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REPORT

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The end of an era Savor the moment

We promise to delve into the delicious details, but first let's take a moment to savor the sweep of the moment: on August 30, the Japanese people made history. They ended 64 years of nearly uninterrupted rule by one party (the Liberal Democratic Party and its precursor parties, which merged in 1955). Japan is no longer the one remaining one-party democracy among the rich industrialized countries. Nor all the king's horses nor all the king's men...

The thrill of the moment is in no way diminished by its inevitability. Ever since our founding in 1997, *TOE* has been guided by the proposition that structural economic reform was indispensable to Japan's prosperity, that this could not be achieved without institutional upheaval, and that the LDP was incapable of being the vehicle for this renovation (as shown by, among other things, the failure of Junichiro Koizumi to permanently change the party). Given a choice between the LDP with no reform or reform with no LDP, we were confident that Japan would eventually choose the latter. As we wrote years ago, no matter how apparently strong, once any institution loses its *raison d'être*, it will sooner or later lose its "etre." We felt that this would be no less true of the LDP than of the military dictatorship in South Korea.

So, in our view, the details, the tactics, the changes in election rules, the particular personalities of Junichiro Koizumi, Ichiro Ozawa and Shinzo Abe, as well as the depth of the current recession, all shaped how and when the inevitable occurred, but it was the broad sweep of history that determined the ultimate outcome.

Now, the triumphant Democratic Party of Japan (DPJ) will have its chance to show whether it is equal to the moment. It is plagued by the same dilemmas as the LDP. On the one hand, in this new political era of contested elections and floating voters, its continued popularity requires Japan to show better economic performance. That cannot be achieved without substantial economic reform. On the other hand, while parts of its base will be aided by reform, other parts will be hurt. The secret is to find the right sequencing and combinations so that reform builds its own base of political support rather than undermines it. If the DPJ cannot solve this dilemma, it too will face the stresses that doomed the LDP, and Japan will go through further party realignment.

Tsunami

The good news for the DPJ is that it starts off with a huge unprecedented mandate. Only a month ago, we and many others wondered whether the DPJ could win a Lower House majority on its own.

Then came the tsunami. On August 30, the DPJ won 307 seats—64% out of 480—not counting independents that may join the party. That's only 13 seats shy of a two-thirds majority. It's higher than the 296 seats won by Koizumi for the LDP in 2005. It's higher than the percentage of seats won by the LDP in its high-growth era heyday.

Hosts of LDP heavyweights lost their seats. 54 LDP Diet members who lost in the single member districts (SMDs)—which elect 300 of the 480 LH members—had to be rescued via the Proportional Representation (PR) segment of the vote, where voters choose a party, not an individual. Some who lost, such as former Prime Minister Kaifu, were not rescued (in Kaifu's case because of party rules about age). The losers included former LDP Vice President

Taku Yamasaki; former Finance Minister Shoichi Nakagawa; ex-Foreign Minister Nobutaka Machimura, the leader of the LDP's biggest faction; former farm ministers Tsutomu Takebe and Seiichi Ota; Finance Minister Kaoru Yosano; ex-

Health Minister Hakuo Yanagisawa, who referred to women as "baby-making machines;" and former Defense Minister Yuriko Koike, who ran against Taro Aso for LDP President last year.

Moreover, the wipeout of the LDP could have been even greater. Of the LDP's total of a mere 64 victories in the single member districts (SMDs), it won 14 (21%) by less than 2% of the vote. Among these, it eked out 5 victories by less than 1%.

Who is the DPJ?

The DPJ has been repeatedly characterized as a motley coalition of former LDPers and former Socialists united by little else except antipathy toward the LDP. That is an obsolete description made even more obsolete by Sunday's election. Even prior to Sunday's election, according to calculations by Tobias Harris, publisher of the "Observing Japan" blog, only 16 of the DPJ's Diet members in the Upper and Lower Houses combined were former Socialists and only 20 were former LDPers. By contrast, an overwhelming 134 of its Diet members had been with the DPJ for the entirety of their Diet tenure.

After Sunday's election, the DPJ is more of an organic party than ever. According to a *Nikkei* survey, a record 143, or 46%, of the 308 DPJ winners are in the Diet for the first time. Most had not even run before (though some had run and lost in 2005). Upwards of 100 of the new candidates were personally recruited by the party's power broker and electoral strategist, Ichiro Ozawa.

Among the DPJ winners, only 10% (32) were so-called "hereditary candidates," who inherited their relatives' constituencies or



whose father or mother was a lawmaker. By contrast, 46% (55) of the LDP's winners were second or third or even fourth generation Diet members from families that the Japanese public increasingly disdains as a political hereditary aristocracy. Ironically, the incoming Prime Minister, Yukio Hatoyama, is one of those fourth generation Diet members and the grandson of a Prime Minister.

28% of the DPJ's Diet members have experience in regional politics, e.g. as assemblymen or municipal leaders; 16% are former company employees or managers; and 10% are former government officials. 40 women were elected by the DPJ and they now comprise 13% of the DPJ's Diet delegation, a record. Many of these successful women—dubbed “Ozawa's princesses” by some of the press—defeated high-profile LDP veterans (see article pg. 6).

Truly contested elections

Among all the amazing statistics that characterize this election, one of the most illuminating is this: the LDP got virtually the same share of the SMD vote this year as in 1996, 39%. While that was enough to give the LDP an SMD majority in 1996, it resulted in a massive wipeout this year, (see bottom figure). The past normal “rules of the game” no longer apply.

Here's why. For years, the LDP had kept itself in power despite winning less than half of the vote. In no election under the cur-

rent system has any party won a majority of the SMD vote; yet the top party always won a majority of the seats (see top figure). Indeed, in the last two elections, the DPJ and LDP performed almost the same: winning 73-74% of the SMD seats with only 48% of the SMD vote. Relatively small changes in the share of votes can mean gigantic changes in the share of seats.

Until now, that situation advantaged the LDP because Japan's electoral system had tended to keep the opposition divided. The PR segment enabled small parties to survive with just a few percent of the vote, thus splitting the anti-LDP vote even within the SMDs. Now, however, voters are casting more of their votes for the top two parties; the anti-LDP vote has coalesced around the DPJ. This year, in the SMD portion, the top two parties took a record 86% of the vote (up from 66% in 1996) and a record 95% of the seats. In the PR segment, the DPJ won a

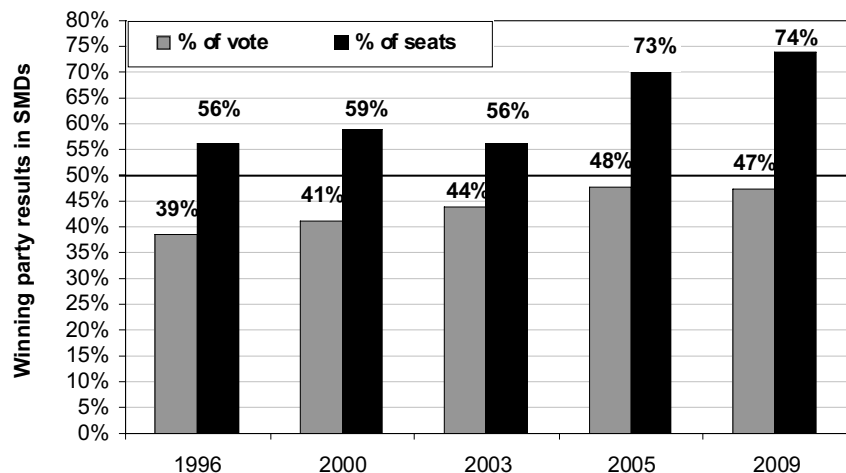
record 48% of the seats with a record 42% of the vote.

In addition, more and more of Japan's electorate are becoming “floating voters.” In a *Nikkei* exit poll, 22% of voters said that they supported no specific party. Of these floating voters, 59% voted for the DPJ candidate in the SMDs and 52% did so in the PR segment. By contrast, only 23% of the floating voters chose an LDP candidate in the SMD segment and only 16% chose the LDP in the PR segment. This doesn't even count the significant fraction of voters who identify themselves as LDP supporters but decided this year to “defect” to the DPJ.

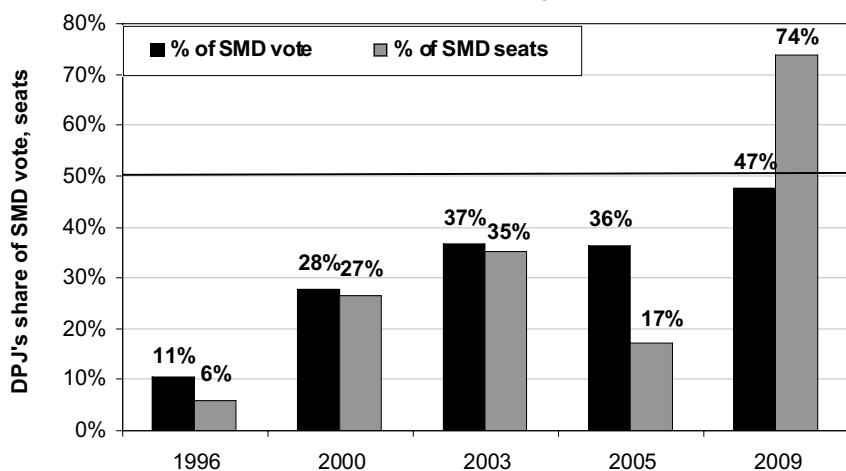
What safe seats?

