

# Japan Analysis

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***Following the Liberal Democrats victory, what is the political agenda of Abe Shinzō's government?***

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## EDITORIAL

### ***Following the Liberal Democrats victory, what is the political agenda of Abe Shinzō's government?***

As predicted by the pollsters, the LDP achieved a wide-ranging victory in the Senate elections on July 21<sup>st</sup> 2013, winning 63 of the 120 contested seats, out of the overall 242 comprising the Upper Chamber. As a result the coalition government – consisting of the LDP and its new Kōmeitō ally – now possesses an absolute majority in the two chambers for the first time since 2007... when Prime Minister Abe Shinzō was accused of leading the LDP to an unprecedented defeat in the elections to the Senate.

This quasi-redemptive victory has come after Premier Shinzō launched his long awaited “third arrow” in June 2013, aimed at reshaping the Japanese economy and re-establishing permanent growth. The basis of his plan for economic modernisation is to revitalise the private sector through public sector demand, to liberalise the innovative sectors of the economy, and to support greater national

participation on the international scene. To achieve this, certain measures for deregulating the labour market are to be implemented, but their precise nature is still undecided. While the stock market euphoria which followed the first two “arrows” (monetary devaluation and stimulation through public expenditure)<sup>1</sup> had begun to fall back to earth, reactions overseas continued to fluctuate. On the one hand there was a desire to see the positive results of these ‘Abenomics’ policies, to support the argument for avoiding austerity policies (like that of President François Hollande who, during a visit to Japan, called indirectly on Europe to follow the measures of the Abe government), and on the other hand, there was an attack on its precipitate nature, seeing in it an inevitable “chronicle of the death foretold” of the Japanese economy. The number of seats

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<sup>1</sup> By calling the three main directions of his economic programme “arrows”, Abe Shinzō is referring to a legend from his native Yamaguchi area: One day a local lord is said to have asked each of his sons to break an arrow, and then to break three arrows together, which none of them managed to do, thus exhorting them to remain united in order to protect their domain.

won by the LDP seems to indicate that the Japanese electorate has voted collectively for policies which reaffirm Japan's economic power together with a markedly more nationalist rhetoric than the Noda government, and even more so than the governments of Hatoyama Yukio and Naoto Kan.

Nonetheless, the Abe government knows that Japanese and international opinion is currently afraid that the Prime Minister might use his increased power, not to prioritise the pursuit of the reform programme but in favour of his proposal to revise the pacifist nature of the 1947 Constitution, to which many Japanese are still deeply attached. And how is it possible to reconcile the Prime Minister's desire to achieve a rapprochement with the United States, within the framework of a broader alliance supported by Southeast Asian countries hostile to China's maritime ambitions, and his call to revise the Constitution, which was drawn up under the occupation of Japan by the allied powers? Although he has not departed from his nationalist revisionist tendency since taking office (for example, in his ambiguous querying of Prime Minister Murayama's expression of regret in 1995, or of the verdict at the Tokyo trials), Abe Shinzō is trying to strengthen the Japanese-American strategic alliance in the Asian Pacific area, and this has forced him to distance himself from such outrageous provocations as the remarks on the comfort women by the mayor of Osaka, Hashimoto Tōru.

Under these circumstances it is not surprising that the government's foreign policy was left rather opaque before the elections. But still, it was difficult not to see the significance of all the talk about "the return of Japan" onto the international economic scene, thanks to its increased competitiveness and the growth of its large companies' presence in Southeast Asia, or to wonder about its repercussions on this island nation's relationship with China

and the two Koreas. Immediately after the victory of the LDP, questions on the Abe government's political agenda focused on the following dilemma: will the Abe administration take advantage of its comfortable majority to put into effect the structural reform programme contained in the "third arrow", or will it seek above all to smooth the way towards a revision of the Constitution? Abe Shinzō makes the national interest his highest political priority, but how will he defend it in the interests of the whole of Japanese society?

As the summer brings the commemorations of the end of the Second World War and their heightened tensions at a time when the dispute over the sovereignty of the Senkaku/Diaoyu islands has not died down, this issue No. 30 of *Japan Analysis* discusses the possibilities (or otherwise) of a structural reform in the relations between Japan and its East Asian neighbours in the wake of the second Abe government's first few months in power. It opens with an analysis by Yann Favennec who observes the latest developments in the Japanese-American alliance and the possible effects of Hashimoto's polemics on it, and the separatist trends affecting Okinawa. This is followed by Adrienne Sala's analysis of the initial effects of the Abe government's stated intentions on the economy and on Japanese enterprises which are increasingly turning towards the emerging markets of Southeast Asia. Finally two translations of articles published in volume 18 of the quarterly *Gaikō* ("Diplomacy") present the ideas of two thinkers in the Abe Cabinet: Honda Etsurō and Yachi Shōtarō who argue respectively for a reform in the operations of the Bank of Japan and the "realistic" choice to join the Trans-Pacific Partnership.

**SOPHIE BUHNIK**

## CLOSE UP ON THE NEWS

### 1. Prime Minister Abe and the Japan-US Alliance: History is in the way again.

- YANN FAVENNEC

“Japan is back”: that was the title of a speech from Abe Shinzō at a conference held in Washington on February 2<sup>nd</sup> 2013 by the CSIS (*Center for Strategic and International Studies*) at the end of his official visit to the USA as Japan’s new Prime Minister<sup>2</sup>. This expression, with its somewhat formulaic nod to a famous Hollywood film, encapsulates perfectly the two objectives which the new Japanese strongman intended to pursue in his first summit meeting with President Obama:

- To promote the image of Japan as a major economic power returning to the

<sup>2</sup> “Abe shushō, bōeiryoku kyōka no hōshi wo dentatsu. Nichibei shunō kaidan” (The Japanese-American Summit: Prime Minister Abe announces his intention to strengthen Japan’s defence capabilities), *The Wall Street Journal (Japanese edition)*, December 23<sup>rd</sup> 2012.

<http://jp.wsj.com/article/SB10001424127887323364604578321270536751786.html#articleTabs%3Darticle>

international scene after many years of stagnation, and whose rebirth has been enabled by “Abenomics”, namely a political programme bringing together a plan for re-launching the economy, energetic monetary deregulation, and structural reforms aimed at supporting the competitiveness of the Japanese economy and its industries.

- To reassure the United States about his intention to strengthen the Japanese-American alliance, putting it on a firm footing as a decisive factor for regional stability in Asia, which had seriously deteriorated since Hatoyama Yukio and the JDP had been in office.

It is more or less certain that Abe Shinzō has achieved his proposed goals: he did in fact manage to win the precious support of his American ally to pursue his economic reforms<sup>3</sup>, which were heavily criticised by some

<sup>3</sup> « Obama-shi, Abenomikusu ni rikai shimesu : Nichibei shunō kaidan » (Japanese-American Summit: Obama expresses his understanding for Abenomics), *Asahi Shimbun*, February 23<sup>rd</sup> 2013,

industrialised countries (especially Germany and South Korea) because they were worried over the possible knock-on effects on their own exports. On the defence and security issues, the Prime Minister managed to gain guarantees from President Obama for US military support to Japan in the event of an armed conflict with China – even if this was not an openly declared war – which could arise from the Sino-Japanese dispute over the Senkaku/Diaoyu islands. However, while President Obama declared that these islands were covered by the Japanese-American Security Treaty, he refrained from all comment on the territorial dispute itself, and refused to explicitly recognise the sovereignty claimed by either side<sup>4</sup>. Moreover, he urged the Japanese Prime Minister to behave responsibly by avoiding excessive tensions with China over the question. Abe simply replied that Japan would continue to act coolly, giving priority to continuing dialogue with its Chinese neighbour.<sup>5</sup>

Can the summit meeting be said to have been a complete success? Although the Japanese Prime Minister claimed to have reached a welcome understanding with Obama<sup>6</sup>, stating

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<http://www.asahi.com/business/update/0223/TKY201302230178.html?ref=reca>

<sup>4</sup> « Abe-Obama kaidan, seikō demo nokosareta nichibei dōmei no kenen » (Worries over the Japanese-American Alliance despite the success of the meeting between Abe and Obama), *Japan Yahoo News*, March 4th 2013, <http://zasshi.news.yahoo.co.jp/article?a=20130304-00000000-sbunshun-int>

<sup>5</sup> « Nichibei shunō kaidan : Senkaku mondai de Nippon ha reisei ni taiō to setsumei, Abe shushō » (Japanese-American Summit: Prime Minister Abe declares that Japan will continue to behave coolly over the question of the Senkaku islands), *Asahi Shimbun*, February 22nd 2013, <http://www.asahi.com/international/reuters/RTR201302230015.html>

<sup>6</sup> « Obama Bei-Daitōryō to aishō atta. Shushō, shinrai kankei kōchiku ni jishin fukameru » (The exchange with President Obama went well. The Prime Minister has increased confidence in the

that for him it provided additional reasons for strengthening Japanese-American relations, some experts disagree with his assessment and believe that the summit meeting was a failure. Among these is Magosaki Ukeru, a writer and former senior official in the Gaimushō (Ministry of Foreign Affairs), who has no qualms over calling Abe Shinzō's visit to the United States a real humiliation for Japan<sup>7</sup>. In his view, the main reason for this was the attitude of the American political leadership towards the Japanese leader. According to this former diplomat, the visit by a leader of an allied country is not considered a humdrum event in international relations. A visit of such importance presupposes that the Japanese Prime Minister, who is considered an important visitor, ought logically to have been invited to give a speech to the Senate and the House of Representatives after his meeting with the President, to emphasise the importance of Japanese-American relations. Magosaki reminds us that the South Korean President Park Geun-Hye was accorded this right when she visited Washington in May 2013. But Abe Shinzō had to be satisfied with giving a speech at a completely unofficial conference, attended mostly by leading former State and Defence Department officials such as John J. Hamre (Director of the CSIS) and Richard Lee Armitage<sup>8</sup>, while not a single member of the Obama administration was present.

