

Japan: Governments Change, Problems Remain

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Abstract. The unstable situation in Japan's internal politics continued in 2012 and early 2013. Having come to power at the end of 2009, the Democratic Party was unable to keep its campaign promises and thus suffered defeat in the December 2012 parliamentary elections. The Liberal Democratic Party, once again in power, is also encountering a number of serious challenges in domestic and foreign politics. Prime Minister Shinzo Abe intends to bring the economy out of its prolonged stagnation, and to conduct a firm international policy that includes resolving territorial disputes with neighboring countries.

Keywords: *Democratic Party of Japan, Liberal Democratic Party of Japan, Shinzo Abe, domestic political situation, parliamentary elections, deflation, territorial conflicts.*

Two-Party Reversal on the Heights of Governance

In Japan, 2012 passed against the background of the ruling Democratic Party's fight for political survival and ended with its crushing defeat in the general election, casting doubt on the very prospect of the Democrats' further existence as an independent factor in Japanese politics.

The year 2013, will show if the Liberal Democrats, now that they have returned to power, are able to draw the appropriate conclusions from their earlier defeats, and whether they can not only come up with the policies needed to

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reform the country's economy after more than 20 years of stagnation and reboot Japan's foreign policy, but radically modernize their own party as well. This is of vital importance to the LDP, since the party has in recent years seriously damaged its image in the eyes of Japan's middle class, its main electoral base.

In 2012, Prime Minister Yoshihiko Noda was tenacious in managing to raise the consumer tax. Noda made this issue a priority in his policies even when appointed to the post of Prime Minister in September 2011,¹ hoping thereby to find money to cover growing government expenditures. To reach this objective, Noda reorganized Japan's government twice in 2012, sacrificing the unity of his own party. Other key moments of 2012 were the variety of government measures taken to mitigate the consequences of the natural and technogenic disasters of March 11, 2011 the drastic deterioration of Japanese-Chinese relations, and the dénouement of three and a half years of Democratic Party (DP) rule. These and other events would determine the thrust of Japanese policies for the foreseeable future.

Japan's political 2012 began early. Even before the January 24 opening of the 180th session of parliament, Prime Minister Noda decided to reshuffle his cabinet of ministers. The cabinet's new makeup was announced on January 13. Noda replaced a total of five ministers, including Minister of State for Consumer Affairs Kenji Yamaoka and Defense Minister Yasuo Ichikawa, both of whom the upper house of parliament had censured for imprudent public statements. Yamaoka was replaced with Jin Matsubara, while Naoki Tanaka, the husband of Makiko Tanaka, former foreign minister under the Koizumi Government, became Minister of Defense. The latter appointment was made under pressure from the opposition, which declared it would refrain from discussing the possibility of cooperating on legislation to raise the consumer tax so long as Ichikawa remained in his post.

Noda also appointed Katsuya Okada, a Democratic Party leader, to the post of Vice Premier. In addition, Okada occupied the posts of Minister for the Comprehensive Reform of the Social Security and Tax Systems and Minister for Civil Service Reform in the reorganized government. Okada, who had until then had been the Democratic Party's general secretary, was known to be an advocate of raising the consumer tax, so his appointment (along with Ichikawa's dismissal) was seen by observers as a sign of Noda's determination to continue the fight for a higher tax.

New changes to the government's makeup and structure soon followed: At the beginning of February, the creation of the *Fukukote* – the Agency for Reconstruction – was announced after the natural and technological disasters of March 2011.² Tatsuo Hirano was appointed the agency's first head on February 10. Its main mission was to coordinate the restoration of the economy³ after the March disasters, especially in Tohoku, the region hit hardest. Even though the government declared the need to create such an agency immediately after the events of March, it managed to pass such a law only in December 2011, due to the weak position of the then Prime Minister Naoto Kan and resistance from the opposition.

In Japan, March is traditionally the month in which the budget is fought over. March of 2012 was no exception. The lower house of parliament, where the Democratic Party enjoyed a majority, approved the draft budget on March 8, after which it was forwarded to the upper house, controlled by the opposition, for its consideration. As a result, the opposition parties, wishing to force the prime minister into dissolving the lower house of parliament and holding new elections, decided to take advantage of the moment and voted against approving the budget. As in 2011, the budget was, therefore, adopted by resolution of the lower house of parliament (according to Japan's constitution, if the two houses cannot reach an agreement, the decision of the lower house enters into force); for the first time in 14 years, it took effect with a delay of several days after the true end of the fiscal year. The bulk of the budget totalled 90.3 trillion yen, and for the first time in six years was smaller than the budget of the previous year. Considering the costs of restoring the economy after the great disaster in eastern Japan and the paying out of pensions, however, its actual size was a record 96.7 trillion yen.⁴

The latest crisis in Japanese-Chinese relations took place in April 2012: Tokyo Governor Ishihara Shintaro announced he intended to buy (using municipal funds) the Senkaku Islands, the subject of a territorial dispute between Japan and China, from their private owner. A domestic squabble was provoked in Japan by the country's ambassador to China, Utiro Niwu, who in a *Financial Times* interview harshly criticised the capital prefecture's plans to acquire ownership of the islands, and expressed his fear that the deterioration of relations on the diplomatic level could negatively impact bilateral economic ties. This led to a retort from Tokyo Governorship proper, advising the ambassador to study the history of his own country before making any public statements, and to a parliamentary scandal: at an inter-party session on June 8, the Liberal Democratic Party resolved to insist on the ambassador's early recall. The situation also cast a negative light on the Democratic Party's attempts to involve representatives of the private sector in the work of key posts: contrary to custom, Niwu had not been a career diplomat before his appointment; rather, he was a former president of the Itochu Corporation.

The situation developed further as early as September 2012, when the central government decided to preempt Governor Ishihara and independently purchase and nationalize the three disputed islands, resulting in a new spiral of tension in relations between the two countries. Anti-Japanese actions began in China, leading to enormous direct and indirect (in the form of a drop in the prestige of Japanese goods) losses for Japanese companies that ranged from three to ten billion U.S. dollars.

On June 4, Prime Minister Noda reshuffled the government once again, removing the ministers who had been censured by parliament. He was compelled to do so by the Liberal Democratic Party refusing, as it had done six months earlier, to cooperate so long as these ministers remained in their posts.⁵ Defense Minister Naoki Tanaka and Minister of Land, Infrastructure, Transport, and Tourism Takeshi Maeda were dismissed. Tanaka was replaced with Satoshi

Morimoto, a professor at Takushoku University, while Yuichiro Hata (the son of Tsutomu Hata, who served as prime minister in 1994) took over Maeda's post. In addition, Minister of State for Financial Services and Postal Reform Seizaburo Jima, representing the New People's Party (the DP's partner in the ruling coalition) was replaced with Tadahiro Matsushita, a fellow party member and former deputy minister for the reconstruction of Japan. Minister of Justice Toshio Ogawa and Minister of Agriculture Michihiko Kano, about whom it was rumored that he maintained personal contact with the first secretary of the Chinese embassy who was suspected of espionage, along with being a person of interest in the illegal registration of foreign citizens, were also forced into retirement. Makoto Taki, a former deputy director of the Ministry of Justice, was appointed its head. Akiro Gunji became Japan's Minister of Agriculture, Forestry, and Fisheries. A total of five ministers were, therefore, replaced, with the remaining 13 members of the cabinet keeping their posts.⁶ Accused of having ties to organized crime, Minister of Justice Keishu Tanaka retired soon after his appointment on October 23. His post was filled with Makoto Taki.