Traditionally, the LDP enjoyed many safe seats, particularly in rural areas. Of the total of 168 SMD seats that the LDP won in 2003—the last pre-landslide election—it won 107 by a margin of more than 10%

Winner takes 74% of SMDs with 48% of the votes



39% of vote: LDP win in 1996, disaster in 2009



Source: Japan Historical Statistics; Prof. Ethan Scheiner for 2009

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REPORT

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including 51 by a margin of more than 25%. Yet, this year, it could only win 64 SMD seats in total. The DPJ won 221 SMD seats. Of these, it won 120 by a margin of more than 10%, including 71 by a margin of more than 20%. Yet, those seats may be no more “safe” for the DPJ in 2013 than the LDP’s safe seats proved to be this year.

This increased volatility means that ruling parties will have to become more sensitive to the broad swath of voter opinion than in the past. Mandates may be short-term affairs. Despite the DPJ’s overwhelming victory this time, it will not replace the LDP in a one-party dominant state. The era of one-party rule is over. The DPJ will continually have to convince the voters of its right to govern. It is not even sure that, ten years from now, the current LDP and DPJ will still exist.

DPJ owns cities, beats LDP in country

The DPJ swept the entire country, but it dominated the cities. In the most urban half of the 300 SMDs—as calculated by Ethan Scheiner, a political science professor at the University of California—the DPJ captured 132, or nearly 90% (see top figure). The cities remain the strongest natural base of the DPJ. Urban voters tend to be more favorable to many (but not all) aspects of economic reform than rural voters.

And yet, the DPJ did surprisingly well in the rural areas also. Remarkably, even in the most rural 25% of the SMDs, the DPJ actually beat the LDP, winning 35 seats (47%) to the LDP’s 33 (see again top figure). Ozawa successfully challenged the LDP in rural areas by appealing to farmers and others disenchanted with the LDP (see August *TOE*, pg. 10). The DPJ has a broader and more balanced base of support (in terms of the share of its Diet delegation from urban vs. rural areas) than ever before (see middle figure).

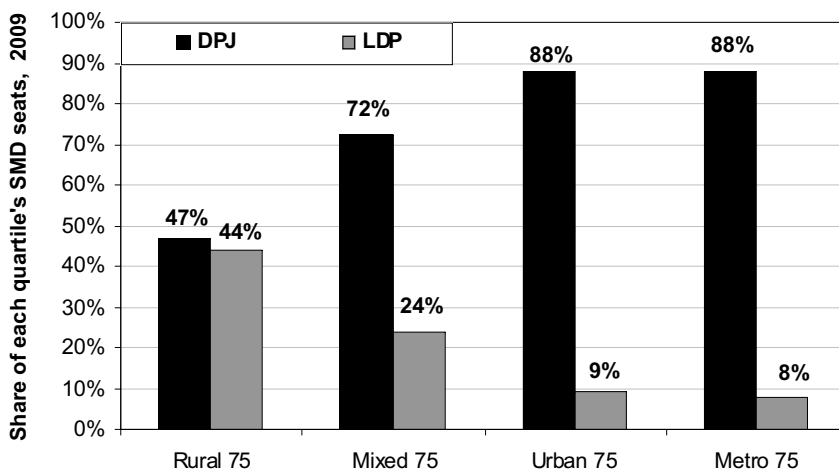
By contrast, the LDP is now in a very weak and isolated position. On the one hand, a record 52% of its entire SMD delegation comes from the 25% most rural districts. It is more dependent on the rural sector than ever (see bottom figure). Koizumi’s effort to balance the party’s urban-rural base of support, which produced results in 2005, has been completely reversed. On the other hand, the LDP is on the defensive even in the countryside. How can it adapt to appeal to the urban voter when it must worry about alienating its core voters in the countryside?

But the DPJ dare not get too cocky. The all-important swing voters are especially important in the 25% most urban SMDs, according to Scheiner. They are most likely to vote on policy issues or views of the party as a potential national government, rather than either attachment to the individual local

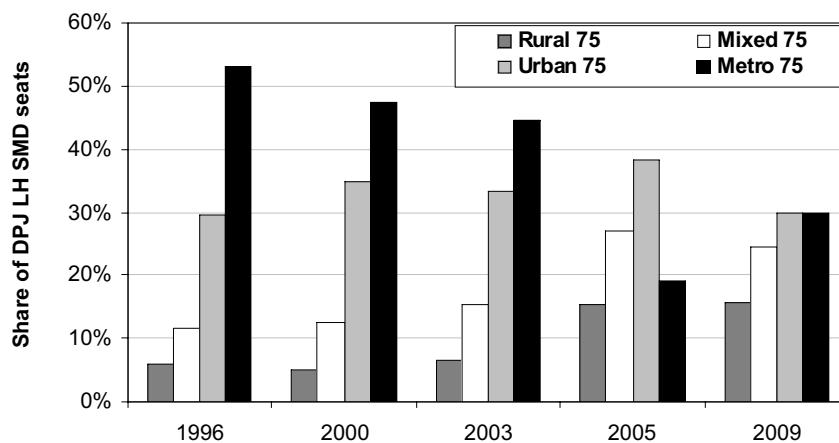
Diet member or else ties to a support organization. If the DPJ fails to live up to the hopes that urban voters expressed this year, that would bode ill for 2013.

It’s a new world for Japanese politicians, and that means a new world for Japanese policymaking. (RK)

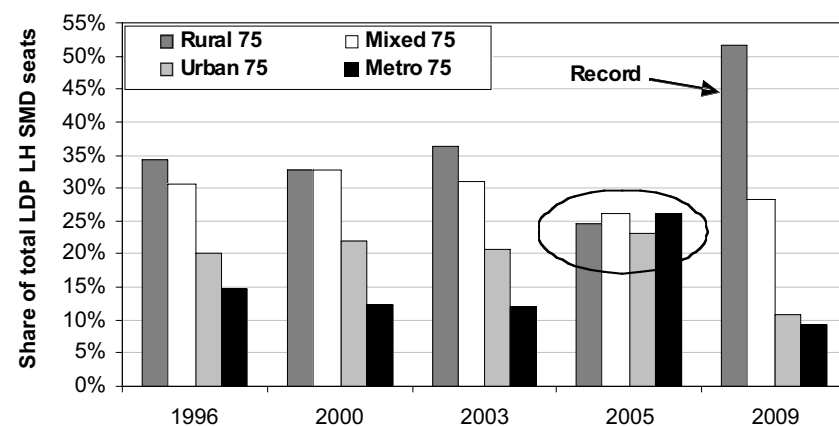
DPJ dominates cities, beats LDP even in rural SMDs



DPJ strongest in cities but more balanced than before



LDP more rural-dominated than ever



Source: Ethan Scheiner

TOKYO INSIDELINE

by Takao Toshikawa

DPJ: Hatoyama's party or Ozawa's party Master of his domain?

Even the insects seem sensitive to Japan's political shockwaves. This summer, when the noisy chorus of the black-and-green cicada ended, night-swarmer insects switched on their own songs, welcoming the first switch in governments due to an election (rather than a party split as in 1993).

The transfer of power through elections, the essential political function of democracy and an ordinary event in other developed countries, seems revolutionary in Japan. It was brought about by the public's urgent sense that only a complete political renovation could break the country out of its current rut. There is no going back. From now on, replacement of a failing government through elections will be the norm.

The next events will occur on September 16, when a special session of the Diet will name Yukio Hatoyama as Prime Minister. Over the ensuing couple of days, Hatoyama will form a coalition Cabinet, with members from the Democratic Party of Japan (DPJ), the Social Democratic Party (SDP), and the People's New Party (PNP). The three parties have already signed an agreement on policies.

On September 28, the Liberal Democratic Party (LDP) will hold an election to choose a new President to replace former Prime Minister Taro Aso. Candidates include former Finance Minister Sadakazu Tanigaki, Minister of Agriculture, Forestry and Fisheries Shigeru Ishiba, and Acting Secretary General Nobuteru Ishihara. The popular Minister of Health, Labor and Welfare Yoichi Masuzoe has indicated that he will not run. Rather than heading what is now an opposition party, he is reportedly aiming to become Governor of Tokyo. Dumbfounded after so many of its major Diet Members lost, the LDP faces a bumpy road as it tries to transform and rebuild itself.

Rather than analysis of reasons that the DPJ won, analysis of reasons why the LDP lost will better explain this shockwave. The DPJ's popular slogan (*seiken kotai* or "change of government") captured the public

mood that, without a change of parties, Japan's politics would never improve.

During the election campaign, every DPJ leader made the same appeal in stump speeches: "If the LDP candidate wins in this district, the Aso Government will continue." A DPJ Diet Member explains it this way. "A 'Committee to Fire Prime Minister Aso' formed in the national consciousness, with Hatoyama as Chairman."

The "manifesto election"

This election has been called a "manifesto election," in other words, an election fought over issues of national policy rather than what local politician could best provide pork barrel for his district.

The term "manifesto" came into common use in Japan beginning around the time of the 2003 Lower House election. It spread through the advocacy of former Governor of Mie Prefecture Masayasu Kitagawa (now a Professor at Waseda University) and others. Although each party presented a manifesto during the 2005 "Postal Services Election," the parties were really asked only whether they would privatize postal services, and their manifestos faded from view. So, this election was the first one in which the content of manifestos came actually in for full-fledged scrutiny. Even so, the public did not compare and evaluate the manifestos of the DPJ and the LDP before deciding how to vote. They voted after deciding that they wanted the LDP to step down for a time.