Magosaki considers the Prime Minister to have been literally snubbed by the members

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building of a relationship of mutual understanding), *Asahi Shimbun*, February 25th 2013, <http://www.asahi.com/shimen/articles/TKY201302240371.html>

<sup>7</sup> Magosaki Ukeru, « Beikoku ni Kanzen ni koke ni sareteiru Abe gaikō » (Abe's diplomatic initiative humiliated by the United States), *Nikkan Gendai Channel*, May 17th 2013, <http://ch.nicovideo.jp/nk-gendai/blomaga/ar232211>

<sup>8</sup> This neo-conservative, moreover, has the reputation of considering Japan to be more of a vassal than an ally of the United States.

of the Obama administration<sup>9</sup>. He explains this situation by referring to the terrible reputation which Abe Shinzō earned in the eyes of the US Democrats during his first term in office, when he made some controversial statements about the historical issue of the comfort women<sup>10</sup>. Peter Ennis (the New York correspondent for the *Tōyō Keizai Shimbun*) supports Magosaki Ukeru's views, asserting that while Barack Obama and his administration welcomed Japan's return to the fold as a faithful ally of the United States, Abe Shinzō as a political figure was not necessarily considered welcome<sup>11</sup>. However, Magosaki and Ennis do not deny that the Japanese Prime Minister showed his capacity for restraint during his Washington visit. Abe refrained from making any speeches openly hostile to China, reminding his listeners that the latter remained an indispensable partner for Japan in the Asia-Pacific region despite the territorial dispute between the two, and he was careful not to make any clumsy historical allusions which might upset his hosts. But his image as a hawk on the Japanese political scene remains. In the view of Daniel Sneider, associate director of the University of Stanford's Asian Pacific Research Center, the Japanese Prime Minister's earlier views on the historical issues have nourished a feeling of deep mistrust among the current American leadership. According to this academic the latter are afraid that out of

<sup>9</sup> Usually, after a summit meeting there is a joint press conference attended by the two heads of state. This was not the case after the meeting between Abe and Obama.

<sup>10</sup> We should remember that following Abe's declaration casting doubt on the compulsory nature of the plight of the comfort women, the US Senate, on the initiative of some Democrat senators, passed a motion condemning the Japanese Prime Minister's statements and forcing the latter immediately to offer some official excuses.

<sup>11</sup> Peter Ennis, "Abe hōbei ga daiseikō toha ienai riyū" (The reasons why Abe's visit to the United States is not a great success), *Tōyō Keizai Online*, March 13th 2013, <http://toyokeizai.net/articles/-/13248>

ideological considerations Abe may provoke pointless tensions with China (an economic partner whom the US considers to be currently a more influential player than Japan in East Asia), thus endangering US interests in the region. Consequently the United States would like Japan under Abe Shinzō to remain a "docile" ally, and it refuses to treat him as an "equal" partner, insofar as that might risk giving him power as a nuisance factor<sup>12</sup>.

The arms-length posture of the Obama administration may explain the haste displayed by Abe Shinzō, on his return to Japan, to voice his resolve to speed up the process of implementing certain key elements in his policy for strengthening the Japanese-American alliance, such as:

1. to revise the Japanese Constitution, and its article no. 9, so as to allow Japan to exercise its right to collective defence;
2. to transfer the Futenma airbase (the main US military installation on Okinawa) to its new site at Henoko<sup>13</sup>;
3. to prepare for Japan's forthcoming participation in the talks to join the free trade agreements or Trans-Pacific Partnership.

Faced with the repeated provocations by China in the seas around the Senkaku/Diaoyu islands<sup>14</sup>, it is easy to understand why Abe

<sup>12</sup> Peter Ennis, "Amerika ha taitō na nichibei kankei ni kyōmi nashi : Sutanfōdo daigaku Danieru Sunaidā ni kiku" (Questions for Daniel Sneider of Stanford University: the United States is uninterested in equality in Japanese-American relations), *Tōyō Keizai Online*, 14 février 2013, <http://toyokeizai.net/articles/-/12903>

<sup>13</sup> On the outskirts of Nago municipality, on Okinawa

<sup>14</sup> These provocations, in the form of the endless despatch of surveillance vessels into the waters around the Senkaku/Diaoyu islands, are not dying down despite the relative silence on this issue by the Japanese media since the LDP returned to power.

Shinzō feels a desperate need to win the confidence of the American leadership by multiplying the number of goodwill gestures in their direction. Our first step is to review these gestures in chronological order, and then to examine the recent controversies which threaten to reverse their effects and may lead to a distinct regression in Japanese-American relations.

### **Attempts at seduction undermined by history-related polemic**

There was considerable surprise in Japan on March 15<sup>th</sup> 2013, when the Prime Minister announced his government's intention to take part in the negotiations to join the TPP, since he had declared during the elections to the legislature that he would take all the time he needed to weigh up the interests of the nation's different industries (such as automobile manufacture) before entering into any kind of discussion. Peter Ennis had more or less foreseen such a move: even though Abe Shinzō probably wished to await the outcome of the forthcoming elections to the Senate before taking any decision, he would have no choice but to push ahead with Japanese membership of the TPP in order to satisfy the strategic expectations of the United States, because the TPP has the dual aim of strengthening US economic influence in the Asian Pacific region and of building a *cordon sanitaire* around its Chinese rival through forming alliances. But for Abe it was above all a matter of proving to Japanese public opinion that he was the man of the hour, able to use the situation to add a further dimension to the Japanese-American alliance which had grown weaker after the JDP's time in power from 2009 to 2012.

However, Ennis is doubtful about the Prime Minister's real ability to bring about effective reforms to Japan's customs legislation in line with the provisions of the TPP (and if this

process were to take too long, that would risk irritating the Americans whose patience is relatively limited) while also resisting pressure from those Japanese interest groups fiercely opposed to the free-trade treaty<sup>15</sup>. The immediate effect of the Prime Minister's declaration was a radicalisation of Japanese agricultural producers, who fear that the strengthening of American and Australian competition would be a death blow<sup>16</sup>. Clearly, Abe's economic wooing of the United States does not elicit a unanimous response in Japan. If the Prime Minister really intends to re-establish economic ties with his American ally, he will have to overcome certain obstacles in their way.

On March 22<sup>nd</sup> 2013, a new event caused surprise and consternation. The Japanese media reported the instruction issued by the Bōeshiō (the name for the Ministry of Defence) to the current governor of Okinawa, Nakaima Hirokazu, to prepare the ground at the Henoko site, not far from the Nago municipality, in order to carry out the transfer of the American airbase at Futenma. The latter is the major US military base on Okinawa but it also has the reputation of being the most dangerous, since it is located in the midst of inhabited areas. The possibility of an accident during military exercises – which has already happened on many occasions in the past, even though the number of civilian casualties has until now remained relatively low – gives rise to considerable anxiety.

The Futenma base has long been considered a thorny topic between Japan and the

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<sup>15</sup> Peter Ennis, “Abe hōbei ga daiseikō toha ienai riyū” (The reasons why Abe's visit to the United States is not a great success), *Tōyō Keizai Online*, 13/03/2013, <http://toyokeizai.net/articles/-/13248?page=2>

<sup>16</sup> Since then there have been weekly demonstrations and publicity campaigns denouncing the TPP to the general public, especially in Hokkaidō, where agriculture is still the region's main economic sector.

United States. The two countries reached an agreement in 1996 for the return of a part of the airbase to Japan, but the main part remained as before. The Henoko site had been mentioned on several occasions as a potential destination for receiving the American military installations, but the transfer had never been carried out, since the inhabitants of Okinawa demanded the removal of the base right out of the Okinawa archipelago. By taking this decision, the Abe government would appear to have decided to overrule them. The instruction from the Bōshō was received with disappointment and disbelief. The governor of Okinawa, Nakaima Hirokazu, despite his reputation for being conciliatory to the Japanese government over the presence of the American bases, considered Tokyo's decision "incomprehensible"<sup>17</sup>, and reserved the right to reflect before responding. Whatever his final conclusion, the Abe government seems intent on settling the question of the Futenma base by allowing the United States to station their armed forces within the same area of strategic importance<sup>18</sup>.

Then on April 10<sup>th</sup> 2013, Abe Shinzō and Hashimoto Tōru, co-chairman of the Party for Restoration, reached an agreement on a co-operation between their respective parties to give priority to modifying article 96 of the Japanese Constitution<sup>19</sup> in the forthcoming

<sup>17</sup> "Nakaima chiji : Rikai dekinai. Henoko umetate shinsei" (Governor Nakaima considers the instruction to prepare the ground at Henoko : incomprehensible), *Asahi Shimbun*, March 22nd 2013, <http://www.asahi.com/politics/update/0322/SEB201303220016.html>

<sup>18</sup> This has always been the Japanese government's argument to justify keeping American bases on Okinawa.

<sup>19</sup> Article 96 sets out the rules for changing the Constitution: any textual alteration is subject to gaining the support of a majority of over two thirds of the votes in the Chamber of Representatives and the Senate, followed by an absolute majority of the votes cast in a national referendum. The Abe government hopes to simplify this process by replacing the current

elections for the Senate<sup>20</sup>. The aim of this move is to smooth the way to alter the Constitution, which currently requires winning a majority of over two thirds of the votes cast in the lower Chamber and the Senate. By making it subject only to a simple parliamentary majority, the Japanese government wishes to make the revision of the wording of the Constitution easier, especially that of the famous article 9 which prohibits Japan from resorting to armed force. Although it is true that the cumbersome procedures required to revise the Constitution have always been a topic for debate, the idea of a revision subject only to a simple majority vote has provoked fierce resistance on the part of the main opposition parties, led by the JDP and the leftist parties, which denounced it as an attack on democracy. On the national NHK channel, the JDP representative Tsujimoto Kiyomi strongly attacked the proposal by Abe Shinzō who, in her view, is uncertain of his ability to win a revision to article 9 despite the support of the Restoration Party and the Party for All, and would not hesitate to cheat in order to achieve his desired result. She said that the Prime Minister's attitude was like a football team asking the referee to change the rules of the game so as not to lose a match.

If the appropriateness of Tsujimoto's footballing metaphor may give rise to some doubts, her fear of the consequences of such a radical revision of article 96 of the Constitution is not unfounded. Moving from extreme Constitutional rigidity to exceptional flexibility

regulation with one calling for a simple majority. However, in order to achieve this goal, the LDP will have to overcome the conditions currently laid out in article 96.

<sup>20</sup> "Kenpō kaisei : Ji-I, 96 jō kaiken icchi. Abe shushō to Hashimoto-shi kaidan" ( Revision to the Constitution : agreement between the LDP and the Restoration Party on altering article 96 following the meeting between Prime Minister Abe and Mr. Hashimoto), *Mainichi Shimbun*, April 11th 2013, <http://mainichi.jp/select/news/20130411ddm002010103000c.html>



does indeed threaten to lead to instability caused by systematic revisions of the wording. Yet Abe Shinzō needs to play all the cards in his hand to succeed in revising article 9 of the Japanese Constitution, in order to allow Japan to exercise its right to Collective Defence<sup>21</sup>. That would permit its Self Defence Force (or its future re-named Self Defence Army) to participate more actively in joint military operations with the United States. As the Kōmeitō, despite being a traditional ally of the LDP, is in favour of retaining article 9 with its current pacifist wording, that is most probably the main reason which has prompted Abe to make the relaxation of the provisions for Constitutional revision his priority for the forthcoming elections to the Senate.

