

Japan: Current Issues in Politics, Economics, and Diplomacy

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Abstract. The victory of the Liberal Democratic party (LDP) and the Komeito party in the December 2012 elections to Japan's lower house of parliament (the House of Representatives) helped stabilize that country's domestic political situation. Secure positions in parliament and high levels of public support allowed the new government of Shinzo Abe to make fundamental economic reforms that were dubbed "Abenomics." Relations within the Russia-Japan-China triangle became an important area of Abe's foreign policy.

Keywords: *Japan, China, United States, Russia, parliament, elections, opposition, constitution, "Abenomics," territorial disputes, "Chinese threat."*

The Domestic Political Situation: The LDP Strengthens Its Position

Shinzo Abe was elected to the post of Japan's prime minister as a result of the parliamentary elections of December 26, 2012. The makeup of the new Cabinet of Ministers, in which key posts were given to representatives of the Liberal Democrats, was announced the same day. Taro Aso, Prime Minister in 2008-2009, was appointed to the post of vice premier. (It was under Aso that the LDP

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suffered the greatest defeat in its history.) Aso also held the posts of Finance Minister and Minister of State for Financial Services. Yoshihide Suga became Chief Cabinet Secretary; Fumio Kishida, Abe's foreign minister; and Sadakazu Tanigaki, former head of the LDP, Japan's new Minister of Justice.

The head of Abe cabinet had held the same post in 2006-2007. Despite initially high hopes, Abe's first term as prime minister turned out to be disappointing overall: he stepped down just one year after being elected to the post, citing poor health; his tenure is remembered primarily for the numerous scandals associated with members of his cabinet, and for the media's criticism of Abe himself as a result of his nationalist remarks. Abe's main problem in 2006-2007 was the so-called skewed parliament, in which, despite the ruling coalition having a majority in its lower house, the upper house was controlled by the opposition, led by the Democratic party (DP), which refused to cooperate with the government in adopting key pieces of legislation.

Having returned to his post as head of the cabinet, Abe did his best to consider his earlier mistakes and worked mostly to solve the existing problems in the economy. By analogy with the U.S.A.'s "Obamanomics," the government's economic policy was dubbed "Abenomics," and Abe himself determined its three main lines: achieving a 2% level of inflation, raising government expenditures on public works, and encouraging private investment.

Rapid and highly visible economic successes helped Abe cabinet maintain prolonged approval ratings of more than 60%. According to a public opinion survey conducted by the newspaper *Yomiuri Shimbun* in December 2012, 65% of those questioned expressed support for Abe cabinet. After taking his first steps, the new Prime Minister's levels of public support remained consistently high: 68% in January; 71% in February; and 72, 74, and 72% in March, April, and May, respectively.¹

The negative effect of the prime minister's tense relations with the opposition brought public support for the policies of Abe cabinet to a minimum. The greatest conflict between them surfaced one month before the elections to the upper house of parliament. On June 26, 2013, the upper house of Japan's parliament (House of Councillors) adopted a resolution to censure the prime minister for his refusal to attend a session of the budgetary commission. One hundred and twenty-five deputies voted in favor of the resolution, while 105 voted against it. Such resolutions by the upper house have no mandatory legal ramifications; earlier, however, they generally disrupted the normal operations of the house, due to the opposition's refusal to cooperate with the prime minister after he was censured. This time, though, the government did not encounter any such great difficulties, thanks to the impending elections, which altered the correlation of forces.

Elections to Japan's upper house of parliament were held nationwide on July 21, with the fate of 121 of its 242 seats hanging in the balance (Japanese legislators are elected to terms of six years; every three years, half must stand for

reelection). The ruling coalition of the Liberal Democratic party and the Komeito party emerged victorious, winning 76 seats between them (65 for the LDP and 11 for the Komeito) and bringing their number of mandates to 135, ensured for themselves a comfortable majority in the upper house.