The DPJ manifesto included a number of policies to directly affect people's lives, such as cash payments to families with children, making high schools tuition-free, income subsidies for farm families, and ending expressway tolls. The cost of these measures will be 16.8 trillion. The DPJ claims it can pay for this by eliminating waste so as to "dig up buried treasure" in Kasumigaseki (i.e. the various Ministries located in the Kasumigaseki area of Tokyo). The so-called "buried treasure" consists of various funds on the books of the government because of

the loans it makes to a myriad of quasi-state enterprises. The DPJ's success depends partly on how well it can overcome the resistance of Kasumigaseki's bureaucrats. Officials will use every art they possess to resist, claiming, "There is no waste" and "There is no buried treasure." It will not be easy to switch policymaking from this bureaucrat-led structure to a politician-led one merely by sending 100 DPJ Diet Members into government agencies.

DPJ success also depends on the dubious proposition that there really is enough "buried treasure," to satisfy the DPJ's needs. There may well be several trillion yen worth that can be used on a one-shot basis, but the funds will not provide a permanent source of funds for all the new programs that the DPJ wants.

The "Ozawa party"?

Cabinet Members will head the effort to control the bureaucrats. But who will control the Cabinet: the Prime Minister or the former DPJ chief, Ichiro Ozawa?

The day before the election, Hatoyama said his government transition team would start with important Cabinet Members and stated that he would plan the rest of his Cabinet from there. A day after the vote, however, he retracted the idea. Hatoyama explained that, "If I name one person, everyone will ask, 'Who's next?' and things will get out of control." What really happened was that Ozawa objected to Hatoyama's original plan and Hatoyama gave in to him. Ozawa has been telling Hatoyama for some time that he should not rush his appointments.

The DPJ ran 164 new candidates in the Lower House election, of which 143 were elected. Over 100 of these were "Ozawa's Children," i.e. candidates directly recruited by Ozawa or candidates whom he trained and helped elect. Much of the public and media feel: peel back one layer, and the giant DPJ is really the "Ozawa Party."

The degree to which Hatoyama is "subservient" to Ozawa will therefore determine the character of the Hatoyama Government. Complete subservience would mean that Hatoyama is a mere puppet in Ozawa's hands. Zero-percent subservience would mean that Hatoyama, who has revealed a tougher side since the days when he was mocked as "soft-serve ice cream," is separating himself from Ozawa and expressing his own identity in personnel and policy deci-

sions. Complete separation is, in fact, impossible. Hatoyama needs Ozawa. On the other hand, the voters will not accept a puppet Prime Minister.

DPJ Secretary General Katsuya Okada, seen as the leader of his generation, had hoped to remain in his post as Secretary General of the governing party in order to stop Ozawa's influence from increasing. Instead, Hatoyama granted Ozawa's wish to be named Secretary General as a reward for his indispensable role in engineering the landslide. Young and mid-level Diet Members not aligned with Ozawa strongly hoped for Secretary General Okada rather than Secretary General Ozawa in order to displace the dual power structure. But Hatoyama was unable to resist Ozawa's will. Party members are increasingly wary of a takeover by Ozawa.

On the other hand, no one can deny that Ozawa was the architect of the DPJ's triumph, the man who turned public disenchantment with the LDP not just into victory but into a rout (i.e. once he put his own ambitions to the side in the aftermath of the financial scandal involving his campaign aides). As Secretary-General, he will lead the DPJ's all-important effort to gain a majority on its own in the Upper House during the July 2010 elections.

With Ozawa as party Secretary General, Okada has been named Foreign Minister in order to implement the "independent foreign policy" of which the DPJ speaks.

Naoto Kan has been named to the premium position in being the minister in charge of the new National Strategy Bureau. That position also includes chairmanship of the DPJ's Policy Research Committee. (For more on the Bureau, see pg. 8)

These appointments suggest that Hatoyama is starting with a degree of subservience to Ozawa of about 50-60%.

Other key appointments

The new Chief Cabinet Secretary will be Hatoyama's close ally and "tranquilizer," Hirofumi Hirano, currently head of the Party President's Office. An investigative team from the Tokyo District Public Prosecutors Office will probably soon pursue a criminal case against Daisuke Haga, the Secretary for Political Affairs in Hatoyama's office, on suspicion of falsifying contribution records. Even though Haga has been Hatoyama's confidant for 20 years, it would thus be difficult to bring him in as the new Prime

Minister's Secretary for Political Affairs. So, Hatoyama is going to make Hirano, his self-appointed right-hand man, his Chief Cabinet Secretary.

DPJ Supreme Advisor Hirohisa Fujii, whose name appeared on the party's Lower House Proportional Representation list just before it was officially published, is certain to become Finance Minister. Having served in the Ministry of Finance (MOF) himself, Fujii is the only person with both the ideas and the experience to handle the MOF bureaucrats. However, Ozawa reportedly disapproves of Fujii as Finance Minister. He has not hidden his dislike of Fujii, who recently has publicly argued for "separation from Ozawa."

Former Policy Research Committee Chair Yoshito Sengoku, who is well versed in policy matters, is a standard bearer of the non-Ozawa group. Ozawa loathes him. According to Sengoku, Ozawa turns him away whenever he asks for a meeting. If Hatoyama appoints Sengoku as the Minister in charge of the new Administrative Reform Council and DPJ Vice President Seiji Maehara, also disliked by Ozawa, as Defense Minister, Hatoyama's degree of subservience will drop below 50%.

How Hatoyama handles former Foreign Minister Makiko Tanaka, who Ozawa reportedly promised a Cabinet spot in return for joining the party, will be another indicator of the new Prime Minister's degree of subservience to Ozawa. Hirohisa Fujii, who has been in politics with Ozawa for a long time recently gave Hatoyama the following advice. "You don't have to ask Mr. Ozawa 'Is it all right to do this?' You just have to say, 'This is what I've done.'"

These are my predictions for other members of the Hatoyama Cabinet.

Minister of Justice: Hirotaka Akamatsu (elected to the Lower House 6 times)

Minister of Internal Affairs and Communications: Shizuka Kamei (PNP President; 11 times)

Minister of Agriculture, Forestry and Fisheries: Nobutaka Tsutsui (5 times)

Minister of Land, Infrastructure, Transport and Tourism: Seiji Maehara (6 times)

Minister of Economy, Trade and Industry: Masayuki Naoshima (Upper House)

Minister of Education, Culture, Sports, Science and Technology: Yoko Komiyama (4 times)

Minister of the Environment: Tomiko Okazaki (Upper House)

Minister of Health, Labor and Welfare: Yoshito Sengoku (6 times)

Minister of State for Administrative Reform Issues: Akira Nagatsuma (4 times)

Minister of State for Financial Services: Motohisa Furukawa (5 times)

Minister of State for Job Issues: Mizuho Fukushima (head of the SDP; 2 terms in Upper House)

Minister of State for Consumer Affairs: Yoriko Madoka (Upper House)

Minister of Defense: Yoshihiko Noda (5 times)

Deputy Chief Cabinet Secretary (Political Affairs): Yorihiro Matsuno (4 times)

Deputy Chief Cabinet Secretary (Political Affairs): Tetsuro Fukui (Upper House)

Deputy Chief Cabinet Secretary (Administrative Affairs): Takeshi Erikawa (former Administrative Vice-Minister for Health, Labor and Welfare)

Prime Minister's Secretary: Seiji Sugawa (director of the DPJ Policy Research Committee)

The gang that can finally shoot straight

Up to this year, the DPJ's history was one blowing every opportunity they got. They were mocked as competing in the "hop, step, and pulled muscle" event. In 2004, just when then-party President Kan was criticizing bureaucrats for failing to properly run the national pension plan, it was discovered that he was not even enrolled in it. In 2006, then-President Maehara pursued the issue of purported e-mails regarding sending funds to then-LDP Secretary General Tsutomu Takebe, but the e-mails turned out to be forgeries. Similarly, then-President Ozawa's Secretary was arrested on suspicion of violating the Political Funds Control Law in March of this year.

The DPJ's landslide victory presents the party with its biggest opportunity ever. Presumably, they have learned from their mistakes. But great expectations can bring great disappointment. The public mood is not one of gleeful enthusiasm, like that ushered in by Junichiro Koizumi's ascent in 2001. Instead, it is a mix cautious optimism, wariness, and willingness to take a chance on "the new guys." Everyone is asking: how well can the new captain, Yukio Hatoyama, steer the ship *Nippon Maru*?

ELECTION

by Leonard Schoppa

A campaign memoir

Why now?

Leonard Schoppa, a professor of political science at the University of Virginia, has written several books on Japan, most recently *Race for the Exits: The Unraveling of Japan's System of Social Protection*. He spent ten years of his childhood in Tokyo and Hokkaido, where his father was a missionary. He returned in 1984 as a teaching fellow in Kumamoto.

The Liberal Democratic Party (LDP) has supposedly been in terminal decline for the entire period I've been following Japanese politics. Its demise was first forecast in the early 1960s when party leaders worried they could not attract the votes of the large numbers of Japanese moving into the cities. In the early 1980s, when I returned to Japan to teach English, the LDP was still having trouble in the urban areas. In 1989, the year before I started teaching college, the LDP lost its majority in the Upper House in the aftermath of corruption scandals, and for most of the "lost decade" that followed, the LDP struggled to win the support of "floating voters," leading to Upper House election defeats in 1995 and 1998.