This survey of the three initiatives by the Abe government may lead to the conclusion that he has decided to make meaningful gestures towards the United States, so as to assure the latter of his desire to rebuild the Japanese-American alliance on a solid basis. But Abe Shinzō has without doubt seriously compromised his efforts at winning over the Americans, by not holding back his own nationalist responses. For example, the visit by 168 LDP parliamentarians and vice-Premier Asō Tarō to the Yasukuni shrine<sup>22</sup> in April 2013 reignited tensions between Tokyo, Seoul, and Beijing, just as the American authorities feared. And, as if that was not enough, the Prime Minister himself, during a question and answer session in the Senate on April 23<sup>rd</sup>, declared that from an international academic point of view there were not sufficient grounds

<sup>21</sup> Japan possesses this legal right, but it cannot exercise it because article 9 of the Constitution forbids its resort to armed force.

<sup>22</sup> An important site in the Shintō religion, this shrine is the resting place for the souls of Japanese soldiers killed in the Second World War. It is the cause of tension between Japan and its Chinese and South Korean neighbours because the list which honours the combatants includes the names of Japanese war criminals.

for calling the presence of the Imperial Army in Korea and China under Japanese occupation “an invasion”. One might have expected Abe to wait until after the Senate elections before blurting out such statements. But, given his current levels of support in Japanese public opinion, the temptation was perhaps too great. While the American press was fiercely critical of Abe’s statements, the Obama administration has refrained from all comment<sup>23</sup>.

However, the recent event which really heightened the tensions between Japan and the United States was the shattering statement by Hashimoto Tōru in May 2013. He reckoned that the use of the comfort women in the Second World War was a necessary ill to maintain discipline within the Imperial Army by relieving the pressures on the Japanese soldiers. At the same time, the mayor of Osaka revealed that he had suggested to an American military official visiting Okinawa that his soldiers should be encouraged to visit the local pleasure houses<sup>24</sup> in order to control their instincts. That would be a legally permissible outlet for the sexual aggressions liable to make them guilty in their encounters with the women living on the island. According to Hashimoto himself, his interlocutor was struck dumb by these words and refused to continue the conversation. But neither the Abe government nor Hashimoto appear to have anticipated the violent reaction of the American authorities to this statement. A whole series of condemnations swiftly followed: the spokesman for the Defence Department called

<sup>23</sup> “Bei kara mita rekishi mondai to Hashimoto hatsugen” (The historical questions and Hashimoto’s declarations as seen from the United States), *Asahi Shimbun*, 24/05/2013, <http://www.asahi.com/international/articles/TKY201305240380.html?ref=reca>

<sup>24</sup> The majority of Western media refer to these as “brothels”. This term is inexact insofar as prostitution is illegal in Japan, even if it has to be admitted that the activities conducted in some of these establishments are somewhat unclear.

Hashimoto's suggestions to the American official "grotesque and humiliating"<sup>25</sup>. The spokesperson for the State Department, Jen Psaki, denounced the "outrageous and offensive words" on the comfort women<sup>26</sup>, and urged the Japanese political leader to work towards creating a climate of calm with its neighbours over such historical issues. This warning was aimed at the mayor of Osaka, but was also intended for the Abe government and the LDP representatives, because the latter had mostly been content to reproach Hashimoto for choosing a bad time to give his opinion on such a topic. The exasperation of the LDP officials at the electoral costs is understandable: the outcry from the Japanese public provoked by Hashimoto has seriously affected the chances of the Abe government to benefit from the Restoration Party's votes in the Senate in support of changing article 96 of the Constitution. A negative vote from the electorate against the party jointly directed by Hashimoto and Ishihara Shintarō would mean changing the LDP's plans, forcing it to go it alone in trying to gain nearly two thirds of the seats in the Upper Chamber in the forthcoming Senate elections.

The reaction from the liberal democrats, expressing strong condemnation of the form rather than of the substance, was quite out of tune with the expectations of the United States. It makes the American allies suspect the entire Japanese ruling class of sharing both Hashimoto's ideas on the comfort women and his views on the presence of US soldiers on Okinawa. Following the example of the mayor of Osaka, who immediately offered

his apologies to the Americans, Abe Shinzō also retracted his statements in an interview with the American journal *Foreign Affairs* on May 17<sup>th</sup> 2013: "I have never claimed on any occasion that Japan did not invade (its neighbours) ... this is a subject which must be studied by historians ... Our country, in the past, inflicted much damage and great suffering on the peoples of several countries, especially in Asia..."<sup>27</sup>. He also pointed out that until now Japan has continued to express its deep regrets. But in the light of his speech on April 23<sup>rd</sup>, one may wonder whether the Prime Minister really adheres to the official line of Japanese apologies. At the very time when he was claiming to work towards the rebuilding of the Japanese-American alliance, Abe Shinzō can now claim to be partly responsible for the worsening relations between Japan and the United States in a manner more worrying than the situation under the democratic government of Hatoyama Yukio.

Over and above the debate on the historical issues rekindled by Hashimoto's polemics, this episode has also had unexpected consequences on the minds of the inhabitants of Okinawa. Indeed, the local women's organisations have become the most vocal in Japan in their denunciations of the statements from the mayor of Osaka<sup>28</sup>. Satō Masaru, the writer and former foreign affairs analyst for the *Gaimushō*, is a native of Okinawa through his mother's line. For him, Hashimoto Tōru's declaration shows to what extent the Japanese political elite does not acknowledge the painful past and the situation still undergone by the island's inhabitants. Above

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<sup>25</sup> "Beikoku bōsōshō : bakageteiru. Hashimoto-shi no fūzokugyō hatsugen ni" (The US Defence Department calls Mr. Hashimoto's words on the entertainment industry grotesque), *Asahi Shimbun*, May 14<sup>th</sup> 2013, <http://www.asahi.com/international/update/0514/TKY201305130521.html>

<sup>26</sup> U.S Department of State: <http://www.state.gov/r/pa/prs/dpb/2013/05/209511.htm#JAPAN>

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<sup>27</sup> "Shinryaku no teigi shinai : Abe shushō, beishi ni" (Prime Minister Abe to an American journal : I am not seeking to define the idea of an invasion), *MSN Sankei News*, May 17<sup>th</sup> 2013, <http://sankei.jp.msn.com/world/news/130517/amr13051719070006-n1.htm>

<sup>28</sup> "The comfort women: the Japanese-American conflicts continue", *France 24*, May 17<sup>th</sup> 2013.

all, it feeds the temptation already felt by some of the population to distance themselves from mainland Japan by turning to the language of separatism. This matter is worth further attention because it could lead to a particularly sensitive situation for Japan.

### Okinawa's separatist temptation

During a cultural radio programme, *Kunimaru Japan*, Satō Masaru outlined his own analysis of the mayor of Osaka's statement concerning the behaviour of American soldiers on Okinawa<sup>29</sup>: "Mr. Hashimoto's mistake is his failure to understand the real causes behind the sexual attacks suffered by the women of Okinawa. Judging by his statements on the matter, he appears to believe that all American soldiers indulge in this kind of deviant activity. That is completely wrong. These attacks are carried out by a minority in the American army. In any group of people, and in any institution, there are some individuals who behave badly. That is also the case within the Gaimushō, I can assure you... In the case of Okinawa, the frequency of the attacks suffered by the local women is due to the fact that 74% of the US forces stationed in Japan are concentrated in an area which covers only 0.6% of the national territory. This distorted reality, which is purely and simply the consequence of the *structural discrimination* foisted onto Okinawa, is what Mr. Hashimoto does not grasp. But worse still, by proposing the use of local entertainment establishments as the solution to the problem, he has knowingly made a connection with the brothels housing the comfort women during the War, implicitly suggesting that the women of Okinawa should themselves satisfy the needs of some of the soldiers in addition to putting up with the presence of the American bases in the area. Do I have to remind Mr. Hashimoto that the women of Okinawa were for the most part forced into prostitution under the American

administration of the island<sup>30</sup>, in order to enable their families to survive in the conditions of economic collapse caused by the last war? Does he not know that some of these women were killed by US soldiers who had gone crazy after returning traumatised from Vietnam, without this leading to any judicial enquiries or legal process? Mr. Hashimoto's statements do nothing to help solve the problems of Okinawa, they are extremely hurtful to the women concerned, and they make us wonder about the humanity of the man ..." In this former diplomat's opinion, such failures to face the truth only add to the increasing separatist appeal in the population of Okinawa.

The significance of this is shown by an event on May 15<sup>th</sup> last year, which went largely unnoticed at the national level, namely the official launching of the "Institute for the Independence of the Ryūkyū Islands" (*Ryūkyū Dokuritsu Gakkai*) which brought together local teachers and research academics. On the basis of the International Charter of Human Rights' recognition of the right to self-determination, the following slogan was adopted: "*The status and the future of the Ryūkyū Islands* (the traditional name of the Okinawa archipelago) *can only be decided by their people*". The agreed aim of the members is to conduct academic research on the various procedures for independence which have led to the birth of new States throughout the world, so as to decide on the most realistic means "*of achieving independence in relation to Japan, expelling the American bases from the archipelago, and then building friendly relations with the peoples of the whole world, so that the Ryūkyū Islands can reach a situation of peace and hope for the future which has been their aspiration for many*

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<sup>30</sup> In fact, Japanese law (and therefore the prohibition of prostitution) was not officially in force on the island, which was under American administration from 1951 to 1972.

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<sup>29</sup> Broadcast on May 17<sup>th</sup> 2013.

years”<sup>31</sup>. The members have appealed to the general population as well as political figures to support the Institute. Teruya Kantoku, the socialist deputy representing the 2<sup>nd</sup> Okinawa constituency, has already responded in favour of this appeal, welcoming it as a decisive move towards the “decolonisation” of the archipelago<sup>32</sup>. The local press also applauded the setting-up of this think tank, pointing out that until now the issue of Okinawa’s independence has never got beyond barroom discussions (*izakaya dokuritsu-ron*)<sup>33</sup>.