The Democratic party, which governed Japan from the middle of 2009 through the end of 2012, was able to secure only 17 mandates, the worst result for the Democrats since 1998. Even though the DP (which was left with 59 seats after the elections) remains the second most powerful party in terms of seats in the upper house, it has definitely lost the ability to influence policy directly. The Japan Restoration party (*Nippon Ishin no Kai*), the Communist party of Japan, and Your party (*Minna no To*) each won eight seats in the elections. In addition, the Social Democratic party, which was the strongest opposition party in the decades following World War II but lost its position in the early 1990s, won one seat in the House of Councillors. Another four seats went to members of minor parties and independent candidates.

The election results were not unexpected for political observers who, the day before balloting commenced, were predicting certain victory for the Liberal Democrats. Against the background of Abe's consistently high popularity (according to the data of *Yomiuri Shimbun*, the level of support for Abe cabinet was 58% in the middle of July),² the opposition parties were unable to offer any alternative to the government's policies.

The Democratic party, which came to power triumphantly in August 2009 after a resounding victory in elections to the lower house of parliament, in 2013 bore no resemblance to the party that had aspired to the role of the second pillar of Japan's two-party system.

Not only have the Democrats failed in recent years to create their own unique political platform, they repeatedly reneged on their campaign promises in the little over three years they were in power. In 2013, it became obvious that the party was experiencing a major internal crisis. The task of finding a way out of this situation fell on Banri Kaieda, elected President of the Democratic party after its defeat in the December 2012 elections and the retiring of Yoshihiko Noda.

Yet another loser (on a scale comparable to the Democrats') in the elections to the upper house was the Japan Restoration party. In 2012, this party was believed to be among those capable of creating a political "third pole" that would be an alternative to the large parties (at the time, the Democrats and the LDP). Formed in September 2012, the Japan Restoration party won 54 mandates in the December elections, becoming the number three party in the lower house, in terms of representation. As 2013 began, the party encountered difficulties associated with the gradual weakening of its position in Japanese society. The party leaders' rhetoric on "restoring Japan," which had enjoyed enormous popularity among conservatively inclined voters, was appropriated and used successfully by Shinzo Abe. The main blow to the party's image came

from careless remarks by one of its leaders, Toro Hashimoto, the mayor of Osaka: In May 2013, he made a statement in which he *de facto* justified the existence of the “comfort women” system in the Imperial Japanese Army. Hashimoto said that Japanese soldiers “needed recreation,” and that “anyone should be able to understand [the need for such a system].”³ Despite subsequent apologies and attempts to explain himself, his statement evoked sharp criticism in the media, and among voters and politicians.

Along with the continuing decline in trust and public interest in politics, the predictable outcome of the elections resulted in a voter turnout of only 52.61%, 5.31% lower than in the last elections to the upper house in 2010. Neither did an attempt to involve young people (who had for the first time been allowed to engage in politicking over the Internet) in the elections prove to be of any use.

Victory in the July elections helped Shinzo Abe, Japan’s current prime minister, establish control over both houses of the Diet, and to overcome the circumstances of the skewed parliament, in which the government controlled the lower house while the opposition controlled the upper. At the same time, the Liberal Democrats were unable to achieve their ultimate goal of winning the two-thirds majority vote needed to amend Japan’s current constitution.⁴

After announcing the preliminary results from the July 21, 2013 elections to the upper house of parliament, Prime Minister Abe announced on television that the results from the national balloting were proof of wide public support for the cabinet’s policies, and also confirmed the overriding priority of tackling economic problems particularly deflation. Victory in the elections strengthened the ruling coalition’s position and made Abe’s more stable than any of his predecessors’ over the previous seven years.

Despite a calm autumn free of any important political news, the first month of winter in Japan turned out to be rich in events. On December 6, 2013, the ruling coalition drafted in record time a bill mandating harsher punishment for revealing state secrets. Newspapers suggested that the cabinet was influenced by the United States, which was unhappy about frequent leaks from Japanese officials to the media. The bill evoked an ambivalent reaction from the public, due partly to fears that the government could use it to classify and generally make unavailable any information it might wish to conceal.