Yet each time, the party was able to hang onto power. It successfully turned to new leaders (Yasuhiro Nakasone in the 1980s, Toshiki Kaifu in 1990, Junichiro Koizumi in 2001). It engineered economic turnarounds just in time for Lower House (LH) elections (1996, 2000, and 2005). It allied with Komeito. All the while, the LDP relied on its organized support networks in the provinces to help it win a large majority of the seats in the rural parts of Japan, enough to offset inroads that other parties might make in the cities and suburbs.

When polls started predicting that the LDP might actually lose this year's election, I decided to see for myself by visiting Tokyo, Kanagawa, and Kumamoto for two weeks in late July to mid-August. Everyone I spoke to confirmed that it looked like an LDP defeat was actually going to happen this time. When *AERA*, a respected magazine, predicted on July 27 that the DPJ would win 247 seats, colleagues following the election from abroad couldn't believe it. Their models said the DPJ still did not have enough quality

candidates in rural areas. But on the ground, you could already see the electoral tidal wave starting to build.

The LDP had lost its past tricks. Failing to time the election to the rhythms of the economy, it found that its term ran out at the very bottom of a deep recession. Nor could it come up any standard-bearer with the appeal of Koizumi or even Nakasone.

Aso: the man who wasn't there

The LDP's real problem was that it finally lost the legendary "floating voters." Ever since the LDP's split and short-lived defeat in 1993, 30-50% of voters have told pollsters that they support no specific party. These voters, especially numerous in the large cities, have been consistently unhappy with the LDP "old guard" and its friends in the bureaucracy. They favor "reform," and have shown themselves willing to swing in large numbers toward any party that convinces them that it can deliver change.

In 2005, the LDP won a landslide victory, including most urban seats, by appealing to this group through "Koizumi Theater," in which Koizumi took on the postal rebels in his own party and deployed electoral "assassins" against them. While 2005 was all about Koizumi, this year, the LDP kept Taro Aso hidden. Everywhere I looked, the DPJ posters prominently featured the image of Yukio Hatoyama. But the LDP candidates' posters, which by law must include at least one other face in the period before the 12-day official campaign begins, displayed anybody but Aso, such as Health and Welfare Minister Yoichi Masuzoe, a local politician, or even a local television celebrity.

In Kanagawa, an urbanized prefecture near Tokyo, where I spent a day shadowing Taro Kono, the son and grandson of leading

LDP politicians, the candidate explained that his campaign decided quickly not to feature Aso on his posters. The speeches he gave in front of Hiratsuka station and at local grocery stores that day never once mentioned the prime minister or the LDP. Instead, they were about the need for pension reform, and the reform he advocated was identical to the DPJ's. In the evening, he spoke to an audience responding to invitations from his campaign, blasting the bureaucracy for favoring public corporations into which they placed retiring officials. Kono had realized that, to win, he would have to distance himself from the LDP and Aso. In fact, in one speech, he urged a group of workers assembled at a small local factory to vote for him even if they thought the LDP might lose, because Kono could then change the party and help it come back next time.

Kono also depended heavily on his local support network, his *koenkai*. He told me his operation had 30,000 members in Hiratsuka alone and another 20,000 in Chigasaki, most of which he had built up since taking over a piece of his father's district in 1996. The challenge of building a support organization in suburban Japan became clear as I tagged along as he went door-to-door in a 700-home subdivision that had been built since the last election in 2005. His staff had walked the area before, but this was his first visit to these homes. At many homes, no one was home, or a housewife answered the doorbell only to ask him to leave his materials in the box. Only one person, in two hours, engaged him in a conversation of any length. It was clear that much work would be required before any became loyal supporters.

Kono admitted this was hard work and told me that many senior LDP politicians had not done much of it lately. His own father, he said, had not done this since 1976 when he launched the New Liberal Club. Instead, his powerful father spent campaign periods giving speeches for other candidates. As I began to hear of many veteran LDP politicians fighting for their lives, I had to wonder if some of them, too, had neglected the hard work of identifying new "favorables" in urbanizing areas like this one.

While Kono survived, few of his colleagues did. That's because Ichiro Ozawa and the DPJ succeeded in making the election a referendum on Aso and the LDP. Aso may not have been visible on posters, but he was the face of the LDP in television news coverage. Ozawa and Hatoyama chose a slo-

gan that would convince the floating voters that they were the true party of reform. In any other parliamentary system, the phrase they chose (*seiken kotai* or “change of government”) would have been redundant. But in Japan, which had never seen an election deliver a change in government, it was a radical idea that succeeded in capturing the attention of the media and voters. The slogan was on the DPJ manifesto, the party website, and virtually every poster across the country.

Ozawa’s female “assassins”

The DPJ needed more than a slogan to seize the banner of “change.” Just as Koizumi had deployed attractive well-known woman as “assassins” in the 2005 election, so too Ozawa recruited attractive, young female candidates to run for the DPJ against elderly male candidates from the ruling coalition, including Fumio Kyuuma in Nagasaki and the Komeito’s top leader, Akihira Ohta in Tokyo. As I watched TV, it became clear that Eriko Futada and Ai Aoki, the women taking on these old men, had become the face of “change.” Both women won.

The female candidate Ozawa recruited to run against former Minister of Health, Labor and Welfare (MHLW) Yuya Niwa in Ibaraki wasn’t young, but TV Asahi featured this story anyway because the challenger, Hiroko Ooizumi, was a former MHLW bureaucrat who had served under Niwa. She was shown campaigning vigorously to reverse the cuts in health expenditure supported by Niwa. The reporter added that she had even won the support of local doctors who had long been part of Niwa’s support network. Niwa had previously made only token appearances at neighborhood festivals during campaigns, but this time he was participating (awkwardly) in festival activities in a desperate attempt to hold onto his seat (he failed).

On another evening TV Asahi covered the story of how Nobutaka Machimura, a former foreign minister and LDP faction boss, faced a strong (and successful) challenge from Chiyomi Kobayashi in Hokkaido. NHK covered the struggle of ex-chief cabinet secretary and prominent LDP reformer Yasuhisa’s Shiozaki to beat back a challenge by Takako Nagae in a district that had been in his family for generations (he eked out a tiny victory).

The message could not be more clear: voting for the DPJ would finally usher the old men off the stage and allow a new

younger generation to take over. Change would finally come to Japan.

Minding the Gap

Japanese voters told pollsters from *Nikkei* that the most important issues were “social insurance programs like pensions” (36%), “the economy and unemployment” (27%), and “declining fertility and child rearing” (10%). These concerns about social welfare were no doubt aggravated by the recent economic downturn, but voters have been prioritizing these issues for several years as they have experienced a rising “gap” (*kakusa*) in society that has been blamed on Koizumi’s market-oriented reforms.

The DPJ targeted its media campaign at these very concerns, blaming the LDP for causing many Japanese to feel anxiety (*fuan*) about their futures. One television ad lingered on an old person, sitting alone on a bench on a gray day, staring at a river, evoking voters’ worries about whether pension, health, and eldercare programs would still be around for them as they aged. The DPJ’s positive ads featured images of families playing with their children and busy medical waiting rooms as the narrator explained that the DPJ was for “a politics for living” (*kurashi no tame no seiji*).

The party’s five-point “manifesto” also focused on these concerns. While point one called for eliminating wasteful government expenditures, the rest called for increased spending and other policy changes aimed at expanding the social safety net. Among the headline proposals were an expanded child allowance of \$276 per child per month for the first 13 years of a child’s life; elimination of public high school fees; scholarships for college students; fixing the pension system; restoring social insurance cuts; and revitalizing the regions by providing income supplements to farmers, reducing expressway tolls, and lowering gas taxes.

Capturing the swingers

The DPJ won because its image of change captured the floating voters. Sankei exit polls showed that 51.6% of floating voters cast their proportional representation (PR) ballots for the DPJ, compared to just 38.2% in 2005. The party’s stronger base in the metropolitan regions, combined with this success in attracting floating voters helped it virtually sweep the single-member districts (SMDs) in the densely populated Pacific Coastal zone

But if this were only a story of urban

floaters, the 2009 election would not have been an earthquake. The big story is that the DPJ succeeded in “nationalizing” the election, even in rural areas where the bulk of votes had long been delivered by the LDP’s clientelistic support networks. I saw this happening on my visit to Kumamoto—where I had taught English two decades ago—which I had chosen as a destination because it was solid LDP country.

Even here, the chief editorial writer for the *Kumanichi Shimbun* told me, constituencies that had long been solidly LDP were flirting with “giving the DPJ a try.” Officials from the LDP-linked Agricultural Cooperative (*Nokyo*) were seen as prioritizing their own political careers and salaries over the interests of farmers. Many rank and file farmers were tired of depending on *Nokyo* for everything and being directed to vote for the LDP. Ozawa was offering direct income supplements to farmers, by-passing *Nokyo*, and this sounded attractive to at least some farmers.

My informants in Kumamoto, who included Governor Ikuo Kabashima, pointed to other changes that were opening up rural areas to DPJ inroads. Koizumi’s cuts in public works spending meant fewer beneficiaries of construction spending. Municipal mergers had reduced the number of local assembly members who were important links in the LDP’s networks. And even in the countryside, voters now cared about quality of life concerns. In Kumamoto, groups opposed to building a dam had succeeded in convincing Kabashima to freeze construction, and others were pushing for him to approve destruction of another dam.