Meaningful popular support for the Association remains unlikely for the moment, since an opinion poll covering 1,137 inhabitants of Okinawa in November 2011 showed a mere 4.7% supported the island’s independence.<sup>34</sup> However, shortly before May 15th, in March 2013 the Abe government decided that April 28<sup>th</sup><sup>35</sup> would be a national day celebrating the restoration of complete national sovereignty (*Shuken Kaifuku no Hi*). This decision provoked anger in the Okinawa population

<sup>31</sup> “Ryūkyū Dokuritsu Gakkai wo Setsuritsu. Heiwa na Amayū jitsugen mezasu” (The constitution of the Institute for the Independence of the Ryūkyū Islands : aiming for a world at peace), *Ryūkyū Shimpō*, May 16th 2013, <http://ryukyushimpo.jp/news/storyid-206634-storytopic-1.html>

<sup>32</sup> “Okinawa, tsui ni Yamato kara dokuritsu he” (Okinawa at last on the way to independence in response to Yamato), blog by Taruya Kantoku, April 1<sup>st</sup> 2013.

<sup>33</sup> “Ryūkyū Dokuritsu-kai : sentaku hirogeru kenkyū fukameyo”» (Research Institute for the Independence of the Ryūkyū Islands : deepening the research to explore the possibilities), *Ryūkyū Shimpō*, May 17th 2013, <http://ryukyushimpo.jp/news/storyid-206664-storytopic-11.html>

<sup>34</sup> “Hondo fukki 41 nen : Okinawa, Dokuritsu-ron futatabi” (41 years after the return of Okinawa to Japan, the call for independence is making a come-back), *Mainichi Shimbun*, May 15<sup>th</sup> 2013, <http://mainichi.jp/select/news/20130515k0000e040248000c.html>

<sup>35</sup> On April 28<sup>th</sup> 1951, the first Japanese-American Security Treaty was signed, officially ending the US occupation of Japan.

because, although that date does mark the end of the occupation of Japan by the United States, it also represents the continuation of the American administration of Okinawa until 1972. The island’s inhabitants consider it a “Day of Humiliation” (*Kutsujoku no Hi*). By choosing that date to celebrate the full restoration of national sovereignty, the Abe government sent an extremely clumsy message, announcing that Okinawa was not an integral part of Japan. That is why the governor, Nakaima Hirokazu, decided not to attend the official ceremony. On April 28th 2013, a demonstration by nearly 10,000 people took place on the island to deplore the celebration of the “Day of Humiliation”.<sup>36</sup> Following an episode like that, the Institute for the Independence of the Ryūkyū Islands could rapidly gain more popularity.

These two events allow us to see why the *People’s Daily*, official publication of the Chinese Communist Party, picked that moment to publish a call for Japan to review the question of Japan’s sovereignty over Okinawa<sup>37</sup>. Since the Senkaku/Diaoyu Islands are under the same regional administration, it is probable that the Chinese authorities considered the possibility of taking advantage of a growing separatist movement in Okinawa by challenging Japan’s ownership of the archipelago. But, even supposing that the Chinese authorities hoped to link it in some way or another to China, they would have to confront tenacious resistance. Matsushima Yasukatsu, one of the researchers behind the founding of the Institute for the Independence

<sup>36</sup> “Seifu shusai no shuken kaifuku shikiten ni kōgi : Okinawa de ichimannin ga shūkai” (Protests against the celebrations of the day of the restoration of sovereignty organised by the government: ten thousand demonstrators gather in Okinawa), *Asahi Shimbun*, April 28th 2013, <http://www.asahi.com/special/news/articles/SEB201304280001.html>

<sup>37</sup> “The Chinese press calls for a review of Japanese sovereignty over Okinawa”, *Le Monde*, May 8<sup>th</sup> 2013.

of the Ryūkyū Islands, affirms categorically that Okinawa has never been an integral part of China despite the links between them, pointing to its past as a separate kingdom prior to the Japanese annexation of the archipelago in 1879. This academic asserts that for the Japanese the Ryūkyū Islands are just a colony which provides some consolation for the discomforts caused by the Japanese-American alliance, and that the only way to end this *structural discrimination* is separation from Japan. But he also thinks that the Ryūkyūs must above all not become part of China, in view of that country's harsh treatment of its Tibetan and Uighur ethnic minorities<sup>38</sup>. Moreover, China has no interest in openly supporting the Okinawa independence movement, which could put it into a difficult position with respect to its relations with Taiwan. So it has no other option but to proclaim its sovereignty over the archipelago in order to justify its claim over the Diaoyu/Senkaku Islands.

For his part Satō Masaru suggests granting Okinawa the status of an autonomous region. He believes that the growing gap between its inhabitants and the Japanese political leadership makes regional autonomy the most desirable outcome, in order to avoid any scenario involving the archipelago's separation from Japan. This is all the more so since, according to this former diplomat, the arguments casting doubt on Okinawa's ability to manage its own economy are no longer viable<sup>39</sup>. In his words "Tokyo's image of Okinawa as a region dependent on the economic trickle-down from the American presence and financial support from the Japanese government has become a myth.

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<sup>38</sup> "Okinawa ha Nippon no shokuminchi de aru" (Okinawa is a Japanese colony), "*Okinawa mondai toha nani ka*" (What is this so-called 'Okinawa problem'?), *Fujiwara Shoten* publications, October 2010, p. 48.

<sup>39</sup> Cultural radio broadcast *Kunimaru Japan*, April 5<sup>th</sup> 2013.

Recently this region has undertaken many initiatives to develop its two main industries, tourism and sugar cane. In addition, within the overall maritime area exclusively under Japanese control, the waters around Okinawa are second in economic importance only to the area around the capital. They are rich in fish and natural gas. Okinawa would only need to find a partner to help exploit them efficiently". When he is asked whether the independence of Okinawa is a credible scenario, his reply is that "in the final years of the Cold War, Russia did not take the separatist aspirations of Estonia seriously, being convinced that it was unable to manage its affairs without Russia. We have seen the result: after the collapse of the Soviet Union, Estonia became a sovereign State (...). Or to take another example: for a long time the Russians were convinced that they were part of the same single country as the Ukrainians. They realised only too late that the feeling was not mutual. In the case of Okinawa, it would only take one big event to trigger an experience in Japan similar to that of the Russians".

So the developments leading to the transfer of the US base at Futenma to Henoko should be followed very attentively. This project, which runs contrary to the wishes of the majority of the inhabitants of Okinawa to remove the base from the whole archipelago, is also far from commanding unanimous support among the local LDP members, and it risks encountering fierce opposition. The outcome of the municipal elections in Nago, due to take place in January 2014 (the actual transfer not being able to begin until the green light from the town's mayor) will give the clearest insight into the attitude of its inhabitants. Depending on how these events turn out, the political situation on Okinawa might be plunged into confusion, illuminating further the gap between the Japanese leadership and the local population.

## Conclusion

Prime Minister Abe has so far failed to fulfill his promise to rebuild the Japanese-American alliance as one between equals on a lasting footing. More worrying still is that by trying to restore a measure of pride to Japan through new commemorations of the end of the occupation, he has raised doubts in a whole region over his real commitment to reconciliation. Moreover, the Japanese Premier should seek to ease the burden of the US military presence on Okinawa. One possible way would be to transfer a considerable portion of the military installations on the archipelago to the rest of the metropolitan territory as a sign of national solidarity. Whether other localities would be willing to share the burden remains to be seen.



## 2. Abenomics: a return to traditional LDP policies or a new way out of the crisis?

- **ADRIENNE SALA**

Since his return to power at the end of December 2012, Prime Minister Abe Shinzō has started on a programme of economic recovery with three main directions: relaxing monetary regulations, increasing investment, and a third direction, announced last June, consisting of a series of structural reforms. The media name for the present government's economic policy is "Abenomics", and is aimed at restoring growth, thus breaking with the episodes of chronic deflation which have plagued the Japanese economy over the last two decades. Spearheading the new economic direction adopted at the time of the last G20 summit, is monetary loosening which has replaced budgetary constraint<sup>40</sup>. Although "Abenomics" has attracted attention outside Japan, in fact it is the twelfth recovery plan to be launched in the last ten years. This raises the question as to whether the Prime Minister really has the means to match his ambitions, given the extent of the different economic, political, demographic, and social problems confronting Japan nowadays.

### Recovery, but at what cost?

The goal is simple: recovery at any cost, and to achieve it the Prime Minister has opted to spare no means. The first set of tools, unveiled on April 4<sup>th</sup> this year, consists of an expansionary monetary policy under the direction of the new chairman of the Bank of Japan, Haruhiko Kuroda. It is considered bold in creating the

<sup>40</sup> "US should support a trade deal with Japan", *Financial Times* July 23rd 2013.

monetary equivalent of about 60 trillion yen per year, with the aim of raising inflation to 2% after about twenty years of deflation.

The first result of Abe Shinzō's programme is conclusive. The Nikkei index has gained 50% in value since the beginning of 2013 and the depreciation of the yen is allowing a restoration of Japan's trade balance, which was in deficit in 2012, for the first time since the 1980s. In fact, following the 2008 financial crisis the yen underwent a sharp upward revaluation, being considered a refuge from the troubles of the dollar. That revaluation put an even greater handicap on the enterprises exporting to the European and US markets because they were also facing competition from Asian enterprises. Japanese debt amounts to over 230% of its GDP, and 70% of the new bond issues are currently bought by the Bank of Japan, creating a gap in the account of the central bank. The Japanese bond market is admittedly peculiar since 90% of the debt is held by Japanese households and only 10% is sold on the overseas markets<sup>41</sup>. This Japanese peculiarity is the consequence of economic policies pursued since the post-war period, which among other things encouraged private savings and attached importance to maintaining a trade surplus; but now the situation has changed. Savings have been falling constantly since 1992, largely due to the ageing population which makes use of their previously accumulated savings, and this is leading to a fall in the total amount held in pension funds. A sword of Damocles is hanging ever more ominously over the government's room for manoeuvre in the medium and long term, if it intends to pursue a policy of growth financed by the budget deficit. The fiscal policy of the present government raises a number of problems. The Prime

Minister has to manage a delicate balance: if he reduces expenditure too quickly and raises the tax on consumer goods<sup>42</sup>, the measures taken to restore 2% inflation could fail. On the other hand, any attempt by the government at debt reduction runs the risk of undermining the confidence of foreign investors in the Japanese bond market, which could lead to an increase in the cost of servicing the debt. In 2010, Prime Minister Kan Naoto publicly stated his intention to reduce the budget deficit, but Abe Shinzō postponed that decision in order to focus on growth. This move enables his government to implement the second set of his proposed economic policies, to inject a fiscal stimulus amounting to 13,100 billion yen (i.e. about 106 billion euros) in order to invest in public works and innovative industries<sup>43</sup>.