At the beginning of summer, Noda managed to achieve his main goal: at the June 26 session of the lower house of parliament, draft legislation on reforming the social security and taxation systems was approved in a majority vote by the Democratic Party of Japan, the Liberal Democratic Party, and the Komeito Party. After it was approved, the bill was sent to the upper house of parliament and adopted in August. The legislation, which called (among other things) for an 8% increase in the consumer tax as of April 2014 and a 10% increase commencing in October 2015, split the ruling Democratic Party: 57 deputies from Ichiro Ozawa's group voted against its adoption. Prime Minister Noda let it be known that he intended to take harsh measures against these violators of party discipline. At a meeting with journalists, Ozawa in turn announced his own intention to examine in the near future the possibility of leaving the Democratic Party along with his supporters.⁷

Ozawa made good his threat on July 2: together with his group of supporters, he left the ranks of the Democrats. At a press conference devoted to his departure, Ozawa said that today's DP no longer resembled the party he had helped create. He cited the party's renegeing on its campaign promises (one of which was a moratorium on raising the consumer tax) as the main reason for his leaving. Around 50 politicians left the party along with Ozawa.

On July 11, the former deputies from the DP created a new party, the *Kokumin no Seikatsu ga Daiichi*, which can be translated literally as of the "people's livelihood first." Thirty-seven deputies from the lower house of parliament and twelve from the upper house joined the party, making it the third most numerous in parliament (after the DP and LDP). Observers immediately pointed out that the new party had little chance of strengthening its position in the upcoming elections, since most of its members had been elected to parliament for the first time and lacked any firm electoral base. Many of them, therefore, also decided to follow Ozawa.⁸

On August 8, at a meeting with representatives of the opposition leaders – the Liberal Democratic Party and the Komeito – Noda announced that he would soon dissolve the lower house of parliament and schedule new elections. Tired of waiting for him to keep his promise, on August 29, 2012 the opposition parties passed a motion of no confidence in the Prime Minister in the upper house of parliament, which they controlled. Even though this resolution carried with it no formal obligations for further action, observers noted that this step of the opposition signified a cessation of parliamentary cooperation between the ruling Democratic Party and the opposition Liberal Democratic Party and Komeito.

On September 14, 2012 the Japanese government approved its new Strategy for Innovation in the Energy and Environmental Sectors, which proclaimed a policy of completely abandoning nuclear energy by 2030.⁹ The strategy drew considerable criticism, since it proposed virtually no concrete measures for reducing Japan's dependence on nuclear energy. In addition, many observers judged the document to be populist in character, and believed its sole aim was to generate sympathy among the electorate on the eve of possible elections to the lower house of parliament.

On September 21, 2012 the Democrats held their latest elections for party leader. They were won by the incumbent, Prime Minister Noda. Also taking part in the elections were two former ministers of agriculture, Hirotaka Akamatsu and Michihiko Kano, and former minister without portfolio Kazuhiro Haraguchi. Noda won by a wide margin, receiving 818 of a possible 1,231 votes against 154 for Haraguchi, 123 for Akamatsu, and 113 for Kano. (The party has an electoral system in which parliamentary deputies and ordinary party members can cast ballots, although their votes do not carry the same weight.) Noda's victory was not unexpected: even before the elections, observers were saying there was virtually no alternative. After Ozawa's group of politicians left the party, no serious opponents to Noda's policies remained in the DP.

Elections for the Liberal Democrats' leader followed on September 26, with events unfolding somewhat less predictably. Sadakazu Tanigaki, who had headed the Liberal Democrats from the moment they became the opposition after suffering defeat in the 2009 elections, decided not to run. The winner was Shinzo Abe, who had already chaired the party and held the post of prime minister in 2006-2007, and was remembered for (among other things) his nationalist rhetoric. Abe beat out another candidate for the post, Shigeru Ishiba, who had won the first round. Touching upon his retirement in 2007 and future intentions, Abe announced that he "continued to bear responsibility for what he had done five years earlier" (when he had cited health problems as the reason for his retirement) but would do everything possible to return the LDP to power and bear in mind the mistakes made during that time.¹⁰

The creation of a new political party, the Japan Restoration Association (NIK) (*Nippon Ishin no Kai*), was announced on September 28. Its leaders were Shintaro Ishihara, the former governor of Tokyo, who had made public his desire

to once again devote himself to parliamentary politics, and Toru Hashimoto, the mayor of Osaka. Hashimoto's old party, the Osaka Restoration Association, became part of the newly organized party.

On October 1, Noda announced the new makeup of his cabinet of ministers, having replaced 10 of its 18 members. Key ministers, including Minister of the Economy and Industry Yukio Edano and Foreign Minister Koichiro Gemba, remained in their posts. Particularly noteworthy among the newcomers were Seiji Maehara and Makiko Tanaka, two popular Japanese politicians who had held the posts of minister of national strategy and minister of education and science, respectively.

The party's new elections and the reshuffling of the government did not help Noda win back the trust of Japanese voters. According to a public opinion survey conducted by the Kyodo Tsushin news agency, public support for Noda's cabinet fell in November from 29.2% to a record low of 17.7%, breaking the 20% barrier for the first time. The level of dissatisfaction with the cabinet grew from 55.3% to 66.1%.¹¹ The MPs' continuing flight from the ruling party helped to further the Noda government's drop in popularity.

On November 14, Prime Minister Noda, during public debates in parliament with Liberal Democrat leader Shinzo Abe, in response to a rebuke by Abe for failing to honor their agreement to dissolve parliament, promised to dissolve the lower house and schedule elections by the following Friday, if Abe in turn pledged that the LDP would support in parliament the issuing of government bonds to cover the budget deficit, reducing the number of single-seat districts from 300 to 295, and generally cutting the number of deputy seats during the next session of parliament (after new elections were held). Even though Abe did not specifically agree to support these Democrats' initiatives, Noda kept his promise: the lower house of parliament was dissolved on November 16, and elections were scheduled for December 16.¹²

As a result of the elections, the Liberal Democratic Party won the greatest number of seats in the lower house of parliament – 294 out of 480. The Democratic Party came in second with a considerable disparity at 57 seats. In third place with 54 seats was the Japan Restoration Party, formed on the eve of the elections.

The results from the elections of mid-December 2012 reflected the considerable drop in the DP's popularity among the Japanese public after the party failed to make good on its campaign promises. Three DP prime ministers had come and gone following the Democrats' triumphant victory in the August 2009 elections; not one of them was able to win the long-term support of the Japanese electorate. The DP had often been criticized for its inexperience in foreign policy, particularly for failing to resolve the most contentious issues in relations with Tokyo's main ally – the United States – particularly in the matter of relocating the Futenma Marine Corps Air Station, and the lack of progress in restoring the Japanese economy after the global financial crisis of 2008 and the natural and

technogenic disasters in northeastern Japan in March 2011. On the whole, the elections may be considered a success for both the so-called third tier, represented primarily by the Japan Restoration Party, which was literally capable of becoming a third force in the lower house of parliament.

Predictably, Shinzo Abe became the new prime minister as a result of the vote taken at the opening of the 182nd session of parliament on December 26. That same day, the newly elected head of government announced the makeup of his cabinet of ministers. Taro Aso, who had served as Prime Minister in 2008-2009 (and under whom the LDP had suffered the worst defeat in its history), was appointed Vice Premier. Aso also held the posts of Minister of Finance and Minister for Financial Services. Yoshihide Suga was appointed Secretary General of the cabinet of ministers, Fumio Kishida became Minister of Foreign Affairs and former LDP leader Sadakazu Tanigaki assumed the post of Minister of Justice.

The inclusion of two women was one feature of the new cabinet immediately noted by observers. Masako Mori was appointed Minister of State for Consumer Affairs, while Tomomi Inada became Minister for Administrative Reform and the Civil Service.

In the elections for the new governor of Tokyo, held in the capital prefecture simultaneously with the elections to the lower house of parliament on December 16, former lieutenant governor Naoki Inose won by a substantial margin over his opponents, receiving a total of 4 million votes. Inose had been the capital prefecture's lieutenant governor since 2007. Prior to his forced retirement in October, Governor Shintaro Ishihara named Inose as his successor. He also received the support of the Liberal Democratic Party, the Komeito, and the Japan Restoration Party. Interestingly, Inose first became famous among the public as a writer and then decided to get involved in politics, just as Ishihara did.