In 2005, the LDP had won four seats in Kumamoto handily and almost won the fifth (in the prefectural capital). This time, the DPJ candidate won solidly in Kumamoto City, picked up one additional seat, and came close in two other districts. The DPJ was even more successful in other parts of Kyushu. On that island and in Tohoku, two relatively rural regions where the LDP once had a virtual lock, the DPJ picked up 31 new SMDs. The upswing in the DPJ’s PR vote share was as large or larger in rural Tohoku, Hokuriku, and Chugoku as it was in urban Tokyo. It was this unexpected success in the countryside that turned what many expected to be a bare-majority win for the DPJ into a landslide.

I’m eager to see if the DPJ can be as good at ruling as it was in campaigning.

The context of post-Meiji political evolution

The next stage of politics

The politics of the last two decades has been shaped by the long, drawn out decay of the LDP. Now, with the overwhelming victory of the Democratic Party of Japan (DPJ), the glacial pace of change is over. Beyond that, in the eyes of the DPJ, this election marks a transition to a new way of governance. Up to now, modern Japan's political rule has gone through four stages. The DPJ hopes for a fifth stage.

Four previous stages

Stage 1: The charisma of Hirobumi Ito and Aritomo Yamagata—outstanding statesmen who contributed to the 1868 Meiji Restoration that launched Japan's modernization—was the key to governance. As a government of men rather than laws, Japan was led by a small group of elders (the *genro*) who ruled in the name of the Emperor and via a chosen bureaucracy. There was little role for politicians elected by the small portion of the population allowed to vote. Indeed, the parties had to recruit bureaucrats to enhance their own credibility and administrative capacity.

Stage 2: The deaths of the *genro* set off new changes. In the 1920s, known as the era of Taisho Democracy, party-led cabinets started to form and two major parties alternated in power. In 1925, Japan instituted universal manhood suffrage. The parties used bureaucratic personnel decisions as a tool of control. But the power of parties was limited, partly due to defects in the Meiji Constitution. For example, the Diet and the Cabinet were nominally the center of governance, but the military, the Emperor's Privy Council and the House of Peers were not subject to the Cabinet authority.

Stage 3: Under the stress of imperial ventures in China and the global Depression, Japan fell into turmoil. The military and rightwing groups rose in power at the expense of the still-weak parties. The bureaucracy became extremely powerful after the bureaucratic system was reformed by a completely exam-based recruitment sys-

tem. Part of the bureaucracy aspired to government direction of the economy, a clear link to the post-war management of the economy; and to the tendency for each ministry to support its independence from the other ministries as well as the Cabinet.

Stage 4: In the era of post-World War II democracy, LDP politicians and the bureaucracy have engaged in a symbiotic relationship. Consider budget formation. Each ministry drew up a request with only its own interests in mind and the new budget—the sum of these requests—was pared down in order to meet an overall framework. Adjustments tended to be uniform across the board. The tenacity of the whole structure was remarkable, with fierce resistance to big cuts in existing appropriations. The LDP-bureaucratic relationship was closely tied to business interests. Through single-minded pursuit of economic growth, Japan's economic performance excelled. But, social demands became more complex, while the structure of vested interests remained fixed and unchanging. Performance eventually took a downturn. The bureaucratic structure had now become part of the self-protective group of special interests.

Iio's analysis

To understand the DPJ's thinking about the next stage, it is wise to listen to political science professor Jun Iio of the National Graduate Institute for Policy Studies, who has had great influence among DPJ leaders.

Nominally, Japan is governed by a parliamentary system like that of Britain, in which the party with a majority in the Lower House of the Diet chooses the prime minister and sets up an administration, thereby controlling both executive and legislature. In its original form, a parliamentary system gives the government much more power than a presidential system such as that of the US, in which the President and Congress can be from different parties. Until just recently, however, Japan has not had a classic parliamentary system with a strong prime minister.

Instead, it has had weak prime ministers who have been unable to make bold decisions and major policy changes.

"This occurs because of a misunderstanding of the nature of a parliamentary cabinet system," says Iio "Vestiges of pre-war laws and institutions, and the conventions of LDP governments have created this misapprehension."

The first source of the problem, in Iio's view, lies in the "bureaucratic cabinet system," as he calls it. In a classic parliamentary cabinet system, ministers act as part of the governing party and represent the policies of the Prime Minister and his cabinet. The bureaucrats in the ministry act as professional, technical advisors and execute the Cabinet's policies no matter which party is in power. However, as noted above, during stage 3 and 4 of Japan's political evolution, Japan's cabinet system gave strong autonomy to each ministry. Accordingly, Ministers have become representatives of their ministries to the Cabinet, instead of the reverse. They act in accordance with the internal choreography of each individual ministry. As a result, career ministry officials continue to tell elected politicians that it will be difficult to carry out many of the major policy decisions promised by these politicians in the elections. Only half joking, Iio speaks of "The United Ministries of Japan."

The second source of the problem, says Iio, lies in "the dual power structures of the government and the ruling party." In the classic system, the function of policy making is concentrated in the executive, i.e. the Prime Minister and the cabinet, both of which are composed of leaders of the ruling political party (or parties in a coalition). Within the parliament itself, members of the ruling party are expected to pass the bills that the Cabinet sends to it.

In Japan, however, the LDP has several independent intra-party bodies for policy deliberation that are often more powerful than the official mechanisms of the government. These bodies came into being because politicians found it hard to control the bureaucracy through cabinets. To compensate, they created alternative bodies within the party. But, in fact, bureaucrats were also brought into party policy making. This contrivance complicates the policy-making process; makes the site of power and responsibility ambiguous, non-transparent, and even unaccountable; and produces both political (instead of professional) bureaucrats

and administrative special-interest politicians.

Through their daily contact with low and middle-ranking bureaucrats, special-interest politicians become deeply involved in political activities that adjust policies to the interests of their own electoral districts. They lose interest in major issues of nationwide policy change and in legislation and regulation that follow a broader governmental agenda.

The DPJ's antidote

The DPJ argues that, in order to create a major change in policies, it is necessary to make a major change in the policymaking process. The first step is to really put the elected government, i.e., the Prime Minister and the cabinet that he appoints, in charge, rather than the axis of career bureaucrats and backroom party barons.

As part of this strategy, the DPJ wants to create a National Strategy Bureau, to be headed by former DPJ chief Naoto Kan. It is notable that, earlier this year, Kan traveled to Britain to probe more deeply into the details of how its system works. The Bureau's staff will report directly to the Prime Minister. It will prepare that agenda for the Cabinet meetings, unlike under the LDP where the agenda was prepared by a pre-Cabinet conference of all the administrative vice ministers (i.e. the top career official) from each ministry. The DPJ plans to abolish the Administrative Vice-Ministers' Conference.

To exact further control over the ministries, the DPJ plans to send 100 Diet members inside the ministries to help head up policymaking. This is not as new as it sounds; at present the LDP sends almost 70 Diet members to the ministries. The difference is quite a few of those who had been sent by the LDP perceived their nomination as climbing up the ladder of LDP's seniority system as opposed to carrying out policy missions.

Except for officially designated persons, bureaucrats will be forbidden to continue their tradition of informal contacts with politicians. Each minister will make substantive interventions in personnel decisions concerning senior bureaucrats. Both measures are to ensure that the elected government has the upper hand over unelected bureaucrats by being able to fire defiant officials.

The Strategy Bureau will also play the lead in making budget priorities. Funding will first go to the priorities established by the Cabinet, in this case items like the child

allowance and gasoline tax reductions. Remaining funds will be allotted to other items. The goal is a flexible budget that reflects changing policy priorities rather than inertia based on past divisions of the pie among the ministries. This, too, is not as new as it may sound. Under Koizumi, the Cabinet-level Council of Economic and Fiscal Policy (CEFP) was supposed to play a similar role. However, the new Strategy Bureau is supposed to be more powerful than the CEFP. The ruling party's Tax Commission will be discontinued, ending the dual roles of party and governmental bodies.

Can the DPJ succeed?

The DPJ's efforts are not entirely new, as we have noted above. Under both Ryutaro Hashimoto and Koizumi, LDP prime ministers have made efforts to increase the power of the Prime Minister at the expense of both the bureaucracy and the party barons. Koizumi was more successful than Hashimoto, yet many of his changes were watered down once he left office.

The DPJ is trying to carry out this process to an even greater degree than its LDP predecessors. Yet, is a huge task to change the model of governance. It is not yet possible to judge whether this first manifestation of a DPJ administration will be able to produce a workable model.

For example, can the DPJ produce 100 skilled policymakers from among its Diet members to send to the ministries? Will the National Strategy Bureau that is to be set up under the prime minister be as effective as Koizumi's CEFP that was set up in his Cabinet? Or will the DPJ repeat the mistakes of Shinzo Abe's team of special cabinet assistants who were inadequately prepared, had internal squabbles, and became dysfunctional? Can the DPJ create a party infrastructure that can adapt to the achievement of the ambitious goal of governance change?

How will officials react to a new relationship with the government? In particular, the Ministry of Finance would be expected to place its own interests first when it comes to a through revision of vested interests in the budget. So, how much help will they give the DPJ? Will they accept their new role as apolitical professionals as in Britain, or will they take sides and try to undermine the DPJ? Will the bureaucracy itself be divided along partisan lines or between professionals vs. politicals? A confusing transition seems impossible to avoid.