Following the bursting of the bubble and the Lost Decade (1992-2002), the succession of debt-financed recovery measures have brought no real long term economic revival, apart from the hesitant growth from 2002 to 2008, which was terminated brutally by the sub-prime crisis. The investment policy championed by Abe Shinzō nonetheless differs from that of previous governments by not targeting the financing of public works alone, which is the recurrent focus of LDP economic policy, but also by opting to encourage innovation. For example, it favours research and development partnerships between academia and leading companies. This move is part of a continuing programme of encouraging innovation and entrepreneurial initiatives fostered by the Ministry of Education since 2005.

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<sup>41</sup> "Abenomikusu seichō senryaku ni shinkokuna rosentairitsu" (The Abenomics' strategy for growth : serious internal fractures), *Nikkei business*, June 21st 2013.

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<sup>42</sup> The progressive annual increase was introduced under the previous Prime Minister, Noda Yoshihiko.

<sup>43</sup> "Japan attempts recovery at any cost", *Le Monde économique*, April 9<sup>th</sup> 2013.

## Abenomics: for what kind of society?

It would seem more appropriate, therefore, to analyse the measures which constitute “Abenomics” in the light of the neo-liberal economic policies established by the Koizumi government (2001-2006). This interpretative approach permits a better understanding of the third aspect of Abe’s economic policy, unveiled in June this year, which can be broken down into a series of structural reforms aimed at restoring long-term growth to the Japanese economy.

Among other things, the main reforms envisage a liberalisation of the pharmaceutical, agricultural, and energy sectors, which for a long time have enjoyed protection from foreign competition at the cost of lower competitiveness on the part of Japanese companies. However, the elections to the Senate in July forced the government to limit the announced content of these reforms in order not to lose support from those interest groups traditionally allied to the LDP, such as farmers, doctors, and private companies<sup>44</sup>. The new majority held by the LDP in the Upper Chamber since July 21<sup>st</sup> gives the present government room for manoeuvre for at least three years, to “put the shine back into the Japanese economy” (*nihon wo modosu*).

The structural reforms are also targeted at the labour market. The Prime Minister’s exhortation to the large companies to raise the salary levels has been met with a repeated demand from them for more flexibility in the law on dismissals<sup>45</sup>. In fact guaranteed employment, which is one of the bases of the post-war social compromise, is particularly dependent on the costly legal restraints intended to avoid any recourse to dismissals. The first measures towards deregulating the

labour market were initiated by the Koizumi government which passed a bill on the Law on Temporary Employment (2005). In periods of slow growth, the companies put a freeze on new recruitment, and when activity picks up they resort to temporary contracts, and this explains why, for the youth entering into the labour market, it has become more or less uncertain and precarious, depending on the age of the young people taken on.

In addition, the companies have not raised the pay levels for nearly fifteen years, justifying this as a consequence of the lack of flexibility which they encounter in managing their human resources. But this wage stagnation has continued despite the economic upturn between 2002 and 2008<sup>46</sup>. Since this was largely export led, the global financial crisis has continued to have a considerable impact on Japanese growth.

All the players involved are therefore waiting to see if Abe’s economic policies will manage to raise salary levels, and therefore increase household consumption on the home market. Throughout the 2000s, there were successive economic recovery plans nearly every year without any conclusive results, while the GDP fell almost continually. The majority of the economic measures were aimed at improving the competitiveness of the big companies, targeting the production side in particular, and leaving out the need to stimulate demand. As the Japanese economic model depends essentially on its productive capacity, this represents one of the factors making economic recovery difficult for nearly twenty years. Paying attention to the production side alone has meant that the potential for growth is a mere 1%<sup>47</sup>. Moreover, the economic

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<sup>46</sup> OECD, *Annual Report on Japanese Economy*, 2007.

<sup>47</sup> “Abenomikusu ‘seichōsenryaku’ tsugi ha minkan no dekibanda” (Abenomics’ “growth strategy”; soon it will be the turn of the private sector)

<sup>44</sup> “The third arrow of Abenomics”, *The Economist*, June 15<sup>th</sup> 2013.

<sup>45</sup> *Mainichi Shimbun*, July 25<sup>th</sup> 2013.



environment over recent years has been dragging this already low growth potential even further down, given the absence of an incomes policy.

In this regard we need to remember that household consumption depends on two factors, income and consumer morale, the latter being largely dependent on wage rises. Consequently it is necessary that a growth in company profits should be passed on to households through increases in wages and jobs. In addition, the falling number of Japanese in active employment has an inevitable impact on the falling levels of consumption; hence, Japanese companies' hesitation to invest in the domestic market. So the question is whether the present Japanese Prime Minister has enough influence and authority to make the big companies accept a wage rise, doubtless in return for a reduction in company taxation, so as to put a limit on the increasing trend towards delocalisations and acquisitive mergers by the Japanese conglomerates.

In these ways Japan is having to face up to the many issues linked to both the domestic situation and foreign policy. Among these challenges should be cited the inclusion of women and young people in the labour market in a situation marked by delocalisation and falling numbers in the active population, as well as the problem of restructuring Japan's manufacturing industries. Japan's policy of opening up is taking the form of different measures to meet the country's external needs, such as increasing Japanese investments in Southeast Asia to avoid excessive dependence on the Chinese market, the Trans-Pacific Partnership, and a resumption of policies for developing tourism by taking advantage of the upsurge of the middle classes in neighbouring Asian countries.

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*Mizuho sōgō kenkyū jō seisakuchō sabun (Mizuho Research Institute, section on the enquiries into public policies), July 1st 2013.*

Finally, Abe Shinzō has expressed his intention to attract more foreign companies to invest in Japan, provoking discontent from some of the companies in the Keidanren which oppose the further extension of rights to foreign investors. So Abe's economic policies run the risk of encountering opposition, and even of raising tensions within the groups which traditionally support the LDP, a number of whom remain attached to Japan's post-war capitalist model. The question still remains as to how far the present government will be able to go to establish its overall "Abenomics" plans, to return to sustainable growth, and to manage that considerable feat, which preceding governments have failed to achieve, of giving a new impetus to Japanese capitalism.

## POINTS OF NEWS

### 3. Interview with **HONDA ETSURŌ**,

**“The central issues in Abenomics; towards a plan for economic renaissance beginning with a “change of regime” [Abenomikusu no kakushin; “rejīmu chenji” de hajimatta hihonkeizaifukkatsushinario] – Gaikō, volume 18, April 2013, pp. 34-43. (Translated from the Japanese source by Sophie Buhnik and re-read by Nicolas Morishita).**

*Aged 58, Honda Etsurō is a former graduate of Tokyo University Law Faculty, who began his career at the Ministry of Finance in 1978. He has successively been posted overseas to the United States, and worked as the Japanese representative at the European Bank for Reconstruction and Development, before taking up a position, among others, in the cabinet secretariat at the Ministry of Finance (in the Directorate for Assessing Public Policies). Since April 2012 he has been a Professor at the Shizuoka Prefectural University. In his capacity as a specialist in monetary policy and systems, and international finance, he is an advisor to the Prime Ministerial Cabinet under the Abe Shinzō government.*

**What are the preconditions for a 2% growth rate?**

**Gaikō:** We would like to know a little more about the central concerns of Abenomics. An audacious plan for quantitative easing, a plan for economic renewal, and economic reforms to underpin growth: at what moment did Abe Shinzō decide that these three goals would become his “three arrows”?

**Honda:** I do not know exactly when he made the decision, but as for the first of his three arrows, aimed at getting the country out of its chronic deflation (thanks to a bold monetary policy), he may have thought of it while I was in London (from 2008 to 2011). In fact, in July 2011 when I met him immediately after my return from London, Abe Shinzō told me that

“Japan’s economy would be completely ruined unless we could somehow get rid of deflation”. When I met him again on several occasions, we discussed ways of interesting the people in an ambitious policy of monetary relaxation to break out of deflation, by explaining to them how this could happen.

At that time I said that in view of the “change of regime” entailed by a shift in monetary policy, it would be important that the people should be quite clear that it would lead to growth and inflation. It was not a matter of adapting to the deflationary situation but of actively directing the Bank of Japan in a fight against deflation. To achieve this, it would be impossible to make do with small doses of monetary relaxation, as had been the practice of the Bank of Japan until then. A firm commitment from the Bank to purchase State treasury bonds “without limits”, and especially long term bonds until achieving a 2% rate of inflation, would send an absolutely necessary message (...). So I urged that we should proceed to the change of regime through that “limitless” purchase of State bonds. That is the substance of what I said, emphasising that the most effective approach would be to use the shortest and clearest keywords possible. Of course, my ideas were based on those of Mr. Abe himself, who replied that it was all quite clear, and so it became the number one priority in his electoral programme at the end of last year.

As the market reacted positively even before any specific decision was made, the hopes raised by this Abenomics were such that the rising value of the yen was checked and the quotations on the stock exchange began to move back upwards. Of course, these are just hopes for the moment, but the expectation is that they will lead to a real controlled inflation, and Abe has fully understood that.

The feeling of crisis in the Japanese economy forms the backdrop to the reactions by the

market and the population at large. Deflation subjects us to every possible and imaginable kind of distortion. The nominal GDP can no longer increase. The actual GDP is the measure of our well-being, but in a situation of deflation, the nominal GDP remains static. If the nominal GDP does not increase, we cannot look forward to a brighter future. In a situation of economic deflation, companies’ sales and profits fall and wages shrink. As a result, consumers’ buying power falls, consumer goods become cheaper, and this in turn affects company profits, and so on in a vicious circle. Nominal economic growth figures, have a real positive effect on our spirits because of the positive meanings which we humans attribute to them. A modest growth rate is therefore a necessary precondition.

An exit from deflation is absolutely necessary to restore the public finances. One criterion which allows us to know whether the financial situation is heading for collapse is the factor known as the Domar theorem: if the coefficient defined as the ratio between overall bond issues and the nominal GDP rate continues to rise, the outcome is a collapse in public finances. At present, owing to the fall in tax revenue, the budget share represented by bonds is rising and, in a period of deflation, GDP is falling. So the coefficient ratio of bond issues to GDP is rising, which means that an increase in GDP simply must be achieved. If this does happen, there will be an increase in tax revenues, which is the quickest way to ensure a financial recovery – of course, while also paying careful attention to annual expenditure. The main thing is to bring about a rise in tax revenues.