There are a number of remarkable events we should note when reviewing the high points of 2012 in Japanese politics. As was already mentioned, Prime Minister Noda's fight to raise the consumer tax led to a major split in his party when one of its leaders, Ichiro Ozawa, left the ranks of the Democrats with a large group of supporters. His decision was not dictated solely by the logic of the struggle for influence within the party (though it would be foolish to minimize the importance of this factor). Ozawa's departure from the Democratic Party called attention to a longstanding problem in Japanese politics: the influence of the bureaucracy in the decision-making process. At the same time Ozawa was insisting that his mission was to implement the program with which his party had gained the voters' support and won the elections, Noda's decision to push for an increase in the consumer tax was considered pragmatic and in accordance with the wishes of the Japanese bureaucracy, which was interested in preserving the *status quo* and avoided making large-scale reforms. Having close ties with the bureaucracy, the Liberal Democrats also favored raising the consumer tax from the very beginning (and, therefore, entered into cooperation with the Democrats in parliament).

The decision by Noda and his supporters in the ranks of the DP to push for an increase in the consumer tax could impact the Democratic Party's image in the long term. The Democrats were also unable to draft a political platform that would be clearly distinguishable from that of the Liberal Democrats in the eyes of the electorate, while their subsequent failure to keep their campaign promises (aside from the consumer tax, they had also pledged to remove the American air base from Okinawa, and to abolish tollways) could seriously damage the DP's future electoral prospects. The Democrats also fared considerably worse in reacting to many crisis situations, displaying their inexperience in foreign policy particularly. In addition, it became clear that they had many of the same faults for which they criticized the Liberal Democrats, including the continuing parade of prime ministers, frequent reshufflings of the cabinet of ministers, and a weak internal party policy.

Yet another notable feature of 2012 Japan was the growing popularity of the so-called third tier parties. The Japan Restoration Party, headed by Toru Hashimoto and Shintaro Ishihara lagged only slightly behind the DP in elections to the lower house of parliament, despite party leader Hashimoto's lack of experience in national politics; his previous organization, the Osaka Restoration Party, was involved in purely regional politics.

Having won the elections of December 16, 2012 the Liberal Democrats faced many problems in 2013. It had to settle the dispute with China, which was seriously affecting Japan's economic growth, and deal with the economy's latest slide into recession.¹³ Some observers were particularly worried over the future development of Japanese-Chinese relations, considering the nationalist views of Abe himself¹⁴ and many members of his cabinet,¹⁵ along with his habit of using nationalist rhetoric during public speeches. With respect to other issues, Abe made it known that he wished to strengthen the powers of the prime minister, reexamine the role of the Bank of Japan in order to increase its influence over the real sector of the economy, and oversee amendments to the constitution.¹⁶

In his first term in 2006-2007, Abe was able to implement virtually none of the above programs, since he was continually forced to deal with critics of his rhetoric, and with internal party problems. The first months of 2013 showed that Abe was capable of learning from his earlier mistakes. His cabinet's economic policy, which observers dubbed Abenomics (by analogy with Obamanomics) had already borne its first fruits (more about this below), and Abe could boast successes in foreign policy as well. Observers gave high marks for the results from his February 2013 visit to the United States, where he discussed overcoming the abovementioned crisis in Japanese-U.S.A. relations during the Democratic Party's rule.

The government's popularity was quick to rise. According to a survey conducted by the Kyodo News Agency, the level of public support for Abe's cabinet was 71.1% in March 2013.¹⁷ We expect that if the LDP gains control over both houses of parliament, Abe would take additional, more daring steps in both foreign and domestic policy.

Will “Abenomics” Work?

In 2012, Japan's economy had yet to emerge from the state of prolonged stagnation in which it had been ever since 1990. The local press referred to this period as “the two lost decades.” Indeed, in the late 20th and early 21st centuries, Japan was out of step with the economic growth of the developed countries. In terms of its per capita GDP in 1993, Japan held second place in the OECD, but by 2011, it had fallen to eleventh place. Japan's gross domestic product in 2011 (46 trillion, 843 billion yen) barely exceeded its 1990 level (44 trillion, 125 billion yen).¹⁸ In 1998, 1999, and 2002, the country experienced an economic crisis, though it is true that the high level of demand on the world market kept Japanese exports competitive and allowed a major collapse to be avoided.

In the first decade of the 21st century, the government of Junichiro Koizumi bailed out a number of banks and imposed strict oversight with respect to the activities of financial establishments. The losses of Japan's financial sector from operations with American mortgage bonds were, therefore, minor. In 2008-2009, Japan lost momentum due not so much to the global financial crisis as to reduced demand in the developed countries for industrial goods, which account for two-thirds of all Japanese exports.

From 2007 through 2011, the overall volume of exports shrank by 12%. During that period, Japanese corporations surrendered their world supremacy in the production of electronic components, personal computers, televisions, power industry equipment, ferrous metals, and plastics to companies in South Korea, Taiwan, and China. Japan imports digital still and video cameras, mobile telephones and smartphones, liquid-crystal screens, air conditioners, washing machines, and so on from all three countries. Japanese manufacturers maintain their leadership in the area of highly specialized equipment (supercomputers), the production of medical equipment and cutting-edge pharmaceuticals, construction machinery, and the organizing and building of infrastructure.

A prolonged rise in the yen's exchange rate relative to the dollar and the euro added to Japan's economic difficulties. In 1990, a dollar was worth 135.4 yen and more than the face value of the currency's purchasing power (175 yen to the dollar). By September 2007, the exchange rate had risen to 124.1; by October 2011, to 75 yen. The rise in the exchange rate made import goods cheaper on the domestic market and led to continued deflation. In December 2012, wholesale prices were 0.7% lower than they had been a year earlier; retail prices, 0.2% lower.

Trade conditions (the relationship between export and import prices) for Japan have been entering their second decade of decline ever since industrial output in China exceeded the rise in world prices for raw materials and fuel. In 2012, exports shrank by 1.7%, due to reduced sales abroad of automobiles and electronic components. Imports rose by 5.6%, since companies of the Southeast Asian nations had organized immediate deliveries of food and construction materials to the areas of Japan hit by the awful earthquake and tsunami of March 11,

2011. The balance of trade, therefore, became a deficit for the first time since 1979. Only in the spring of 2013 did the exchange rate of the yen to the dollar fell to 97-98 and approached today's parity of purchasing power for both currencies (105 yen to the dollar).¹⁹

The natural disaster destroyed towns and cities along the coastline, along with all communications, agricultural lands, and fishing ports, cutting the economy of the northeastern coast of the island of Honshu, the main source of food for the capital area (the prefectures of Tokyo, Yokohama, Kawasaki, Saitama, and Tiba), off from the rest of the country. The damage from the natural disaster of March 11, 2011 was estimated at 33.8 trillion yen, or more than \$430 billion. This is 7.05% of Japan's annual GDP.²⁰ Due to the earthquake, the global technological system of which the industrial enterprises of that region were a part was disrupted. Engineering industry worldwide operates on a densely intertwined supply network that unites all stages of processing, assembly, and sales. Mass production on a moderate scale is quite easy to arrange abroad; this is what Japanese corporations did, moving assembly plants closer to foreign consumers. A small region of northeastern Japan is included in these transnational networks, which stretch from China to South America, from the United States to Europe. Japanese corporations were forced to win back their positions on the global markets and regain trust in the quality of their goods – their brand image. New difficulties arose in competing with China for the leading position in Asia Pacific.