On December 9, General Secretary Kenji Eda of Your party, founded in 2009, announced along with 13 other deputies that he was leaving the party as a sign of protest against the actions of its head, Yoshimi Watanabe, who in the protestors’ opinion was bringing the party closer to the political activity of Abe cabinet. On December 18, the politicians who had left the party formed a new political movement under the name of *Yui-no To*, which can be translated as the Unity party.⁵

Naoki Inose, the governor of Tokyo Prefecture, went into retirement on December 19. Inose, who had held the post of vice-governor from 2007 to November 2012, when he was elected governor of Tokyo, became the victim of

a corruption scandal. He was accused of illegally receiving large sum of money (around \$500,000) from private company in the course of his electoral campaign. The scandal attracted additional attention in September 2013, when Tokyo won the right to host the 2020 Olympic Games. At first, Inose personally denied the money was earmarked for conducting political activity; he insisted that he had taken it as loans to meet his personal needs and had already returned it. However, his awkward explanations at press conferences only hastened his retirement.⁶

The last significant political event of the outgoing 2013 may have been Prime Minister Abe's visit to the Yasukuni Shrine, where the souls of those convicted by the Tokyo War Crimes Tribunal are among the honored. Abe visited the temple on December 26, immediately evoking negative reactions not only in China and South Korea, but in the United States as well.

The year 2014 began with a debate in the Japanese parliament on possible changes to the interpretation of the constitution's Article IX. Reports appeared in the media that the Abe government was about to broaden the interpretation of that article, which gives Japan the right to collective self-defense. First and most important, this would offer Japan the opportunity to send troops abroad in defense of another country, should its government make such a request.⁷ The issue of amending the constitution now seems to have been tabled indefinitely.

Elections for a new head to Tokyo Prefecture were held on February 9, 2014. Yoichi Masuzoe, supported by the ruling Liberal Democratic party and Prime Minister Abe, was the winner with 2.1 million votes – more than the combined total of his two closest rivals. The new governor is also in favor of reopening nuclear power stations on the territory of Japan, and has declared successfully hosting the 2020 Olympic Games to be his main goal.

Failing to win the support of local deputies for his plans to unite the city and prefecture of Osaka, Toru Hashimoto, the acting Mayor of Osaka, decided to hold extraordinary mayoral elections in February 2014. The balloting was supposed to be a unique vote of confidence in his policies. The elections were held on March 23, 2014. In the absence of any real contenders from other political parties, Hashimoto was reelected Mayor of Osaka. At the same time, voter turnout was a mere 23.59%, and Hashimoto was subjected to criticism for “pointless” expenditures (on the order of 600 million yen) in holding the election.⁸

In summarizing the results of the first eighteen months of Abe's tenure from the viewpoint of Japan's domestic policy, it is worth noting the stability of the country's new administration. By producing visible economic results, Abe guaranteed public support for himself,⁹ which helped the ruling coalition win the elections to the upper house of parliament and tighten its control over it in particular. So long as there are no early elections to the lower house, the ruling coalition has approximately three years in which it will be able to follow a consistent political activity without being distracted by elections.

The Economy: Reversing Long-Term Trends

Prime Minister Abe proposed and has begun to implement the far-reaching program of economic reforms dubbed “Abenomics” in the world press. The main aims of Abe cabinet are to overcome the last two decades’ deflation of the prices, and to put Japan’s economy back on the road to economic growth.

It became obvious at the beginning of 2014, that Abe government had succeeded in altering the dynamic of Japan’s economy. The statistics on GDP, capital investment, industrial production, and prices (Table 1) testify to the start of an upturn.