### **From monetary policies to economic recovery**

**Gaikō:** Next year the public deficit will reach 855 trillion yen. Seen from the point of view of budgetary discipline, there must be a more

rapid movement out of the deflationary crisis. To achieve this you have once again increased public expenditure. In practice, when do you see the recovery beginning?

**Honda:** Since public expenditure is a constant drain on resources, it cannot be continued indefinitely. Even if public investments, two or three years down the line, help to develop the economy by increasing demand, this effect then rapidly falls away (...). If public funds are invested in improving the climate for business, such investments must be renewed each year, which is why I think that long term support for the economy must be entrusted to monetary policies.

To put it more concretely, in a market system of floating exchange rates, increases in public investments mean that interest rates rise, which leads to a rise in the value of the yen. With the upward revaluation of the yen, the volume of Japanese exports will not increase. This is due to the Mundell-Fleming model: under a system of floating exchange rates, recovery on the basis of public finance, compared to monetary policies, has only limited success. If drastic measures towards the relaxation of monetary policy are not undertaken simultaneously with the implementation of financial policies, the latter will remain ineffective. Among modern economists there is a consensus that, in a system of floating exchange rates, measures to improve the business climate require a focus on monetary policies, and a refusal to rely on expenditure for economic recovery.

As for economic recovery, it too plays a triple role. Firstly, the function of the State is to provide public benefits: there has been talk of maintaining infrastructures and protective measures against earthquakes ..., i.e. the primary financial function to provide a more habitable environment than previously to Japanese society. Secondly, economic recovery serves to support the business

climate in relation to the expansionary effect discussed earlier, and, related to that, its third role is to stimulate private investment. With regard to the economic recovery being encouraged at present by Abenomics, the emphasis has been on the first function. So, since there is a high probability of a major disaster in the Tokai<sup>48</sup> and Nankai<sup>49</sup> regions, it is essential to strengthen those territories' defences and maintain the express motorways and tunnels which were built in the epoch of rapid growth but are now decrepit. Of course, the State's primary role as public provider is to be supported by the secondary effect of the economic expansion which will help to fill the "deflationary gap" (*defure gyappu*). If in the end the escape from deflation is mainly due to the policies of monetary relaxation, the policy of increasing expenditure, in my view, will be fully compensated by the achievement of economic recovery.

### Refuting the argument on hyperinflation

**Gaikō:** In the present situation of globalisation, the conditions of national sovereignty over the money supply are changing fundamentally, unlike those which pertained in the period of Rapid Growth. Moreover, in a world where international capital and currency flows have expanded enormously, some people argue that quantitative easing is ineffective. What is your reply to those who fear the risk of hyperinflation?

**Honda:** Obviously there can be no risk-free

<sup>48</sup> A region with hazy boundaries centred around the Nagoya metropolitan area and covering the departments of Shizuoka, Aichi, Gifu, and Mie.

<sup>49</sup> Nankai is a term referring mainly to all or some of the departments located to the south of the Kobe-Osaka-Kyoto conurbation, because they are all in the neighbourhood of the underwater Nankai fault off the island of Honshū. These areas are all exposed to major seismic shifts linked to the movements in that fault.

policy. But there is something unpersuasive in the excessive emphasis on risk. The results of a deflation which has been allowed to run freely for 15 years are terrible to see. [...]

As for the risk which you mention, there are people who raise the question of the accumulated financial burden cause by the increased interest rates on the Treasury bonds. In other words, the nominal interest rate (which takes account of expected inflation in addition to the real interest rates) raises the expected rate of inflation to 2%. [...] Those who are afraid of a rise in the interest rates on Japanese debt, assert that the increase in the nominal interest rate is in step with the expected rise in the rate of inflation. With the rise in the nominal rate, the total amount of interest on the debt increases. Consequently, they maintain that a financial crash is close, but that is not true. Currently, the deflationary gap still persists, and since we are determined to pursue a policy of monetary loosening, we need to contain the increase in the nominal rate as much as possible. And even if it does not remain stable, the nominal interest rate on the debt will not rise as fast as the rate of inflation. As a result, the real rate of interest falls and investment is stimulated.

Secondly, some critics emphasise that it is useless for the Bank of Japan to provide funds, when dynamic capital markets are open internationally, because the investment funds depart overseas in the form of venture capital and are not used for domestic investment. Therefore, such funds would not help Japan to get out of the deflation. But in order for the quantities of yen provided by the Bank of Japan to be used for speculation and investment overseas, they must be exchanged for foreign currencies like the dollar, so that the value of the yen would fall. And such a correction in the value of the yen is just what is needed to stimulate Japanese companies and put an end to deflation.

Thirdly, critics argue that the possibility of the Bank of Japan buying back massive quantities of Treasury bonds could upset all financial discipline, so that either there would be a leap in interest rates or else there could be hyperinflation going far beyond the moderate 2% being aimed at. But, the aim of 2% inflation has been set precisely to prevent such an eventuality. When the 2% inflation rate is reached, there will be a turn back to monetary tightening. This decision will be in the hands of the Bank of Japan which is at the centre of monetary policy.

**Gaikō:** It is true that expectations for growth are being sustained, but they do not yet take the form of capital investments by company managers. If the growth were to come about, would capital investments by the companies increase? What should be done to get private investment started again?

**Honda:** That's a good question, because the misunderstanding seems widespread. [...]. Firstly, what can the Bank of Japan do to encourage the expectation of growth if it is uncertain about what procedures to adopt? It should make purchases, of Treasury bonds in particular, and where it seems opportune it should buy risk-bearing shares of the ETF type (Exchange Trade Fund) or J-REIT (Japan – Real Estate Investment Trust). With these purchases, where will the costs of the purchases fall? They will be transferred to the current accounts which the financial institutions hold with the Bank of Japan. The current account balances of these institutions will rise. The institutions work by keeping an eye on these current account balances. [...]. However much the Bank of Japan increases its monetary base through buying either Treasury bonds or company issue, there has been no prior transfer of money from the private banks. Therefore, according to the theory of the Bank of Japan, this cannot provide an exit from deflation.

But if one takes a look at what is emerging in practice, the expectation of inflation is arising among the professional investors like the fund managers, just as among the financial institutions. The professional investors are beginning to show normal investor behaviour by relying on the prospects of growth, and the market is reacting accordingly.

As for the financial shares market, if one asks who will be the first to react, it will be the currency exchange markets, then the stock exchange, and a little later the property market will come alive. A low yen will reawaken the profitability of the exporting companies. Although the companies dependent on imports will be disadvantaged, the profits of companies substituting for imported goods will also begin to improve.

Consequently, the exporting companies and those in competition with the importing companies, along with their subsidiaries (suppliers) will see a rise in profits. That is why future prospects have become rosier. That is already noticeable in the volume of capital investments. They are leading to an increase in recruitment and in the numbers of regular salaried staff. The next step is for the increased basic salary levels to become generalised. Throughout this process, although with a slight delay, real salaries will begin to increase. I believe that rising salaries will lead to a further development in consumption. And consumer prices will slowly rise.

In relation to all this, as the gradual fall in the yen pushes the yen prices of imported petroleum and raw materials upwards, the fear is gaining ground that a rise in consumer goods prices without any rise in wages may directly affect household budgets. It is true that the media have reported the beginnings of a rise in the price of petrol. That indicates an inflation caused by the rise in the cost of manufactured goods, known as “cost push

inflation” (...). Taking the Japanese economy as a whole, thanks to the fall in the value of the yen, the means for improving the profitability of the big companies are widely available, and they will contribute in one way or another to raising wage levels.

In order for a moderate 2% inflation rate to occur, the process mentioned above is necessary. In a recent document on the co-operation between the Bank of Japan and the State, there is the written statement that “the 2% rate of inflation must be achieved as soon as possible”, but there is no clear statement about how long it will take. [...].

### **Two years to get out of deflation**

**Gaikō:** “As soon as possible”, in your opinion how many years does that actually mean?

**Honda:** Personally, I think it will take two years. If the commitment from the Bank of Japan is firmer than foreseen, it will take less [...].

**Gaikō:** If the aim of getting out of the crisis is set at two years, how quickly will the deregulation measures and the structural reforms come into effect?

**Honda:** It is easy to calculate in industries where there is already excess demand, such as in health and care, as well as kindergartens. As there are strict regulations on intake in such places, making intake easier wherever the provision of services does not yet fully meet the demand is a means of speeding up ways of meeting it. To give another example, those urban planning regulations which stipulate the permitted ratio of land area per inhabitant could be relaxed to attract further demand.

On the other hand, in general if you liberalise matters in a situation where the markets are in retreat under the effects of deflation, resistance tends to arise in defence of the interests of

particular companies already in the market. It is a bad idea to deregulate if one has not already got out of deflation; that is the lesson from many previous examples.

### **The Bank of Japan Act: an indispensable revision**

**Gaikō:** But it has been said that during his first term of office, the Prime Minister regretted that monetary relaxation measures had not continuously been taken to get out of deflation.

**Honda:** I think that is true. In March 2006, despite the persistent deflation, why was the quantitative easing cancelled? The Prime Minister himself has talked of it as “his greatest regret”. He said that “if we had kept up the policy of easing, we would have got out of deflation one year earlier”. That is certainly what gave rise to Abenomics.

As policies aimed at creating inflation were not adopted as soon as the growth rate rose above 0% and the stock exchange was rising, the Bank of Japan put a stop to the measures for monetary easing. That was probably on account of their fears left over from the Bubble. The Bank of Japan has a tendency to cling to a logic of its own:

1. The Bank of Japan does not have the power to control the overall money supply;
2. Secondly, the ageing and the low birth rate of Japanese society are cutting the proportion of the population of working age, which has a negative influence on the prospects for growth, and by that very fact it encourages deflation. That is why monetary policies by themselves cannot break the deflationary spiral;
3. Thirdly, however much the Bank of Japan increases the basic monetary supply, as the financing of the big

companies does not increase, the deflation continues.

These three points which inform the dogma at the Bank of Japan are endlessly reiterated. As these recycled views become more and more frenzied, all hopes for growth in the markets are stifled. The Bank of Japan is largely responsible for this.