The year 2012 was, therefore, one of complete crisis. The decline in GDP reached its nadir in November (8.3% lower than in November 2011), while the level of industrial production hit bottom in September 2012, having fallen by 8.1%.

Only at the very end of 2012, were there signs of emerging from the protracted crisis, thanks to the growth of export deliveries to the United States and the countries of Asia Pacific. Annual GDP rose, but only slightly – by 1.1%.

One of the reasons for the protracted crisis was the reconstruction work being done in the northeastern part of the country. It was financed from the federal budget as a priority of economic policy. The network of railroads and highways was restored first of all. All of the efforts were directed by the *ad hoc* Reconstruction Agency. It coordinated all projects, distributed funds according to the needs of the local authorities, and subsidized new enterprises in the stricken region. The government counted on the construction boom in the area acting as a stimulus on the economy as a whole and allowing it to compensate for the drop in demand for Japanese products on foreign markets. However, the Japanese press reported a multitude of useless projects and even pointless expenditures.²¹ According to Agency data, 40% of the allocated funds remained unused and were returned to the budget. Two years after the natural disaster struck, efforts are far from complete, the initial allocations for government projects proved insufficient, and their cost is rising sharply. The region is suffering from a deficit of construction materials, laborers, and engineers.

Most nuclear power plants were closed after the accident at the Fukushima-1 nuclear power plant. The Tokyo Electric Power Company (TEPCO), the operator of the Fukushima-1 plant, was nationalized. A controversial underground "Frozen Wall" of 1,000 rods is being built around the plant's four reactors, and the irradiated land around it has been closed off. It will take more than a decade to dismantle it. Meanwhile, TEPCO is converting the capacity of its other power plants to liquefied natural gas, and to imports of cheap shale gas from North America in the future.

Serious changes are now being made in Japan's energy structure. The problem of chronic shortages in electrical energy is being solved in several ways. First, Japan is rapidly making up for its shortage of energy resources by importing liquefied natural gas from Qatar and Australia. It is now used to generate 60% of Japan's electricity. Japan has become the world's largest importer of natural gas. The island nation can import liquefied natural gas only with tankers. On Japan's domestic market, the price of gas is seven times more than that in European countries, where it is shipped over pipelines, and five times more than it is in the United States, where it is not liquefied and is actually becoming cheaper as a result of local shale gas appearing on the market. A network of natural gas pipelines is rapidly being built in Japan, along with ten new gas-fired thermal power plants.

Japanese companies are involved in the production of shale gas in Canada and plan to explore for oil and gas in the Russian Arctic, eastern Africa, and Iraq. Deposits of oil-bearing shale have already been found in Japan, in the northern Akita Prefecture.

The operators of nine regional energy grids²² have started to raise the rates they charge their customers in order to cover their losses and compensate for the cost of launching energy-efficient thermal power plants. A great many of these are old plants that require modernization. Raising the rates was an incentive to develop alternative sources of energy. These include wind turbines, power plants built over geothermal springs,²³ ocean tides and solar batteries, furnaces for burning biomass (rice chaff), and drilling rigs for producing methane²⁴ from deposits under the ocean floor along the Pacific coast of the island of Honshu. However, the technology for converting methane agglomerates is still not ready for practical application.

Japan has become a world leader in developing renewable energy resources. Solar batteries have become a permanent fixture of many buildings. The owners of all small retail stores and many residences have mounted them on their roofs. The government now subsidizes the operation of plants based on solar batteries and wind energy. However, their capacity is limited and they often work unevenly. Megastations based on solar batteries remain in the design stage. The potential of renewable energy is enormous, but its commercial use lies far in the future. Experts estimate that in the event of a complete moratorium on nuclear energy, renewable sources of energy could cover Japan's energy deficit around the year 2050.²⁵

Other suppliers have appeared on the retail market. Ferrous metal combines are selling the surplus electricity produced by their industrial generators, not to the national grid but directly to local consumers. Local distribution networks are rapidly being built for just this purpose. A simplified licensing procedure has been introduced for all new suppliers and their owners. The new suppliers occupy only 3% of the market, however, since they are not required to sell their surplus to the wholesale network, as is the case in Europe.

A quiet revolution has begun in the organizing of Japan's power industry. The Japanese government has, therefore, adopted a program for full-scale reform of the entire electrical energy establishment. The electrical power grid created in the late 1940s, in which the generation, transmission, and sales of current was in the hands of ten companies – regional monopolies – is to be reorganized. Transmission and sales will be divorced from generating capacities. Consumers will be able to choose their suppliers based on price and conditions of delivery.

In the summer of 2012, the Ministry of Economy, Trade, and Industry prepared a draft of the new energy strategy and managed to shepherd it through parliament. It is based on the premise that Japan cannot fully abandon the use of nuclear energy. The government only established a mandatory operating limit of 40 years for current nuclear reactors, after which they must be dismantled (this will be done in 2030), and no new reactors will be built. A 10% increase over 2010 levels was established for 2030 as a control figure for the electrical power industry.

The “high yen” is raising the cost of labor and slowing economic growth, but it also makes it cheaper to buy foreign assets. In Japan, there is also an extremely high tax on corporate profits (along with local taxes, the effective federal tax rate was 38%). Private business, therefore, exports more capital abroad than it invests inside the country.

Japanese corporations are developing according to the model of transnational entrepreneurship. At present, 4,827 companies have a network of affiliates abroad made up of 32,700 enterprises, mostly industrial and trading companies.²⁶ According to data on 2010, there are around 40,000 transnational corporations around the world, conducting overseas operations through 250,000 affiliates.²⁷ The “Japanese echelon” is around every fifth worldwide TNC, while affiliates of Japanese TNCs constitute 13% of the world's affiliate network.

Transfers of the profits from foreign capital investment in the last five to six years have consistently exceeded the negative balance of trade, and have surpassed the growing trade deficit as well since 2011.

Nevertheless, many experts believe that the trade deficit is becoming a structural feature of Japan's economy. “Even if the increasingly weak yen helps to increase Japanese exports,” says Kaoru Yosano, Minister of State for Economics and Financial Policy in Naoto Kan's cabinet (2010-2011), “imports of raw materials and fuel could cancel out any growth in exports. The trade deficit continues, and it is possible that we shall soon have a deficit in outlays and receipts as well.

If a country with as huge an economy as Japan's can fall into such a fiscal trap through government debt, no country in the world will be able to help us extricate ourselves from it."²⁸

In speaking of a fiscal trap, Yosano meant the dangerous combination of the balance of payments deficit and the national budget deficit, such as the United States has. The United States, however, attracts savings from around the world. American treasury bonds are considered the world's most reliable and liquid financial instruments. Many countries, China and Japan in particular, have invested their hard currency reserves in them. Japan's national debt cannot be paid off in this manner, since the national banks of other countries do not buy Japanese bonds.

A net surfeit in the current balance of payments would allow the financing of state budgetary expenses. The mechanism for this can be described as follows: company incomes from goods, services, tourism, and insurance, plus profits from Japanese enterprises abroad and other revenues are converted into yen and deposited in bank accounts. These financial infusions complement the banks' resources, helping them to buy government bonds. If the banks are short on revenue, the Ministry of Finance would have to raise the rate of return on government bonds so that the banks do not stop buying them. If that happens, all other interest rates would rise and the long-anticipated economic growth would be arrested.

In principle, the shortfall in the current balance of payments could be counterbalanced by a positive balance in the movement of capital, but this is impossible. The outflow of capital from Japan is always greater than the influx of capital from abroad. The balance of payments can be balanced only by the movement of gold and hard currency reserves. These reserves are enormous: \$1 trillion, 252 billion.²⁹ Yosano's fears are, therefore, likely to be premature.

Japan's domestic debt started to build after the oil crisis of 1974, when tax revenues declined and stimulating economic growth became the aim of the budgetary system. Ever since then, the deficit in the government sector has been used as a "built-in stabilizer" of the economy.