Table 1

Key Economic Indicators (Annual Growth and Indices, %)

	2011	2012	2013	2014, First Quarter
GDP 2*	-0.8	1.4	1.5	6.7
Private investment and venture capital*	4.1	3.7	-1.5	9.1
Capital investment by the state*	-8.2	2.8	11.4	-10.5
Household consumer demand*	0.1	1.9	2.0	9.4
Private home construction*	5.1	2.9	8.9	13.0
Industrial production, index (2010 = 100), %**	98.7	95.8	97.0	102.2
Exports**	-2.7	-2.7	9.5	12.8
Imports**	12.1	3.8	17.9	22.1
Balance of trade, trillions of yen	-2,564.7	-6,941.6	-10,706.9	-11,828.2
Yen exchange rate (¥/\$)***	77.85	89.18	100.4	102.2
Wholesale yen index (2010 = 100), %	101.5	100.6	101.9	102.8
Consumer yen index (2010 = 100), %	99.7	99.7	100.0	103.4
<p><i>Sources:</i> * ESRI (Economic and Social Research Institute, Cabinet Office, Government of Japan). Quarterly GDP Estimates. URL: www.cao.go.jp Data is given in 2005 prices. ** Statistics from the Ministry of Economy, Trade, and Industry. URL: www.meti.go.jp; Customs Statistics from the Ministry of Finance of Japan. URL: www.mof.go.jp. *** End of period.</p>				

As the figures show, 2014 opened with growth in GDP and industrial production. The levels of 2010 were surpassed thanks to a spurt in the economy at the beginning of 2014.

The national currency fell in value by a full one-third, relative to the U.S. dollar; despite this, the trade deficit grew dramatically. Judging from the consumer price dynamic, the long years of deflation have come to an end.

The shift in the yen/dollar exchange rate was due to a number of factors, including the relationship between the lending interest rates in different credit markets (in the United States, they were higher by a factor of 2-2.5), the inflow or outflow of capital, and the hard-currency demand for imports.

An influx of foreign investors on the stock market creates demand for the yen and raises its exchange rate. The Nikkei 225 Stock Index rose from 8,000 at the end of 2012 to 16,000 at the end of 2013, when foreign investors anticipating change brought 15 trillion yen (\$142 billion) in low-cost private credits to the Japanese market.

At the same time, the mass buying of dollars by importers to pay for imports of liquefied natural gas and oil (these commodities are always paid for in dollars) works in the opposite direction. Japan routinely makes up for its lack of energy resources by importing liquefied natural gas, which is brought in by tankers and costs several times more than in the countries of Europe, where it is delivered by pipeline, or in the United States. In addition, Japanese companies buy dollars to develop their foreign manufacturing and marketing networks.

These forces work identically to lower the value of the yen. The depreciation of the yen (by 14.5% since the start of 2013) helped to increase the volume of export goods (Table 1). This did not, however, save Japan from a trade deficit.

In 2014, though, export goods ceased to play their usual role of driving force in emerging from recession for the first time in the postwar history of the Japanese economy. The forces driving growth began to affect the domestic market: consumer spending among the public (90% of GDP) and private capital investment (13.4%), which grew sharply after falling in 2013. It is worth noting that state investment (public works paid for out of the national budget) grew last year, straining the business market, but were curtailed notably at the start of 2014.

In 2014, nearly 80% of Japan's annual GDP was based on key sectors of domestic demand (Table 2).

State capital investment is planned by the government and carried out in the form of target programs for the roads, ports, and other infrastructure facilities construction and repair. The demand for such works is very high, since many works (high-speed railroads and highways, bridges, tunnels, and so on) were built decades ago and are in need of repair, and the task of rebuilding in the northeast following the earthquake of 2011 is far from complete. In addition, Tokyo Municipality has already begun to prepare the capital for the 2020 Olympic Games.

Table 2

**Structure of Gross Domestic Product,
According to Sector (%)**

Years	GDP	Personal consumption	Personal capital investment	State consumption	State capital investment	Exports	Imports
2010	100.0	59.3	12.7	19.7	4.6	16.2	-14.0
2011	100.0	60.5	13.3	20.4	4.4	15.1	-16.1
2012	100.0	60.9	13.4	20.5	4.9	14.7	-16.6
2013	100.0	60.6	16.3	20.4	6.1	17.3	-16.7
2014, first quarter	100.0	59.2	13.4	20.4	4.9	18.9	-21.9
<i>Sources: ESRI (Economic and Social Research Institute, Cabinet Office, Government of Japan). Quarterly Estimates of GDP. URL: www.cao.go.jp.</i>							