The Bank of Japan faces no counterbalancing authority. This is unlike the case for other authorities, politicians for example. Politicians keep a close watch on government policies. They have a tense relationship with the electorate, because if they fail they lose their seat. Under the former banking laws, the Bank of Japan itself had a tense relationship with the Ministry of Finance. But since the new law of 1998 made it completely independent, that relationship has calmed down. I have heard it said that the Ministry of Finance, which was caught up at that time in a scandal involving back-scratching and collusion with the sectors under its administration, found itself muzzled and unable to express a firm opinion at the moment of the reform to the banking law.

That is why I think it is time to get back to the original shaping of the banking law. Indeed, those critics who say that the neutrality of the Bank of Japan is being infringed are not without justification. In the first place, the law must include a definition of what “the neutrality of the Bank of Japan” actually is. Without such a definition, the Prime Minister only has to suggest “an aim of 2% inflation” and completely irrelevant criticisms about “the violation of neutrality” spring up. This is a sterile debate.

**Gaikō:** So you propose a return to the former banking law.

**Honda:** No, I am not asking for a return to the former situation, because the old banking law

was promulgated during the war. In order to support the war effort, the wording of the law specified that the Bank of Japan was entirely under the control of the office of the Ministry of Finance, and that if necessary it would use its funds to support the costs of the war. There is no question of putting all that back in place.

The current banking act only lays out three missions for the Bank of Japan: monetary regulation, keeping the financial system under control, and issuing currency. It states that controlling the currency or, in its own words, the spirit (*rinen*) of its monetary policies, consists in “the stability of consumer prices”. But what does the word “spirit” mean in more precise terms? In any case, it is not a legal term. If it was, I would rather use the word “objective” (*mokuteki*). “Spirit” has rather philosophical or literary connotations. It does not imply a sense of responsibility. By way of contrast “objective” does imply responsibility. Within a legal framework, powers and prerogatives always carry responsibilities. Consequently, the law ought to stipulate that the goals shouldered by the Bank of Japan include not only “the stability of consumer prices” but also “ensuring maximum employment” insofar as that does not undermine the stability of prices. Moreover, the law ought to specify that in concrete terms “the stability of consumer prices” is a principle embodied in law by the government after consultations with the Bank of Japan. For example, setting inflation targets is a matter to be decided by the government which takes full responsibility for it. On the other hand, the parliament and the administration have no business to intervene in the decision over how to reach that goal: that is entrusted to the Bank of Japan. That is where its true independence lies.

It is only after having settled this matter that the “2% inflation target” can be discussed. Any government enjoying democratic legitimacy

should take on this overall goal of 2%. But, as a matter of principle, the government must not interfere with the aims which it has set for the central bank. (...).

### **VAT increases should be postponed**

**Gaikō:** And how do you anticipate the progressive rise in value added tax (due in April 2013)?

**Honda:** Well, given the deflationary situation, in principle I would not raise it, that is not until the 2% level which I have mentioned, has been reached. As I believe that we will not have reached that threshold by April, a proper reflection on the state of the Japanese economy would surely lead to the view that the increase in VAT should be deferred. We should first strengthen the Japanese economy. Since the finances are part of the overall economic system of Japan, if the economy and society are jointly improved, the financial part of the system will naturally improve as well. If we get out of deflation and the business climate improves, revenue from taxation will increase and the primary balance will also improve. Focusing on just the fiscal part of the system will certainly lead to failure.

It is no use raising taxes at a time when firms and businesses are at a standstill, and the income derived from that taxation is falling. As is shown by Japan’s experience at the time of the VAT increase in 1997, and that of Spain during the euro crisis, there can be no doubt that it is better to wait for the economy to recover before a tax increase, which then can have more positive fiscal consequences.

### **The TPP is a double-edged sword**

**Gaikō:** Finally – since this is related to the government’s growth strategy – is the Trans-Pacific Partnership (TPP) indispensable?



**Honda:** I do not think so. Particularly in a deflationary situation, the TPP is going to allow the import of large quantities of low-priced products, and while the expansion of Japanese companies abroad can be favourable in that regard, domestically there would be a loss of employment, and owing to the consequent fall in revenue there are fears of deepening deflation. In addition, since international competition between large companies is intensifying and, with deflation, the number of Japanese companies going bankrupt is increasing along with the numbers of the unemployed, the falling demand makes it difficult to find work. In other words, the cost of the consequent industrial restructuring is too high, which means that there is a higher likelihood of the deflation getting worse.

be prepared for tough negotiations throughout.

There are two main aspects to joining the TPP which must be considered. In the first place there is the area of defence and national security. In order for Japan to stand up to the threat from China and North Korea, the Asian Pacific democracies must be integrated around the axis of the Japanese-American alliance. In that sense, the decision to join the TPP may be inevitable.

But the other aspect to be considered consists in the protection of Japanese democracy (...), based on national traditions, conventions, and culture. Joining the TPP means the harmonisation of the rules governing exchange between the participating countries, and that makes the abolition of non-tariff barriers necessary. If there is an expansion of the field covered by laws passed outside Japan, that will seriously affect Japanese democracy. One area in particular is the limitation and protection against the import of genetically modified products. This calls for a serious national debate.

In order to prevent the negotiations over the TPP from wrecking our national interests, we must



#### 4. YACHI SHŌTARŌ,

**“At the heart of Abe’s diplomatic strategy: forming an alliance with Asian countries with shared values and outlooks” [Abe senryakugaikō no kakushin – kachikan: Tetsugaku wo kyōyūshi “Ajia” to gasshōsuru] – Gaikō, volume 18, April 2013, pp. 26-33. (Translated from the Japanese source by Sophie Buhnik and re-read by Nicolas Morishita).**

*Yachi Shōtarō was born in 1944 and received his Master’s degree in law and political science at Tokyo University in 1969, before joining the Ministry of Foreign Affairs (Gaimushō) in April of the same year. After working within the ministry and at various diplomatic postings abroad, he became Director of the Foreign Policy Bureau and then vice-Minister for Foreign Affairs under the first Abe government (2006-2007). Following his retirement, he now lectures at the Waseda University Organisation for Japan-US Studies. He is also an honorary professor at the Keiō University faculty of political science, and lecturer at Tokyo University’s faculty of arts and humanities.*

*Considered to be the brain behind Prime Minister Abe’s foreign policy, he was recalled by the latter to become a special adviser to his cabinet.*

#### **Giving priority to the rule of law**

**Gaikō:** It is now well over two months<sup>50</sup> since Abe Shinzō unveiled his new government. He has begun to ponder his medium term strategies in foreign policy. We have heard that you were the one who advised the Prime Minister to make Southeast Asia the destination of his first official visit since taking office. Could you please tell us the reasons for that choice?

**Yachi:** I am convinced that for Japan rethinking our relations with the super-power which China has become is the nub of our foreign policy. This is a serious problem which is being posed in a similar fashion, but actually more acutely, to Japan’s ally, the United States.

For more than thirty years China’s annual growth rate has reached an average of 9%, with the result that for over 20 years the expansion of its defence expenditure has been in double figures. (...).

In addition, China is not developing within an

<sup>50</sup> This interview was held at the end of February 2013.

international order controlled by the West, and that is causing tensions in various places. Quite frankly, it does not follow the rule of law. Owing to the self-centred way it conceives of its relations with the rest of the world, it does not always obey international laws and norms of behaviour. For example, it provokes tensions which only increase its neighbours' fears, whether in the South China Sea (beginning with its position on the Senkaku Islands), or in the East China Sea.

Japan is a Pacific maritime nation. For it, a freely organised international order in the Pacific Ocean is a major priority, as well as a shared understanding of the nature of that order. However, Japanese society is currently focusing all its attention on its problems with China and South Korea; if it widened its vision to take in Asia and the Pacific, Japan would see that it is not actually alone there. What is more, in that area it shares with others the same philosophy and values. That is why Prime Minister Abe, vice-Premier Asō, and Foreign Minister Kishida made a visit to the countries concerned, after which they went to the United States in order to reaffirm the strength of the Japanese-American alliance. This action reverses the effects of the three years and three months JDP government, which had undermined the Japanese-American alliance.

**Gaikō:** To take an example, at a time when Japanese-American relations had worsened, Nakasone Yasuhiro first visited South Korea, before flying on to the United States. (...). And going back further, Kishi Nobusuke (Abe Shinzō's grandfather) made diplomatic visits to Southeast Asia before going to the US. Did you have these facts in mind [when you advised Abe Shinzō]?

**Yachi:** At that time, Prime Minister Kishi visited six Southeast Asian countries, and then went on to the United States to negotiate the revision of the old mutual co-operation

and security agreement between the US and Japan. The message sent to the US could be expressed as follows: "Japan has begun to live with Asia. In these circumstances, because Japan occupies a position of importance in Asia, it ought to receive more even-handed treatment in the security treaty". After carrying this important message to the United States, Kishi Nobusuke made nine diplomatic visits to Asian countries. Prime Minister Kishi's strategic understanding shaped his diplomacy. Although conditions are different nowadays, the essential is still to have a real diplomatic strategy.

Once again, Southeast Asian countries are acutely aware of the significance of China for them. Vietnam and the Philippines, among others, are in dispute with China over islands in the South China Sea. But what interests these countries is how Japan is going to handle the problem of the Senkakus. [...]. The United States, which has announced its return to Asia under the Obama administration, expects Japan to take on a larger role with increased responsibilities. In this connection, it is very significant that Prime Minister Abe has met with the Southeast Asian prime ministers for a frank exchange of views. From these countries' point of view, the question is not only whether Japan is approaching them because it is facing similar problems with China over the Senkaku Islands, but whether that is the only reason for its commitments to them. So they expect Japan to take part in the "return to Asia" policy (...). That means that it is very important for Prime Minister Abe to meet the Southeast Asian heads of state (...).

### **The Japanese-American commitment: deeds speak louder than words**

**Gaikō:** After the summit meeting, the Prime Minister loudly proclaimed that "the Japanese-American alliance is completely restored". Nonetheless, the problem of the Futenman

base is still not resolved. How are matters progressing in that respect?

**Yachi:** The problem of the Futenmea base has been going on now for 16 or 17 years. Seen from the American point of view, one might ask what the matter is. On the other hand, to prove to President Obama that he is determined to implement a “politics of decision”, the Prime Minister did not resort to hollow speeches but clearly explained what he had done previously and what he was going to do. It seems that Obama is inwardly persuaded that “the Prime Minister is someone we can do business with. He is confident and resolute. So if we enter into discussions, there is a chance of political measures being taken”. In that sense, I believe that the occasion has led to a relationship of trust between the two leaders. [...].