First steps

One of the first steps we can expect to see from the new DPJ regime is increased transparency. During his term as Minister of Public Welfare in 1996, Kan released secret notes and shocked Welfare Ministry officials by confirming the ministry's complicity in tainted blood products that spread HIV to hemophiliacs. Lower House member Akira Nagatsuma ("Mr. Pension") discovered 50 million missing pension records and exposed the Social Insurance Agency's carelessness and moral corruption to the public. Nagatsuma made this promise: "When we assume power we will immediately reinvestigate past policies. Secret accounts will be discovered and hidden problems will be revealed." Such actions are essential if the DPJ is to keep its promise to do away with wasteful spending that simply helps vested interests via backroom deals, and to direct freed-up resources to new policies.

As part of the DPJ's promise to conduct fact-finding inquiries, some within the DPJ insist that it investigate the existence of an alleged secret Japan-US pact concerning Japan's three non-nuclear principles (not to make nuclear weapons, not to possess nuclear weapons, and not to allow their entry into Japan). Successive LDP governments have denied the existence of a document recording diplomatic exchanges, which includes a secret pact that allowed US military vessels carrying nuclear weapons to stop over in Japanese ports. The DPJ has said it will investigate the issue. An investigation of a secret pact may or may not be productive in its own right, but it is likely to move the secretive Japanese government towards greater freedom of information.

As the DPJ learned from these famous cases, the revelation of past mistakes not only helps resolve a problem but also contributes to the DPJ's popularity. With next July's Upper House election in mind, the DPJ will add its own interests into the equation. At best, this will increase administrative transparency; at worst it will divert attention to digging up scandals.

The era of one-party dominance is over. However, there is no guarantee that, in the long run, the two major parties will be the present DPJ and LDP. If the LDP cannot regenerate itself and fades away after its crushing defeat, then there will be a huge void in the electoral districts. The DPJ could possibly be caught up in a major party realignment.

False reports Obama team alarmed by DPJ

Taking it in stride

While the Obama administration has some concerns about this or that policy stance by the Democratic Party of Japan (DPJ), some of the press has inaccurately whipped these discrete concerns into a story about a possible “rupture” on both economic and security issues. And the Japanese press has amplified these reports, creating a false impression of discord.

For example, a *Washington Post* editorial stated that, “the threat of a nuclear North Korea makes Japan’s neighborhood too dangerous, we think, for the government in Tokyo to seek a rupture with Washington or for the Obama administration to let one develop.” It reads as if the DPJ were considering such a rupture or that Washington feared one, even though some sources say that the *Post* was trying to say the opposite.

Knowledgeable sources indicate that officials inside the White House, State Department and Pentagon are not talking in language anything like that being used by the sources from the conservative Heritage Foundation or the American Enterprise Institute (AEI), including a few ex-Bush administration officials, which are being cited in some of the press as alleged evidence of the Obama team’s thinking.

Heritage’s Kim Holmes, a former assistant secretary of State in the Bush administration, wrote in a *Washington Times* op-ed: “If the Obama administration... simply reacts to events in Japan, our long-standing alliance may simply wither away. Or worse, Japan may begin to realign itself with other countries such as China in a way that undermines our interests and the security of Asia.” Holmes adds that Japan’s failure to continue, “the anti-terrorist refueling operation, i.e., Japan’s lone ship in the Indian Ocean, “will be a test of the entire relationship.”

But this view is not shared by senior Obama advisors, nor by such former Bush officials as Michael Green, formerly of the National Security Council (see Green’s piece in the August *TOE*). The refueling “mission”—which has more importance symbol-

ically than in substance—is not regarded as a litmus test by the Obama team. Nor should it be. After all, as Chris Nelson, publisher of the *Nelson Report* points out, no one is calling the British withdrawal of ground troops from Afghanistan a test of the entire relationship (see interview with Nelson below).

Futenma brouhaha

The issue of transferring part of the American marines from the Futenma base on Okinawa to another base on Okinawa, with Japan footing part of the bill, has been a headache for years between Tokyo and Washington. The LDP has shown little interest in moving forward even on recently signed agreements and Obama was not enamored of Taro Aso. State Department spokesman Ian Kelly was quoted in newspapers as telling reporters that the United States has no intention of renegotiating the Futenma plan. Our sources indicate that this was an offhand comment made by Kelly in the corridor, not a prepared comment at the podium where he regularly answers questions.

Certainly, there is no appetite in either the State Department or Pentagon to renegotiate yet again an issue that has dragged on for years. But officials speak in very specific terms about the Futenma issue as a case in itself, not as a litmus test.

Prime Minister Yukio Hatoyama’s phone call with President Barack Obama and his meeting with Ambassador Jon Roos (where the two Stanford graduates reportedly exchanged memories) are said to have gone far to clarify any misunderstandings.

Incoming Assistant Secretary of State for East Asia Kurt Campbell countered all of this rumor-mongering during a talk at Washington’s Center for Strategic and International Studies (CSIS) given just after the Hatoyama-Obama phone call. “Transitions in democracies are difficult and this will take time,” he said. So, despite some bumps in the road due to the transition, Campbell commented that, “I’m confident

that the basics of our alliance remain in place. Are there challenges? Of course, but many of these are challenges that we’ve faced for decades. I have confidence we’ll do what needs to be done.”

Nelson, who attended the event, said Campbell was directly asked about fears that Hatoyama’s call for an “equal” partnership meant that Japan would be too independent of the US. He replied, “For the alliance to stay relevant, a degree of independence and Japanese self-confidence is absolutely essential. The US supports this and sees no contradiction between that and the two countries doing business.” As for talk of Japan moving closer to China and South Korea, Campbell added, “We’d like to see this and will support this.” Private sources indicate no difference between Campbell’s public comments and the Obama team’s private views.

Hatoyama’s essay

Part of the problem was reaction to the widespread circulation of an abridged version of Hatoyama’s “Voice” essay. This was read in some circles as a backing away from the US because of its criticism of “American-led globalization.” But that is a misreading, one that the Hatoyama team might have prevented by a better handling of the distribution of the piece (such as ensuring a full translation or making their own abridgement). Many in the US—including Obama himself—have criticized the “market fundamentalism” that took hold in the US in the past decade and helped lead to the today’s crisis. As economist Ed Lincoln pointed out, Hatoyama’s formulation is not all that different from the commonly used expression, “the Washington consensus.”

Hatoyama has indicated absolutely no desire to separate from the US economically. On the contrary, the DPJ endorsed a US-Japan Free Trade Agreement (FTA), although it later said that it would not include agriculture, which would make any negotiations impossible. Obama, who made a lot of protectionist-sounding statements during the primary campaign against Hillary Clinton, only to renounce them later, surely understands the difference between statements made for the sake an election campaign and genuine statements of policy made after the campaign is over.

Unquestionably, there are some problematic elements in Hatoyama’s essay. In his opposition to the neoliberal version of economic reform advocated by former Prime

Minister Junichiro Koizumi, he writes in ways that could be inferred as trying to retreat to old-style protection of moribund industries and firms even though in other writings Hatoyama has criticized the zombie-protection racket. Hatoyama wrote,

“Some people... supported leaving everything up to the dictates of the market. Others... believ[ed] that effort should be made instead to expand the social safety net and protect our traditional economic activities.” The DPJ will have to figure out how to

expand the social safety net precisely in order to make greater market flexibility politically and economically safer. However, portraying Hatoyama as “anti-capitalist” is on the same level as calling Barack Obama a socialist. (RK)

Chris Nelson

Editor and Publisher, *The Nelson Report*

Obama team OK with DPJ

Chris Nelson, TOE's DC correspondent, is the editor of The Nelson Report, a "must-read" daily briefing known as a venue in which, among other things, Nelson and DC policymakers clear up misunderstandings.

TOE: What is behind the inaccurate reporting that the Obama team is alarmed at the rise of the DPJ? Is it shallow interpretations by people who don't know the DPJ? Or is it deliberate effort to discredit the DPJ by “friends of the LDP” or others?

Nelson: The ‘conspiracy theory’ notion of concerted efforts to embarrass the DPJ, like most conspiracy theories, collapses of its own weight. From what we've seen so far, the US-based articles and commentaries reflect the domestic US political and strategic debate, rather than actual conversations, and disagreements, between the writers and anyone likely to set policy for the DPJ. The notion that a DPJ government is going to be some kind of anti-capitalist, anti-US anti-trade regime is...well, you know the word. But that does seem to be the hang-up of some of the more hysterical commentaries.

On balance the noise seems to reflect a probably quite normal anxiety over what any truly new, unknown political entity represents to one's own concerns and interests. In that sense, the hoo-ha will prove useful since it will get the anxieties out into the open, where adults can deal with them, or at least acknowledge what needs to be clarified and worked on. And, in that sense it's a useful “test” of DPJ competence. Are they listening? Can they separate the important from the trivial? Do they kill the messenger, or behave like pros?

The Pentagon and other strategic players have long had quite legitimate questions about the competence and constancy of Japan's performance on everything from missile defense, the symbolic efforts in the Indian Ocean, host nation support, Futenma, and the like, even under the LDP. So of course this litany of concern is going to be repeated and, if the critic knows enough, linked to specific remarks or positions by Yukio Hatoyama and Ichiro Ozawa. But six months ago (for that matter, one month ago) many of these specifics could just as easily have been linked to Taro Aso, or an LDP cabinet member.

TOE: Is the Obama team that concerned or is this press hype?