To fund these works, the Ministry of Finance is issuing bonds in the form of the so-called building loans while borrowing money from private banks and insurance companies. These offerings are inflating the Japanese budget's huge deficit. Government sales of bonds to banks and insurance companies now account for 46-47% of budgetary receipts.¹⁰

At the end of March 2014, the Japanese government's gross domestic debt – 1.250 billion yen – was 213% of the country's annual domestic product (482 billion yen). The net debt (excluding transfers between budgetary accounts) was 197% of GDP. By any reckoning, this is the highest domestic debt of any developed country.¹¹

Japan is not threatened by national default, since foreigners hold less than 10% of its debt instruments, while Japanese financial institutions have a quite solid deposit base. In addition, the government does not consider the budget situation to be dangerous so long as the financial assets of private corporations (1,066 trillion yen) and the accumulated savings of the populace (1,588 trillion yen) exceed the amount of government debt by a factor of 2.8. In other words, the private sector has savings sufficient to cover new issues and pay for retiring the national debt.¹²

One of the principles of "Abenomics" is in fact a "flexible attitude toward budgetary spending." It is thought that the problem of the budget deficit will be solved gradually, once economic growth begins to bring ever rising incomes and replenish government coffers with higher tax revenues from them.

The government hopes that its first deficit (a net excess of budgetary spending over income without servicing the accumulated national debt) will be seen only in 2020. The Ministry of Finance continues to issue new government bonds to finance key spending in order to fund social programs, education, health care, science, and defense. Government bonds provide almost half of the Japanese treasury's receipts. The budget for fiscal year 2014-2015 allocates 6.2% of all budgetary resources to "public works" and twice as much to servicing the national debt.¹³ The poor state of government finances, therefore, limits the possibilities for using such means to stimulate the economy. The execution of "public works" is thus delegated to prefectures and municipalities, and their funding takes the form of a state and private partnership.¹⁴

The Japanese public decides what consumer spending will be, but businessmen control capital investment, basing it on their current income and profit, along with expected fluctuations in prices, profits, and expenditures. The average monthly monetary income of a Japanese family in 2012-2013 and the first quarter of 2014 held steady at a level of 5.200-5.220 million yen (approximately \$5,120). Large corporations enjoy liquidity of 70 trillion yen (\$686 billion). Their current profits rose 7.2% in 2012 and 20.9% in 2013.¹⁵

The rapid growth of private investment in capital assets (Table 1) was a consequence of the equipment at industrial enterprises aging quickly due to chronic underfinancing. According to calculations by the Ministry of Finance, capital investment in industrial capital assets since the beginning of the 2008 financial crisis (65 trillion yen) covered only 80% of their amortization (72.1 trillion yen), while the average age of equipment and facilities grew to 16.4 years.¹⁶

Japanese business considers the shortage of workers in the face of high consumer demand to be one of its main difficulties. Now on the rise, the number of unemployed is only 3.6% of the economically active population. According to statistics from the U.S. Department of Labor, the hourly wage for workers in Japanese industry – \$35.34 – is virtually identical to that of American workers (\$35.67).

In negotiations with Labor Unions, large corporations agreed to raise the hourly wage only 0.4%.¹⁷ Manufacturing and Japan's construction industry in particular are suffering a severe shortage of workers. Construction workers are already being paid \$96.72 an hour. Legislation has been introduced in parliament to make it easier to hire foreign workers in 2015. At present, only 150,000 foreigners are working in Japan. Labor migration will hardly be massive. It is now being prevented by the language barrier: foreigners must learn Japanese, and they must submit to the strict demands of labor discipline. In addition, Japan's monoethnic society is generally unappreciative of guest workers.

The situation in the private sector is quite favorable. Industrial enterprises and the general public have begun to freely spend their money, signifying that the many years of deflationary expectations have come to an end. Can this turnaround in the behavior of economic agents be put to use by "Abenomics"? Possibly, but not entirely, since other factors influence price dynamics as well.