In its attempts to bring the country out of economic stagnation, one government after another has increased budgetary expenses. In anticrisis measures, social security (direct payments, job creation, tax breaks for the public and entitlements) were combined with creating demand for suppliers of consumer services (stimulating purchases of durable goods, getting rid of junked automobiles) and building infrastructure (highways, bridges, turnpikes, and so on) for the future. Around half of the federal government's 2013 budget is financed by tax revenues (45.3%) and the issuing of new bonds (46.3%).

In 2013, Japan's national debt was twice as high as its annual GDP, the highest national debt of modern times. It is true, however, that the debt is securely structured in terms of time. One-fourth of it consists of short-term treasury bonds (redeemable in less than a year) to be replaced through new issues. Almost half

of the debt consists of bonds that can be redeemed after 10, 20, and even 50 years.

Japan is protected from a prolonged crisis by the durability of its banking system. A megaregulator, the Financial Services Agency, carefully monitors the stability of financial institutions. In addition, Japan is not threatened by long-term crises of the European type, where a strong country (e.g., Germany) has to finance the debts of Greece and other weaker countries. Japan is virtually debt-free: only 8.7% of its bonds are held by private foreign investors. The Japanese government, therefore, does not fear either a national debt crisis or deflation.

It is true that debt management carries the risk of raising the rate of return on bonds. When this happens, the interest rates for private investors also rises, interfering with attempts to bring the economy out of stagnation. However, the Ministry of Finance has been able to manage the issuing and retiring of its bonds without allowing their rate of return to rise. Japanese financial institutions hold long-term government bonds. One-third of their resource base consists of demand deposits that belong to legal entities and private individuals. A considerable portion of the public's savings is invested in demand deposits at banks and insurance policies, and is used by financial institutions to buy government bonds.

It cannot be said that Japan is indifferent to this burden of debt. Servicing the debt (retiring and issuing new bonds and paying the interest on them) takes 24% of the budget – almost as much as is needed for pensions, benefits, and other social entitlement programs.³⁰

Prime Minister Abe, having come to power at the end of 2012, pushed for and began executing a major program of economic reform. Abe is the fourth reformer in the last thirty years. Yasuhiro Nakasone (1982-1987) oversaw the privatization of state-owned railroads. Ryutaro Hashimoto (1996-1998) reorganized the country's banking system. Junichiro Koizumi (2001-2006) privatized the postal savings system and managed to bring the economy out of the first global financial crisis. Unlike his predecessors, who stayed within the boundaries of liberal policy, Abe's program is based on the postulates of Keynesian economic theory.

As was noted above, Abe's program has already been christened "Abenomics" and has begun to be implemented. The official text of the program was published in July, prior to the elections to parliament's House of Councillors, where Abe's Liberal Democratic Party counted on winning a majority of supporters. The main aims of Abe's cabinet were to overcome price deflation, create new projects for investment on the domestic market, and steer the economy back onto the path of economic growth.

The term "Abenomics" denotes a broad program of action. As a first step, Abe demanded that the Bank of Japan set a target figure of 2% annual inflation. The Bank has to overcome expectations of a drop in prices – major decisions in the economy are always guided by expectations. The Bank of Japan needs to maintain a lending rate close to zero and actively refinance banks by expanding

their credit resources. The Bank is obliged to buy the government bonds that will be issued to finance social projects.

Enormous amounts of money will be spent to repair major items of infrastructure (roads, bridges, tunnels, and so on). The first high-speed Sinkansen rail lines were built in the 1960s, while the network of long-distance highways was created between 1964 and 1972. Old structures are beginning to crumble: roofs are collapsing in tunnels, and so on. Some 92.6 trillion yen (\$1 trillion) has already been allocated for investment in infrastructure in the 2013/2014 fiscal year.

Abe's cabinet is prepared to sacrifice budgetary discipline for the sake of injecting money into the economy. They are counting on the so-called multiplier effect of demand, a classic mechanism for jump-starting economic growth. Construction work creates demand for materials and equipment and draws additional workers into production, while their earnings increase consumer demand. The demand for new capital investment subsequently rises. Interest rates and the cost of goods rise, deflation ends, and economic recovery begins.³¹ Money from Japanese and foreign investors ends up on the Japanese stock market. Tax revenues rise and the budget deficit begins to resolve itself gradually. Economics Minister Akira Amari expects that the budget deficit will be cut in half by 2015, and there will be a surplus by 2020.³²

In practice, however, the implementation of this program involves a great many risks that are now being discussed by experts in the scientific and business communities.

- First, it is impossible to foresee when the economy will begin to recover and how long it will take. The Central Bank is taking the greatest risk by purchasing government bonds. "Government spending has only a temporary effect," says Ryutaro Kono from the BNP Paribas Bank Ltd. (Japan). "The country today is in fact spending the money of future generations. The temporary effect will pass, and the Bank of Japan will have to spend enormous sums to buy these bonds."³³
- Second, a role that nullifies the independence of monetary policy is thrust upon the Bank of Japan. If the Bank is unable to achieve low levels of inflation, money from private investors will flood the government bonds market at extremely low interest rates. Masaaki Kanno, chief economist at the Japanese branch of JP Morgan Bank, warns that Japan will then have a new "financial bubble."³⁴

The Abe cabinet's program also calls for reform of the tax system, a review of labor laws, and reform of Japan's energy policy.

Minor changes are made to Japanese tax laws every year. The automobile sales tax is abolished in 2013, and entrepreneurs are allowed to deduct 10% of their personal income tax in exchange for a 5% increase in the wages of their hired workers. A combination of measures is planned: raising the inheritance tax,

but exempting those who inherit property from their grandparents and allowing them to pass on the inherited property while they are still alive. It is hoped that the older generation will “open their purses.”³⁵ Approximately two-thirds of all savings belong to people older than 60. This tax break is aimed at raising consumer demand.

All proposals for major tax reform have regularly failed for many years now. Not one government decided to make such moves as cutting the direct tax on personal incomes, so that subsequent economic growth would raise incomes and thus budgetary tax revenues. At the beginning of the 2010s, it was recognized that to supplement the budget it would be necessary to raise the indirect tax on sales (which is included in all retail prices). For a decade, debate had raged over when and by how much it should be raised. Every government up to Abe's cabinet considered this measure to be politically dangerous. In Japan, everyone remembers how in the spring of 1997 the ill-advised attempt by the Hashimoto cabinet to reduce the budget deficit by raising the tax from 3% to 5% undermined the growth of consumer demand and the building of private homes.

At the beginning of 2013, however, “Abenomics” generated hope among the public for change for the better. As was mentioned above, the Abe cabinet's approval ratings were as high as 70%, and the prime minister came to a decision: The sales tax will be raised by 8% in April 2014 and by 10% in October 2015. In January 2015, the wealthiest members of Japanese society will pay a 55% income tax (now 40%). According to one estimate by the Ministry of Finance, this “tax on the rich” will be paid by only 50,000 residents of Japan.³⁶

Reform of the labor laws is aimed at eliminating the so-called “lifetime employment” system. According to long-standing tradition, large companies hire graduates from secondary school and higher educational institutions, giving them tenure under open-ended contracts and raising their salaries according to length of service until they retire with pensions at the age of 60. Under the conditions of current labor laws, it is very difficult to fire them. To cut their labor costs, companies often resort to hiring freelancers for abbreviated working days or shortened weeks. More than one-third of all recruited workers are now employed under such contracts. They are paid 10-20% less than other workers, can easily be let go, and are entitled to unemployment benefits only if they have worked in a company for one full year.

The revised law on labor standards, which entered into effect on April 1, 2013, established a retirement age of 65 for private companies. Those hired for abbreviated days (or shortened weeks) who have worked at a job for more than five years have the right to become permanent, full-time employees.³⁷

Japan's economy remains open and oriented toward foreign markets. This orientation changes neither the expansion of demand on the domestic market nor the development of new alternative sources of energy. Due to shifts in world trade, Japan must once again find its niche in the international division of labor and create new export opportunities.