Nelson: I don't think anyone who matters in the Obama administration gives a tinker's dam about anything right now except how to avoid having the health care fight turn into a political melt-down for the future of this Administration. Not too far behind that is the Afghanistan debate, which is only now just getting started.

I have quoted Pentagon sources as raising concerns. But those are legitimate concerns at all times, i.e. the difference in Japan between promise and performance. That's not the same thing as “questioning the alliance,” which is what some of the really extreme commentaries have alleged (I name no names).

As for diplomatic/strategic issues involving Japan, the most immediate is continuing to coordinate on North Korea policy, the latest wrinkle being how to responding to Pyongyang's letter to the UN.

Special envoy Steve Bosworth is out in Asia as we speak, continuing to coordinate with China, South Korea and Japan. Let's see what transpires, and what the Hatoyama team has to say about North Korea policy once it takes over.

More generally, the White House made the pro-forma congratulatory statement, and the press release after the Obama/Hatoyama phone call was careful to list all the ways the US and Japan agree, and sought to make a point that the relationship, and the alliance, will be “broader” than under the LDP, in the sense of including top level focus on energy policy and the environment.

What's really important is that the public briefings were not accompanied by negative “on background” remarks about “what we really think.” That would have happened if the White House were genuinely upset. That may come later, as events unfold. On the other hand, it is not hard to imagine why anyone at the senior level would be less than pleased at the timing, and reaction to the Hatoyama “article,” since it introduced complications at a time when no one has time for them. At the working level, Kurt Campbell, the Assistant Secretary of State for East Asia, has been sensible and careful in his public remarks at CSIS (see quotations from Campbell in accompanying article).

I've seen nothing at all to indicate any of the media angst about Japan is coming from the White House or National Security Council in the sense of trying to pressure the DPJ.

TOE: One of the complaints is about the years-long negotiations to transfer some US Marines from their base in Futenma Okinawa to another location in Japan as well as to Guam, with Japan footing part of the bill. But this was a longstanding problem with LDP. Why are some in Washington suddenly writing about it as a litmus test of the DPJ's commitment to the alliance?

Nelson: That's a fair question. I haven't seen anyone screaming that NATO is going to collapse because the British government is pulling its ground troops out of Afghanistan.

Of course, there is an element of “fair test” in terms of seeing how Hatoyama talks about it in public, and how he deals with American concerns about the deteriorating situation in Afghanistan, including the non-existent international support. As the DPJ is about to find out, governing is damn hard. Ditto on the Indian Ocean refueling [which expires in January under current law; the DPJ has no intention to renew the law—ed.]. It would be damn stupid to make this a litmus test of the alliance, since the operation isn't important anymore, and Obama and his team have a lot more important fish to fry with Japan. So, as I said, a lot depends on how Hatoyama handles it, what sensitivities he shows to Obama's situation, including the rising domestic debate here about Afghanistan.

That doesn't mean that the Defense Department won't be tough on its issues. Why not? That's its job. And Tokyo will do what it wants to. That's Tokyo's job. Their mutual job is to make sure the relationship doesn't get bogged down in unnecessary squabbling over the non-essential.

NPLs not mushrooming—so far They're baaaack (not)

The dog that didn't bark in Japan's recession, the most severe in its postwar era, is another round of bad debts. Instead, at least so far, Japan seems to have continued dodging that bullet. As of March 2009, the ratio of NPLs—i.e. loans at least three months in arrears—to total loans stood at 1.9% at the major banks and 3.0% at all banks. That's essentially the same ratio that has prevailed for the past few years (see top figure). We continue to believe that, assuming continued recovery in the general economy, Japan is likely to avoid a repeat of the debt crisis even though NPLs will rise somewhat (continuing the trend we reported in our March 2009 issue).

There has been an increase in "needs attention" loans. These are loans where interest payments are now current but there is reason to fear that borrowers may fall into arrears down the road. At major banks, "needs attention" loans have gradually increased from 6% of all loans in 2006 to 7.8% as of March 2009. Among all banks, needs attention loans have increased from 9.5% in 2006 to 11.7% (see again top figure). The total of NPLs plus "needs attention" loans is 15% of all loans, half the ratio earlier in this decade.

Bank losses on bad loans tripled from a year earlier to ¥3 trillion yen, but that is still the lowest level since fiscal 2004. These losses amounted to 0.64% of GDP. By comparison, such losses reached almost 3% of GDP per year during the late 1990s (see bottom figure).

To be sure, red ink flowed like water at the banks in the early part of the year. The aggregate net losses at Japan's 123 banks totaled ¥2 trillion (\$20 billion) on a parent-only basis in the fiscal year ending in March, the first year to aggregate losses since fiscal 2004. The second quarter has shown a rebound. What's important is that the major cause of the red ink was losses on bank holdings of corporate stock, derivatives and other securities, rather than a huge increase in losses on NPLs. Banks suffering losses due to mark-to-market write-downs on securities can recover as the market price of such securities rebounds. Moreover, they can replenish capital to cover such losses. Unlike in the 1990s, the banks have more of a cushion to absorb such losses.

By contrast, when the major problem is that a host of nonfinancial firms chronically make products that are worth less than what they cost to make, the economy cannot grow. Thus, the NPL ratio is a better leading indicator for the overall performance of the economy than are bank profits or losses from other causes.

Averages can be misleading. At the regional banks—which hold 42% of all loans—4.4% of all loans are nonperforming and a stunning 17% of all loans are in the "needs attention" category. This is important because the small and medium-sized firms that dominate regional economies are more dependent on banks than big firms, which can tap other sources of credit.

How has Japan avoided an NPL resurgence?

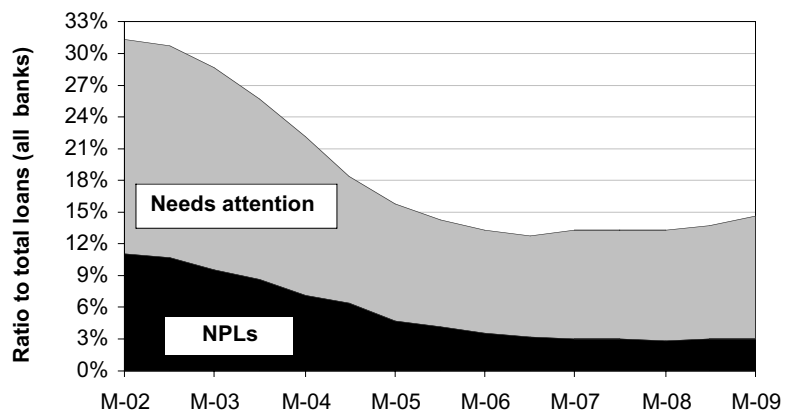
For one thing, firms reduced their bank debt by nearly 30% between 1996 and 2006 precisely

to avoid being caught in another debt crisis. A second factor is that interest rates have been reduced to such ultra-low levels that even moribund firms can appear to be current on their debt. 4.5% of all loans charge less than 0.5% interest; nearly 20% charge less than 1% and 40% charge less than 1.5%. A far higher percentage of firms are paying ultra-low rates now than during the 1990s-early 2000s.

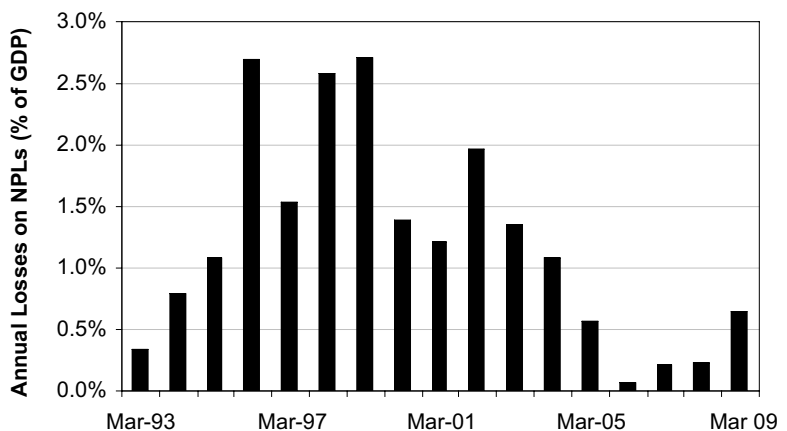
Hidden NPLs?

It is possible that there is a lag effect and NPLs will rise in the coming few quarters. It is also possible that some problematic loans are being covered up. For example, one investor told us of being offered several NPL deals where the firm would pay only 35-40% of face value but where the loans are still carried as performing by the banks. The borrowers are paying the interest. So, strictly speaking, they are not NPLs. But the collateral is severely impaired and the willingness of lenders to sell them at such a huge discount indicates some fear of nonpayment in the future. Hence, the loans should be in the "needs attention" category, but they have not been labeled thusly. It's impossible to tell how big a problem this is, but undercounting NPLs was enormous in the 1990s.

NPL ratio barely grows so far despite recession



Bank losses grow but nowhere near past levels



Source: Financial Services Agency
Note: For definitions, see text

SECURITY

by Gregg Rubinstein

Japan's F-X Fighter Program Symbol or Substance?

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From time to time, US-Japan issues make headlines because they become “tests of the relationship” whose impact is as much symbolic as substantive. From Washington’s side, one such test became Japan’s willingness to keep a refueling vessel in the Indian Ocean. In the case of Tokyo, a similar issue has arisen over US unwillingness to sell Japan the F-22 aircraft for its F-X fighter program, F-X selection, which should be a centerpiece of collaboration on building a critical defense capability, threatens instead to become a contrived litmus test of commitment to the alliance.