**Gaikō:** President Obama’s handling of policy issues is pragmatic through and through. He is mainly concerned with results. Was the meeting between the two men based on that approach?

**Yachi:** That was also one of the aspects of their meeting. Having resigned as head of the government five years earlier, Abe was able to recharge his batteries and was well prepared at the time of his re-election. In the post-war history of Japanese institutions, with the exception of Yoshida Shigeru it is extremely rare for a former Prime Minister to return to office. Even though his previous experience ended in a severe setback, the feeling of having overcome that setback is also operative. That is why I think that he is counting on a stable long term in office, but he does not believe in clinging to power and keeping it by any means whatsoever. I have the impression that he is now seeking a sense of balance, which matches (and fits in with) his own convictions.

**Gaikō:** There has been a lot written about the ultra-nationalist image projected by the Prime

Minister, but in his deeds he seems nowadays to position himself more as a conservative realist or realistic nationalist.

**Yachi:** If we were to characterise the head of State, he is a serious individual who is not inclined to intrigue. He studies matters closely and prefers logical clarity. He does not seek to obscure his statements by verbal circumlocutions (like indefinite pronouns), and he does not hide behind a smokescreen. As he has a logical mind, he conducts debate in order to get at the ins and outs of any problem, and although that has earned him a reputation as a right wing hawk, I believe that as head of State he is a pragmatic politician.

**Gaikō:** Indeed. I even have the impression that nowadays he no longer gives way to the excitement which characterised him before his return to power. For example, even the United States was worried that he might seek to revise the statements by Kōno<sup>51</sup> on the comfort women, or the Murayama position on the matter<sup>52</sup>.

**Yachi:** In the light of its achievements hardly two months after the Abe government was formed, the mass media have considered it proper to speak of “a safe pair of hands”, so why make a radical turn? In my view, what this means is that Abe’s greater awareness of past history has been well received by the commentators. The prime Minister has given much thought to this matter following the experience of his first term.

Moreover, before the elections Abe Shinzō was in opposition, and from his position as

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<sup>51</sup> This refers to the official apologies to the comfort women made by the Government Secretary, Yohei Kōno.

<sup>52</sup> From the name of Murayama Tomiichi who, on August 15<sup>th</sup> 1995, offered Japan’s official apologies for the crimes committed by its rule in Asia in the 20<sup>th</sup> century.

a challenger he had to bolster his reasoning and emphasise his adversary's weak points. But once he had taken power, as he is not a fundamentalist, in my view Abe handles government business by taking account of all the forces in play and weighing up the *pro* and *contra* of any decision, without abandoning his own convictions, however.

**Gaikō:** Before his election, Prime Minister Nakasone was also considered to be “a hawk”.<sup>53</sup> But in reality, without deviating from his nationalism, he broadened his centre coalition which allowed him to retain power for a long time. Do you feel that Abe also has that ability to rally support?

**Yachi:** What the Prime Minister has also said is that the project of revising the Constitution is the leading idea behind the founding of the LDP. In my view, he will soon judge in which political direction it is better to extend his majority in the light of his aim of constitutional revision: would it be better to unify the rightists and the conservatives or make an alliance with the liberals and the left-wingers? If the question is about the most judicious choice for revising the Constitution, I believe that the judgement would be for an alliance with the left. [...].

**Gaikō:** Would that represent a change from the line of the first Abe government [2006-2007]?

**Yachi:** Yes, because I believe that under Abe's first government, the *sollen*<sup>54</sup>(that which must be, and must be done) had greater sway. Is it not that aspect which he is now reconsidering? In any case that is what he says. But I think that he got a bit swept away in saying it.

**Gaikō:** There were also reports of the fears raised by his first administration because of his position on offering prayers at the Yasukuni

shrine. Since this is still a live issue, what are your opinions on it? Basically he is opting for a strategy of “studied ambiguity”.

**Yachi:** On the question of visiting the Yasukuni shrine, the Prime Minister says that it is a spiritual problem. He considers it inappropriate to link homage paid to the souls of fallen soldiers with questions of domestic or foreign policy. Moreover, he is the first to wish not to make it a problem. You speak of a strategy of “studied ambiguity”, but I think that that he does not wish to get involved in the affairs of others or of a foreign country. If one thinks that in order to express one's condolences or gratitude, a visit to the Yasukuni shrine is unavoidable, I believe that the issue does not arise.

**Gaikō:** But in daily life, in fact one can display sorrow or condolences at any time or place.

**Yachi:** That is ... what I think too.

### **For a strategic approach to the Trans-Pacific Partnership (TPP) Agreements.**

**Gaikō:** Let us get back to the question of joining the TPP. There are two aspects to this. If one thinks about the advantages and disadvantages in purely economic terms (...), and about the ways to make it a winning card in the long-term Abenomics strategy, there can be no overlooking of the inclusion of Southeast Asia as a pole of growth in the eyes of the United States, which has announced its return to Asia. A second aspect of the strategic vision behind the TPP consists in making it an instrument for peace. This side of the TPP is the strategic aspect which it has in the eyes of the United States whose announcement of its return to Asia includes Southeast Asia as a centre of growth. (...).

**Yachi:** I think that it must be treated as a matter of the greatest importance. On the one hand, there is the economic dynamism of the Asian

<sup>53</sup> In the original, *urutora takaha* or “hardliner”.

<sup>54</sup> In German in the original.

Pacific region. It is one thing to conceive of the TPP above all as an instrument of liberalisation, and it was America, back in the early days of the Obama presidency, which began to talk of a “return to Asia”. But – it is a great pity how badly it was arranged under the Hatoyama government – the talk of encouraging the “return to Asia” by the United States has ceased, and Japan has been side-lined in its plans for the region’s security. For the United States that is truly regrettable.

The original draft agreement for a Trans-Pacific Partnership was signed by four countries [Chile, New Zealand, Singapore, and Brunei], and it suddenly assumed strategic importance when the United States joined it. In order to have a clear assurance of the United States’ “return to Asia”, it is extremely important for Japan to seize the opportunity to put its membership of the TPP back on the negotiating table.

The third aspect is that the TPP has become a central pillar of the Abenomics growth strategy. It offers an extraordinary opportunity. Of course, there are various issues that must be addressed in the light of their domestic consequences, such as the effects on the agricultural sector, but if these problems can be met Japan now has the possibility of laying down the rules of international trade for the future.

For Japan’s foreign policy, a strategic perspective on the TPP needs to be worked out. Starting from now, Japan absolutely must strengthen its economy. That is what the majority of our fellow citizens desire [...] Abe Shinzō probably thinks the same.

### **A major problem: what if China refuses any compromise?**

**Gaikō:** Now that Japan is trying to develop its foreign policy role, it finds itself constantly confronting the tacit opposition of the Chinese

leadership. The relations between China and Japan have deteriorated since the time of Abe’s first government. How do you see the development of this relationship with China?

**Yachi:** At the end of a lightning visit during his previous term, Mr. Abe established “a relationship of strategic reciprocity” (*senryakuteki gokei kankei*). The atmosphere surrounding Chinese-Japanese relations underwent an about turn. Especially those who had gone to Beijing after Abe Shinzō’s official visit were saying that the atmosphere was profoundly different, but because of the current relationship between the two countries, the atmosphere today is bad.

This situation probably has its origin in the conflict over the Senkaku Islands. Even if China says “it was Japan who started it”, from the point of view of both history and international law, those territories are undoubtedly Japanese. Based on this fact, for Japan it is only a matter of transferring private property into State ownership. It is not a matter of depriving China of a territory over which it had always exercised effective control.

If China is driven to such extremes, it is in the first place because of its problems in acquiring energy supplies. Secondly there is the whole question of ensuring supply routes, which underlies its naval strategy and explains the real meaning behind issue of the Senkaku Islands. Thirdly, since China is also claiming its rights over Taiwan, it finds itself in a position where it cannot say “but that is a different case”. Because of its rapid economic expansion, the inequalities in income are increasing, and many scandals related to corruption or environmental issues are breaking out. In order to dissipate their citizens’ anger, Japan is singled out. Let us strike where it is easy to strike.

**Gaikō:** Incursions into Japanese territorial waters have become commonplace, and

there have been invasions into the airspace too (...). I have the impression that a new phase in Sino-Japanese relations has opened. What do you think?

**Yachi:** I think so too. China thought that by imposing de facto control over the islands, it would be challenging Japan's control. But, as international law lays down that these territories are Japanese (...), it is China's attitude which is at the origin of the problem of the Senkakus. On the Japanese side, the actions by the coastguards and the Self-Defence Force have been very restrained. During the meeting between the American and Japanese heads of State, President Obama said that he had taken note of Japan's self-control. And I believe that it is not only the United States, but also many other countries throughout the world who are aware that China is acting recklessly, whereas Japan exercises self-control.

**Gaikō:** China's Gross Domestic Product (GDP) now ranks second in the world. At the time of the first Abe government, the GDPs of China and Japan were evenly matched, but that relationship has radically changed. In addition, border disputes have become a matter of major concern. How soon do you expect this issue to be taken in hand, even if only provisionally?

**Yachi:** With regard to the Senkaku Islands themselves, it is not easy to predict when China will adopt a correct attitude. That depends on the inner workings of the dictatorship of the Chinese Communist Party. [...].

Speaking more broadly, an overview of the relations between China and Japan shows that China, at the present rate will not only widen the gap in economic power between itself and Japan, but will also continue to expand its military strength. From the Chinese viewpoint, there will be even less reason for restraint in its confrontation with Japan. Should they

themselves ever decide to unleash a conflict, the Chinese believe that they would win. There are no grounds for wondering whether they would restrain themselves.

If we wish for coolheaded restraint to prevail, we need to consider how relations between China and the United States will unfold. American power is still overwhelming. Although China's economic take-off ought to allow it to overtake America's GDP around 2030, China would find it extremely difficult to overtake the United States in military and political influence.

In the eventuality of a change in the balance of forces between China and the United States actually happening (...), China's choice (whether to take the road of co-operation with the US or, on the contrary, to enter into a confrontation by trying to set up a rival *pax sinica*) will determine the future of the relations between the two powers. If China goes for co-operation, relations with Japan will not deteriorate, and I even see a possible improvement. But if it opts for confrontation, that will be in opposition to the alliance between Japan and the United States. In any event, whether it moves towards co-operation or confrontation, its relations with Japan will certainly change.

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