the security alliance and the present constitution will be viable. Already, many Japanese citizens are deeply uncertain about what will happen next, and any national debate will be sharp and unsettling.

How Japan continues to evolve will depend partly on the political commitment and leadership of Prime Minister Koizumi. It is all but certain that Japan will not move dramatically closer to liberal market economies like those of the United States and Canada. It is less clear how much further Japan will move toward becoming a “normal” state with respect to military security and diplomatic independence. In the meantime, uncertainty marks the daily lives of Japanese.

ENDNOTES

1 A lucid summary of various interpretations of what went wrong in Japan is Andrea Boltho and Jenny Corbett, “The assessment: Japan’s stagnation—Can policy revive the economy?” *Oxford Review of Economic Policy* 16, no. 2 (2000): 1–17.

2 Eisuke Sakakibara, *Structural Reform in Japan* (Washington: Brookings Institution, 2003).

3 This paragraph is based on Peter Marris, *The Politics of Uncertainty: Attachment in Private and Public Life* (London and New York: Routledge, 1996).

4 Edward J. Lincoln, *Arthritic Japan: The Slow Pace of Economic Reform* (Washington: Brookings Institution, 2001).

5 Aurelia George Mulgan, *Japan's Failed Revolution: Koizumi and the Politics of Economic Reform* (Canberra, Australia: Asia Pacific Press, 2002).

6 A splendid collection of essays on this general topic is Ellis S. Krauss and T. J. Pempel, eds., *Beyond Bilateralism* (Stanford, CA: Stanford University Press, 2004). I have drawn especially from the analysis of Christopher W. Hughes and Akiko Fukushima, "U.S.–Japan security relations: Toward bilateralism plus?" See also Michael J. Green, *Japan's Reluctant Realism* (New York: Palgrave, 2001).

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Publications Mail Registration No. 40062474
Postage paid at Scarborough