Background

Five years ago, the Japan Defense Agency (JDA, now elevated to the Ministry of Defense, or JMOD) decided to terminate its troubled F-2 fighter program. This move left unresolved the replacement of long-outdated F-4 aircraft still operated by Japan’s Air Self Defense Force (JASDF). Japanese defense officials thus launched the F-X project to acquire an aircraft that would:

- embody the latest technology;
- be available for timely delivery (selection in 2008; delivery from 2012);
- offer substantial technology transfer from suppliers as well as Japanese industry participation in production.

A serious problem became apparent almost immediately. None of the aircraft considered—the US F-22, F-35, F-18E Super Hornet, and upgraded F-15, or the European Typhoon, Rafale, and Gripen—could meet all the requirements. Clearly some trade-off had to be made. But this never happened. Instead, after more than four years of internal study and bilateral dialogue, work on F-X became deadlocked. Selection has been deferred to at least 2010,

with potentially serious impact on JASDF force structure, alliance airpower capability, and Japan’s defense industrial base.

Disconnect

One might assume that the JMOD’s decision would reflect a careful examination of threats, capabilities, and requirements. However, consistent with a view of Japan’s Self Defense Forces (SDF) as a deterrent under the US alliance, Japanese defense planners have more typically approached hardware acquisition in terms of symbolic presence and industrial base development than operational requirements—let alone any expectation of deployment for combat.

Likewise, until recently, US-Japan security consultation mechanisms made no provision for collaborative planning related to critical defense capabilities or oversight of cooperative acquisition programs. This situation reflects the peculiar nature of an alliance in which Japanese and US military forces have (with rare exception) not actively collaborated in the manner of NATO allies (during the Cold War as well as more recent exercises in the Balkans, and now Afghanistan).

There has thus been little incentive to pursue continuous dialogue on defense requirements, acquisition planning, or armaments cooperation as seen in NATO. Dialogue on such matters has been further inhibited by a tendency on both sides to segregate the defense and economic aspects of bilateral relations (a legacy of 1980s trade disputes)—even in areas like defense acquisitions where they clearly coincide.

Thus, sales and licensed production of major US defense systems in Japan were undertaken in an ad hoc manner with at most tenuous connection to broader policy con-

cerns. For many years this level of interaction seemed sufficient. Japan operated advanced US-origin equipment on which its defense forces could acquire basic competence (if not real world experience). Meanwhile its defense industry could be nurtured through subsidized licensed production and domestic development projects. Steady economic growth ensured that, even when confined to 1% of GDP, Japanese defense budgets were large enough to pay the inflated bills. The DOD was content, and US contractors profited handsomely.

However, growing regional threats, increasing exposure to international operations, stagnant budgets, and serious pressure for meaningful reform of acquisition practices are reshaping the conditions under which JMOD must plan and implement procurement of defense capabilities. All of these trends have converged on the F-X program.

The F-22 muddle

Japan’s defense community first approached F-X as another exercise in acquiring impressive hardware to fill in force structure and provide work for industry. Not surprisingly, interest quickly settled on the high tech, high profile F-22. As had been the case with procurement of the F-15 fighter a generation earlier, the F-22 seemed to embody deterrent potential and its provision to Japan would symbolize continued US commitment to the alliance. Growing preoccupation with Chinese military forces and North Korean nuclear posturing only reinforced Japanese perceptions of the need for F-22s—to the point of expressed willingness to forego Japan’s customary share of production for direct purchase of F-22s from the US.

Such arguments addressed appearances rather than reality. Appeals for the F-22 were not sustained by serious study of threats and requirements, either within Japan or bilaterally. Assertions of F-22 technological superiority—in particular the aircraft’s ‘stealth’ features—often came across as mantra-like recitations rather than any real understanding of this capability and how it relates to other, equally important considerations in overall effectiveness. The tone of this lobbying led many US observers to conclude that Japan’s real concern with F-22 lay more in national prestige than national defense.

Such perceptions undermined any prospect for release of the F-22 to Japan. The long-standing legislative ban on F-22

exports to any country (the 'Obey Amendment') need not have been an insurmountable obstacle. Had key US officials thought that Japanese F-22s would strengthen Asia-Pacific security, they could have lobbied to modify Obey Amendment language as well as resolve other, intra-DOD concerns, such as security of sensitive technologies. But no such position emerged—not (as suggested by some critics in both the US and Japan) due to fear of reaction from regional neighbors—but because no one in DOD or elsewhere in the US government advanced a credible case for F-22 export to Japan (or anyone else).

Over the past three years, the US and Japan have continued to talk past each other. High-level representations from Tokyo were sidestepped by US officials who cited Obey Amendment restrictions rather than risk confrontation by voicing a conclusive 'no' at a sufficiently senior level. Slim as it was, this margin of ambiguity on access to F-22 continued to feed unrealistic expectations in Tokyo and fuel further lobbying through this summer. F-22 advocates in the US who saw exports as a means to forestall the closure of production lines also encouraged Japanese efforts. Lack of finality on the F-22 issue has meanwhile led a break down in bilateral dialogue and stalled the F-X selection process.

F-X and FS-X: déjà vu?

Posturing on F-X has been compared to the controversy over Japan's earlier FS-X (F-2) fighter program. There are similarities in motives among major players: in Japan, a quest for leading-edge technologies and (however unrealistic) autonomous defense production among government, industry and political stakeholders; in the US, defense contractors seeking more business, and government officials who equate interoperability among allied defense forces with a "buy US" approach to Japan's procurements. Lack of an institutional framework for dialogue on requirements and acquisition hampered interaction on FS-X in the 1980s as it has F-X more recently.

However, differences between these programs matter more. Positive interest in FS-X was soon buried under politicized, trade friction-fed confrontation; the impact of this program on arms cooperation proved almost entirely negative. While F-X/F-22 matters have not received the headline attention given FS-X, the substantive impact of F-X is potentially far greater. Constructive

engagement on this program could finally bring acquisition and industrial base concerns in line with an ongoing evolution in policy and operational aspects of alliance cooperation.

A way forward

Three long-standing lessons should instruct future interaction on F-X and other efforts at building defense capabilities:

- F-X cannot be another exercise in cherry-picking high profile hardware; its selection process should reflect a shared understanding of alliance requirements.
- Provision of the most advanced US defense systems to Japan cannot be justified as gestures of alliance solidarity. Such patron-client expectations no longer suffice when Japanese forces need to work with the US and other allies in real-world security operations.
- Nor should Washington assume that Japan will habitually continue to 'buy US' in the name of alliance obligations (even if it has hitherto done so to a striking degree). Japan has viable non-US alternatives for F-X and other major programs. Here too there must be a credible operational/ business case—not just alliance window-dressing—for cooperation on defense programs.

Postponement of F-X selection and pending termination of F-22 production may finally have cleared the way for more constructive engagement. A revival of Roles, Missions and Capabilities (RMC) discussions initiated several years ago has already encouraged both sides to close a long-standing gap in security consultations between policy objectives and acquisition programs. More recently, RMC talks generated a Capability Assessment Group (CAG) initiative to address US-Japan interests in key defense mission areas, beginning with airpower studies. Though not explicitly linked to F-X selection, CAG airpower study has provided valuable feedback on projected threats and capabilities that should guide further talks.

Cooperation on Ballistic Missile Defense (BMD) offers valuable lessons. Here for the first time the US and Japan engaged on common interests from assessment of threats and requirements through Japanese acquisition of current BMD systems and joint development of future capability. Even if views were not always aligned, they were at least guided by a convergence of interests.

Current US defense officials are determined to reset interaction on F-X to support a balanced evaluation of remaining competitors for this program. Key JMOD officials have concurred in this initiative, and the two sides are now engaged in an "Airpower Dialogue" that aims to prepare the way for an informed JMOD decision on F-X selection some time next year.

Each contender aircraft has particular trade-offs on performance, cost, technology release, and potential for industrial cooperation. Japanese priorities for F-X procurement still vary depending on who is asked. What is the real requirement for this aircraft? Is it air superiority, as JASDF leaders continue to argue? Or does F-X need multi-role capabilities—for not only fighter operations, but also 'counter-air' missions such as pre-emptive attacks on hostile missile sites? Obviously this point treads on Japan's long-held 'defensive weapons' posture. Definitions of 'defensive' have shifted steadily over the years. Though still rejected by Japan's knee-jerk left, the need to develop counter-air operations is widely understood within Japan's defense community; the question is now 'when' rather than 'if' such capability will emerge.

How important is Japanese industrial participation in F-X procurement? Status and symbolism-focused appeals for F-22 were prepared to sideline industry concerns. Not surprisingly, industry and its government advocates argue that without F-X work Japanese defense industrial base capabilities will suffer serious, perhaps irreversible damage. Lately these arguments seem to be gaining ground.

Can an F-X program implemented now provide a definitive solution for JASDF and alliance airpower needs? Or will a more objective evaluation recast F-X as a "bridge buy" toward a follow-on aircraft in the 2020s? An incoming Democratic Party of Japan government might decide to defer the entire F-X program, along with a pending revision of defense guidelines.

All this suggests that F-X dialogue should focus not on "picking a winner" but on establishing a base for evaluation that covers all relevant operational and acquisition concerns. If successful, this "cooperative acquisition" approach to F-X can be applied to other important mission areas, with obvious benefits for Japanese defense capabilities, alliance operations, and effective defense procurements.