In the plans of the Abe cabinet, agriculture is accorded the role of a key industry that can help reduce Japan's dependency on imports and make itself felt on foreign market outlets. Earlier, Japanese agriculture was stagnating in the same type of small family farming enshrined in the agrarian reform of the 1940s. By the end of the 20th century, this type of organization led to the collapse of the sector. Small farms have low productivity and do not meet the demands of the urban population in terms of variety of produce. Subsidies to farmers growing rice meant that Japan had a surplus of rice for many years, while rice prices were approximately twice as high as those on the world market. Self-sufficiency in produce fell from 70% in 1960 to 39% in 2012. The average age of farmers is 66, while the younger generation does not want to inherit their parents' land or profession. The result: the owners of agricultural land are ceasing to work it but are not selling their plots. Almost 10% of all cultivated land has been abandoned and is covered in weeds. Agrarian Japan is, however, distinguished by its conservatism. Family farms, now part of a vast network of supply and marketing cooperatives, comprise a massive electorate and are a pillar of the large political parties. The agrarian lobby resists the abolition of subsidies and any lowering of tariffs on imports of agricultural goods.

The search for new export opportunities has become a major problem. The prospects for high-quality agricultural products to make it onto the world market are obviously good. Buyers in East Asia (e.g., rich Chinese) are happy to buy Japanese rice, even though it is much more expensive than local rice. For the large-scale production of high-quality produce (like in the Netherlands or Israel, where land resources are limited), Japan has to embark on a system of agriculture entirely new to it, exchanging small peasant farming for large commercial farms.

The average farm plot is smaller than two hectares in size. The Japanese economy needs to consolidate its farmlands and attract new blood to agriculture. The reforms of 2005 introduced other forms of organization into the sector: stock companies and partnerships. They were not given the right to own land, and they operate on leased plots. They conduct agriculture as a modern business and have no need either to lobby for their interests in parliament or to have their market prices subsidized.

Lowering tariffs on imports of agricultural products is a mandatory condition for Japan joining the Transpacific Partnership (TPP). The Japan Ministry of Agriculture, Forestry, and Fisheries has long supported lobbyists and kept the government from opening negotiations on joining the TPP. Without the TPP, however, Japan cannot occupy the place it deserves in the economic integration of Asia Pacific. Abe's cabinet made the political decision to open negotiations. The conservative Ministry of Agriculture was forced to submit to this decision. A new law on the use of agricultural land that makes it easier to confiscate abandoned plots from their owners is being drafted and will enter into force in 2014.

The initial results from the Abe government's policies show that a turning point in economic growth is entirely possible. The yen's rate of exchange rela-

tive to the dollar has fallen to almost 100 : 1. The Tokyo stock market's Nikkei 225 Average was around 8000 in early 2012, and had risen to 14,600 by April 2013. Consumer spending among the public had grown by 2.4% annually.

According to expert estimates by the Japan Center for Economic Research, the rate of economic growth in fiscal year 2013 (i.e., from April 2013 through March 2014) could be as high as 2.2%.³⁸

A faster rate of growth in Japan is not likely. Its population is aging and its labor potential is shrinking. The only resources on which the country can rely are its human capital and its progress in science and technology.

Territorial Diplomacy at the Center of Foreign Policy

In the first decade of this century, Japan's foreign policy, being a product of domestic policy and economics, was distinguished by a certain degree of passivity and an inability to quickly and effectively solve the problems the country had begun to face in the international arena. As Japanese analysts themselves believe, Japan's presence in it has become less and less noticeable.

Great hopes for solving the growing number of complicated problems in the area of foreign policy and security arose in Japan with the Democratic Party coming to power in September 2009. In just over three years, however, not only was the party's hand on the tiller of state incapable of revitalizing diplomacy and lifting the country's foreign policy to a qualitatively new level; it also produced a number of major foreign policy blunders in relations with Japan's leading international partners.

As was noted above, one notable accomplishment by Yoshihiko Noda – the last prime minister from the Democratic Party – was parliament's August 2012 passing of a law doubling the consumer tax by 2015. As Japanese political scientists believe, however, the flip side of this achievement was a double failure on the diplomatic front. In their opinion, from the moment Noda took office on September 9, 2011 he concentrated far too much on pushing this law through parliament in the middle of a heated battle over domestic policy. This denied him the opportunity to devote sufficient attention to the growing territorial disputes with China over the Senkaku Islands (or, to the Chinese, the Diaoyudaos) and with South Korea over the Takeshima (or, in Korean, Tokto) Islands.

During the period of Democrats' rule, Japan *de facto* found itself in a circle of escalating territorial conflicts with virtually all of its Asian neighbors including Taiwan (which also claimed the Senkakus/Diaoyudaos) and North Korea (which supported its main foe, South Korea, in its dispute with Japan over the Takeshima/Toktos). In addition, some Japanese observers all but began to talk about the creation of a unified Beijing-Moscow-Seoul anti-Japanese territorial front.

The return of Shinzo Abe, regarded as a foreign policy "hawk," to the post of Japan's Prime Minister was met with great apprehension in the Asian coun-

tries (especially China and South Korea) since Abe believes that Japan ought to break free of the political limitations imposed on it during the period of occupation after its defeat in the World War II. As early as his first premiership in 2006-2007, Abe was busy drafting amendments to the postwar constitution. In his second term, he began to promote more actively the idea of revising its Article 9, declaring Japan's renunciation of war as means of settling international disputes. During the election campaign of late 2012, he also claimed it was necessary to rename Japan's Self-Defense Force to National Defense Force (*Kokubogun*, in Japanese).

In addition, Abe favors revising the official assessments made by his political predecessors of the character and consequences of Japanese aggression in the countries of East Asia. Finally, his latest "patriotic innovation" was conducting for the first time in Japanese history the ceremony dedicated to the San Francisco Peace Treaty's entering into force in 1952 on the state level with the participation of the Emperor and his wife on April 28, 2013. In Abe's opinion, this event should be marked ceremoniously as the end of the country's occupation by Allied troops and the restoration of Japan's sovereignty. The above demonstrates that in the three years the LDP was in the opposition, its traditional policy had become even more conservative and was amended considerably.

The recent sharp deterioration in Japan's relations with neighboring countries over the disputed islands moves the territorial problem to center stage in its foreign policy. A new term has even appeared in the Japanese media: "territorial diplomacy" (*ryodo gaiko*). Promoting the aim of reinstating a "strong foreign policy" under the slogan "Japan is back," Abe promises to uphold firmly the country's interests in territorial disputes with its neighbors.

It is obvious that of all Japan's territorial disputes with neighboring countries, the main headache of the Japanese leadership is the conflict with China regarding sovereignty over the Senkaku/Diaoyudao Islands in the South China Sea. Beijing considers that Japan took the islands by force at the end of the 19th century and continues to hold them illegally. China is putting pressure on Japan to force it to admit there is a territorial dispute between the two countries. However, Japan insists that Senkaku is historically and legally an integral part of its territory and, therefore, there is no such dispute.

The current spiral of tension began with the clash between a Chinese trawler and two Japanese Coast Guard vessels off the shores of the Senkakus in September 2010. Since then, China has regularly sent patrol boats and helicopters belonging to its ministries of oceanography and fisheries into the waters (territorial and otherwise) and airspace around the islands. This is done in order to demonstrate that China effectively controls them just as much as Japan does. These efforts were especially strengthened after the government of Japan bought part of the islands from a private owner in September 2012.

The economic and strategic interests of both countries are primarily behind the conflict surrounding the Senkakus/Diaoyudaos. Possession of the islands

would allow the owner to control enormous reserves of hydrocarbons, fish, and the most important sea lanes in the western Pacific Ocean. In the opinion of Japanese analysts, however, China's belligerent actions with respect to the Senkaku Islands is in a broader sense an integral part of its strategy to transform the country into a sea power. These ambitions, they believe, are underpinned by the growth of its military might, strengthening the propensity of neighboring countries to believe in the theory of a "Chinese threat."

Japan's most important newspaper *Yomiuri shimbun* believes that the new administration of Xi Jinping intends to strengthen his country's naval and air forces to the point where China will be able to "encircle" the East and South China seas, transforming them into a single "China Sea" to counter the strategy of the United States, in which Asia is increasingly being emphasized.³⁹

Tokyo and Beijing's series of mutual accusations, demands, and even threats continued into the first months of 2013. Addressing parliament at the end of February on the territorial dispute with China, Abe all too clearly invoked the history of the Falkland Islands, the seizure of which by Argentina met with a fierce military response from Great Britain.

In any event, major developments in the situation surrounding the Senkakus/Diaoyudaos could be expected only after parliamentary elections of July 2013. It was anticipated that the LDP, led by Abe, would regain control over the upper house as well, freeing the Japanese prime minister to conduct a more hard-line foreign policy with respect both to China and to other countries. As the report issued in May 2013 by the Carnegie Center, a prestigious Washington-based research institute, China itself will continue to put strong pressure on Japan for the foreseeable future, but will not resort to military force.⁴⁰

On the eve of parliamentary elections in December 2012, in order to demonstrate its resolve and readiness to defend Japanese sovereignty over the Takeshima/Tokto Islands controlled by South Korea, the LDP included in its campaign platform a promise that the central government would conduct a state-level ceremony on February 22, 2013 devoted to "Takeshima Day." It was on that day in 1905, that the islands were incorporated into Shimane Prefecture. Since 2005, the ceremony had been conducted only by officials of that prefecture. On February 19, 2013, however, LDP General Secretary Shigeru Ishiba told journalists that the government was postponing the Takeshima Day event, evidently because Tokyo did not want to further complicate relations with Seoul in the period leading up to the inauguration of South Korean President Park Geun-hye, scheduled for February 25. South Korean analysts believed this decision reflected Tokyo's desire to relegate the territorial dispute to the background in bilateral relations.

Apparently, it was also due to Abe's desire to take advantage of improved relations with Seoul as a step on the road to establishing relations with Beijing. The Japanese leadership evidently thinks that this can be achieved more quickly in ties with South Korea than with China, which Tokyo believes will reveal itself to be a much greater threat to Japanese national interests than the former. Abe,

therefore, sent his own special emissary in the person of Fukushima Nukaga, a member of the LDP and General Secretary of the Japan-South Korea Parliamentary Friendship Association, to Seoul for Park's inauguration. Nukaga delivered a personal message from Abe to Park. He also brought to her attention Abe's desire to start building better relations between the two countries. On her part, Park expressed her hope for better relations with Japan. However, anti-Japanese sentiments in South Korea once again surfaced after Seoul lodged an official protest with Tokyo at the end of February because a representative of Japan's central government had attended Takeshima Day ceremony in Shimane Prefecture for the first time on the 22nd of that month.

Abe sent his deputy Taro Aso, a former prime minister, to Park's inauguration ceremony. His brief included "building bridges" between the two countries' heads of government. In meeting with him, however, President-Elect Park Geun-hue said that "historical awareness" would be important in developing ties between South Korea and Japan, and Japanese politicians should try to understand South Korea's feelings toward Japan's colonial rule in Korea. Meanwhile, politicians in both countries should refrain from stirring up nationalist sentiments in resolving bilateral problems.⁴¹

Several days later, Park expressed herself even more strongly. Speaking on March 1 at a ceremony dedicated to the 94th anniversary of the start of the movement against Japan's 1910-1945 colonial rule over the Korean Peninsula, she said: "We will be able to open up future shared prosperity with Japan only when Japan honestly assesses its past." Park also stated that the aggressor-victim relationship between Japan and Korea will never change, not even after 1,000 years have passed.

Along with the stubborn issue of the disputed islands, the Japanese prime minister will have to put to rest one other painful matter in relations between Tokyo and Seoul in order to normalize relations with South Korea: that of the so-called "comfort women" – young females from Korea and other East Asian countries whom the Japanese brutally forced to provide sexual services to officers and ordinary soldiers in brothels behind the front lines during Japan's wars of aggression on the Asian mainland in the 1930s and '40s. The Japanese consider this issue to have been settled by postwar agreements. However, the South Koreans continue to demand additional apologies and material compensation from Tokyo for the "sex slaves" that are still alive. Activists defending the rights of these "comfort women" have even erected a small monument in front of the Japanese embassy in Seoul: a bronze sculpture of a young girl sitting on a bench. The sculpture personifies the image of a Korean woman forced into sexual slavery. Japan has officially demanded that the memorial be removed.

Japanese experts believe that the matter of the "comfort women" and other historical issues are, as a rule, deliberately brought up in South Korea during periods when bilateral relations turn sour for other reasons. It was no accident that the moment tensions escalated over the disputed islands in the Sea of Japan,

former South Korean President Lee Myung-bak demanded that the then emperor of Japan apologize for the victims of Japanese colonial rule on the Korean Peninsula. This in turn evoked a wave of resentment in Japan, and the South Korean authorities were compelled to somewhat soften their president's statement.

Along with the territorial conflict, the "comfort women" issue and other historical grievances (e.g., the interpretation of Japanese aggression toward East Asian countries that is found in Japanese schoolbooks) will cloud intergovernmental and other relations between Japan and South Korea for a long time to come. Results from sociological surveys conducted jointly by Japanese and South Korean researchers for the first time show that 80% of all South Koreans view Japan negatively. At the same time, 40% of all Japanese feel the same way about South Korea. Experts believe that the main reasons for this mutual dislike are the territorial conflict between the two countries and the problem of how their shared history is perceived.⁴²

The provocative visit by members of Abe's cabinet and deputies from Japan's parliament to Tokyo's Shinto Yasukuni Shrine in late April 2013 demonstrates that we can hardly expect the view Japanese and Koreans have of one another to improve so long as he is prime minister. The shrine honors the spirits of the Japanese who died in World War II, including the 14 war criminals sentenced to death by the Tokyo Tribunal. As was expected, Prime Minister Abe reacted to the burst of outrage this caused in China and South Korea by expressing hope that their differing views on the history of the war years would not serve as grounds for diplomatic and political problems to arise.

An important component of Abe's territorial diplomacy is his policy of reopening negotiations with Russia on the issue of sovereignty over four islands in the South Kurils: Iturup, Kunashir, Shikotan, and the Habomai Rocks (considered for the sake of convenience to be one island). Japan claims these islands, stressing that the Soviet Union illegally seized them at the end of the World War II. The Soviet Union had long denied there were any territorial disputes in its relations with Japan; in the spirit of his "new political thinking," however, Mikhail Gorbachev admitted there was such a problem once he became president of the U.S.S.R. and declared his readiness to discuss it. Since then, Japan and Russia, the successor to the Soviet Union, have held negotiations on the matter at different times and with varying degrees of interest.

Since 2003, however, they have remained in a virtual state of stagnation. In addition, the November 1, 2010 visit by the then president Dmitry Medvedev to Kunashir Island evoked an unprecedented negative reaction from Tokyo officials, exacerbating Russian-Japanese political relations to what was perhaps their lowest point in the entire post-Soviet period.

Vladimir Putin's return to the post of president in 2012 was met positively in Japan, since it was to him that the Japanese linked their hopes of resolving the territorial dispute in relations with Russia. Putin's intention to seek a mutually

acceptable “win-win” solution to the territorial dispute, announced immediately prior to the presidential elections, was viewed favorably by the Japanese leadership. To a large degree, this was because such a statement stood in sharp contrast to the positions of Beijing and Seoul on their own territorial disputes with Japan. Abe evidently hopes that his territorial diplomacy with respect to Russia will help break the chain of territorial conflicts with neighboring countries in North-east Asia.

The Japanese prime minister’s official visit to Moscow and talks with President Putin on April 29, 2013 were an important milestone in relations between Russia and Japan. The event was significant because it was the first official visit to Russia by a Japanese head of government in ten years. He was accompanied by a large delegation of 120 businessmen that included 30 directors of the Japan’s largest corporations. A number of memoranda on economic cooperation in different areas, including the creation of a Russian-Japanese investment platform, were signed during his visit. Agreements to begin “2 + 2” consultations between the two countries’ foreign and defense ministers and to open cultural centers on a mutual basis were noteworthy achievements of the visit.

One of the central issues discussed during the visit was the territorial dispute. Considering the sensitive nature of this topic in the public opinion of both countries, there was no “territorial dispute” concept in a joint declaration issued at the end of the talks. The official communiqué stated that the leaders of the two countries shared their common understanding of the importance of negotiating a peace treaty and agreed to jointly order their foreign ministries to speed up negotiations on drafting mutually acceptable ways of solving the problem, and to present them for their discussion. It is obvious, however, that a peace treaty between the two countries can hardly be signed without resolving the territorial issue, something on which the Japanese consistently insist. As the prestigious newspaper *Asahi shimbun* freely noted, the grounds for a new start to territorial negotiations between Japan and Russia were laid during Abe’s visit to Moscow.⁴³

It should be noted that the territorial theme was a thread that ran through the Japanese media’s material on their prime minister’s trip to Russia. Headlines in Japanese newspapers reported that during negotiations with Abe, the Russian president touched on the principles of resolving territorial issues with China and Norway by dividing disputed islands and waters evenly between them.⁴⁴ A number of Japanese experts interpreted this as a hint that it might be possible to apply a formula of this type to the territorial dispute with Japan, although they point out that Putin made no such proposal in his negotiations with Abe.

Meanwhile, as Japanese analysts note, the two parties’ current positions on the territorial issue differ substantially. In their opinion, the Russian president believes a solution to the problem must be found on the basis of the Joint Soviet-Japanese Declaration of 1956, which calls for the transfer of two islands (Shikotan and Habomai) after a peace treaty is concluded. Tokyo insists that all four islands should be returned to Japan.

At the press conference following Abe's visit to Moscow, this position was upheld by General Secretary of the Cabinet of Ministers Yoshihide Suga. He emphasized it was this position that the Japanese would take in the upcoming negotiations between the two countries' foreign ministries, which Putin and Abe had agreed to speed up.⁴⁵ As the Japanese media have noted, Japan basically hopes for a political solution to the above issue. On the whole, Tokyo views the results from Abe's April visit as a great success of its territorial diplomacy, especially against the background of the disinclination of China and South Korea's new leaders to meet with Abe and discuss with him their own territorial disputes.

NOTES:

1. Note that the issue of raising the consumer tax is traditionally a very sensitive one for the Japanese public. For example, it was a statement by another prime minister from the Democratic Party, Naoto Kan, on the need for such a hike, made on the eve of the 2010 elections to the House of Councillors, that was (in the opinion of many observers) one of the reasons for the Democrats' defeat in those elections. With no Democratic majority in the upper house of parliament and encountering resistance from his own party, Prime Minister Noda, having declared it was necessary to adopt legislation on raising the consumer tax, was forced to seek the support of the opposition Liberal Democratic Party and the Komeito. Sharing the prime minister's views on the need to raise the consumer tax, the Liberal Democrats nevertheless did not miss the chance to remind Noda and the Democratic Party that the Democrats themselves had promised in their campaign platform not to raise the tax.
2. Also referred to as the Reconstruction Agency.
3. Local authorities complained that many issues fell within the purview of different ministries, making it difficult to obtain immediate aid.
4. *Asahi shimbun*, April 6, 2012.
5. *Asahi shimbun*, June 4, 2012.
6. *Nihon keizai*, June 4, 2012.
7. *Nihon keizai shimbun*, June 27, 2012.
8. The party under this name did not last long: On November 28, it became part of the *Nippon mirai-no to* (the Tomorrow Party of Japan) of Shiga Prefecture Governor Yukiko Kada.
9. *Asahi shimbun*, September 14, 2012.
10. *Asahi shimbun*, September 26, 2012.
11. *Kyodo tsushin*, November 4, 2012.
12. *Mainiti shimbun*, November 14, 2012.
13. Experts have even called the deterioration of Japanese-Chinese relations one of the factors slowing the growth of Japan's GDP in 2012.
14. The new prime minister had already sketched the outlines of his approach to resolving the Chinese issue in an interview with the newspaper *Mainiti* by answering a question on the subject with "There's no room for diplomatic discussion," since from Japan's point of view there is no territorial problem between the two countries.
15. According to press reports, Hakubun Shimomura, the new minister of education, expressed his wish to review Premier Murayama's 1995 statement on recognizing Japan's military responsibilities.
16. *Mainiti shimbun*, January 26, 2013.
17. *Kyodo tsushin*, March 25, 2013.

18. Here and below, statistical data are taken from the *Nihon tokei nenkan* [Japan Economic Annual] for 2013, Tokyo.
19. *The Nikkei*, April 14, 2013.
20. *Japan Monthly Statistics*, July 2011. URL: www.stat.go.jp.
21. For example, it was proposed that budgetary funds be spent to buy ranges of rare-earth metals abroad, to resist opponents of the whaling industry, and other extraneous needs, *The Nikkei*, October 13-14, 2012.
22. There are ten regional companies in Japan that own power companies and energy grids. Only one of these, on the island of Okinawa, has no NPPs.
23. The energy potential of thermal springs is equal to 20 nuclear power plants.
24. Methane hydrate is a frozen material. It lies under the ocean floor to the south of Honshu Island in quantities sufficient to meet all of Japan's natural gas needs for the next ten years.
25. *Redesigning the Japanese Economy: Beyond the Earthquake Disaster. Looking at the Issue of Abandoning Nuclear Energy*. Japan Center for Economic Research, January 30, 2012. URL: www.jcer.or.jp.
26. Shares in 2,316 companies are traded on the Tokyo Stock Exchange (URL: www.tse.or.jp). These are the elite of the business world. Mid-sized companies are now taking the transnational route alongside large firms.
27. *UNCTAD World Investment Report 2011*, p. 25. Since 1991, UNCTAD (the UN Conference on Trade and Development) has published an annual report on foreign investment and the activity of transnational corporations in all countries of the world. URL: www.unctad.org/WIR.
28. *The Nikkei*, March 4, 2013.
29. Data from the International Monetary Fund. URL: www.imf.org.
30. Data from the Japanese Ministry of Finance. URL: www.mof.go.jp.
31. This mechanism was first used by President Franklin D. Roosevelt to bring the United States out of the Great Depression of 1929-1933.
32. *The Nikkei*. February 28, 2013.
33. *The Nikkei Weekly*, December 24, 2012.
34. Article from the newspaper *Financial Times*, Quoted from: *The Nikkei*. February 5, 2013.
35. Approximately two-thirds of the accumulated savings belongs to people older than 60. Life expectancy in Japan is 79.4 years for men and 85.9 years for women. This means their grandchildren are already 55-60 years old.
36. *The Nikkei*, January 25, 2013.
37. *The Nikkei*, April 1, 2013.
38. *153rd Short-Term Forecast for the Japanese Economy*, Japan Center for Economic Research, Tokyo, February 2013. URL: www.jcer.or.jp.
39. *Yomiuri shimbun*, March 6, 2013.
40. *Japan Times*, March 3, 2013.
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