- First of all, import prices for energy resources rose sharply in 2013, by 14.5%. In the wake of the disaster in the northwest on March 11, 2011, only two of Japan's 54 nuclear reactors remained in operation, and the severe shortage of energy resources was compensated for with imports of liquefied natural gas (LNG). LNG is delivered to Japan not by pipeline but by tankers, and, therefore, costs Japanese consumers several times more than it does for their counterparts in the United States and Europe. In fiscal year 2013 (April 2013-March 2014), the high cost of energy raised wholesale prices on Japan's domestic market by 1.9%, while retail prices rose 0.8%.
- Second, price levels were strongly affected by the Abe cabinet's plans for tax reform. On April 1, the retail sales tax rose from 5% to 8%. As the Abe government expected, there was a flurry of consumer spending prior to the tax hike. As much as a year earlier, the government had adopted two additional budgets, one with 10 trillion yen (\$97.68 billion) and one with 5 trillion yen, to finance public works and thus stimulate economic growth on the eve of these reforms.

Consumers rushed to their local markets to stock up on everyday goods six months in advance; in addition, they were quick to purchase automobiles, apartments, and even houses.¹⁸ The consumer frenzy was fueled by high prices on Japanese stocks at the Tokyo Stock Exchange. The rise in the stocks' market value led to an investment "wealth effect" among those Japanese who keep part of their savings in stocks and bonds.¹⁹

The average amount of frenzy spending was 525,000 yen (\$5,000). The consumer sales tax hike raised retail prices in Tokyo by 2.7%, while consumer demand immediately rose 4.1% (Table 1). This growth, however, will be very hard to maintain, since wages will not compensate for such high prices.

The tax reform of April 1 should provide the treasury with 4.535 billion yen, the same additional tax revenue on which the Ministry of Finance was counting. This represents only 9% of all tax revenues, however, and will not change anything in Japan's budget crisis.²⁰ The logic behind this tax reform was to force the public to open their pocketbooks in expectation of moderate inflation of 2% annually, as calculated by the Bank of Japan. The government is studying the possibility of raising the consumer sales tax even higher – to 10% in 2015.

Experts at Japan Center for Economic Research believe that this is not enough. The tax should be raised every year until it reaches 19% by 2025. In this way only can a positive balance between government income and expenditures be struck in 2025. If the tax hikes stop at 10%, Japan will have an annual economic growth rate of just 1.1% and budget deficits will continue.²¹

The effective tax on the profits of Japanese companies is 35.6%, currently more than in the leading countries of Europe and Asia.²² The government rushed

to bring it down to less than 30% in order to attract foreign investors and provide an incentive for Japanese businesses to invest in their country’s capital assets. The ratio between the export and import of capital is strongly lopsided: direct foreign investment in Japan’s economy is no more than one-half the sum invested by Japanese companies operating abroad (Table 3). These companies’ foreign assets are growing much faster than their capital assets in Japan.

Third, the policy of the so-called “quantitative liberalization,” conducted by the monetary authorities since April 2013, now plays the main positive role in Japan’s economy.

Table 3

Direct Investment
by Japanese Companies Operating Abroad
and Foreign Direct Investment in Japan
(in billions of yen)

Years	Japanese companies’ direct private foreign assets	Foreign companies’ direct private in Japan	Capital assets of Japanese private corporations
2000	31,216	3,473	516,791
2005	45,605	17,808	509,774
2010	67,691	17,501	541,846
2012	89,813	17,808	537,500
2013	117,726	17,976	...*
2014, first quarter	120,244	19,913	...*
* No data available			
Sources: Statistics from the Bank of Japan. URL: www.boj.or.jp ; National Accounts. URL: www.esri.cao.go.jp .			

Bubbles on the financial markets of developed countries and their consequent deflationary crises became distinguishing features of the world economy in the late 20th and early 21st centuries. Japan was the first to experience such a crisis between 1990 and 2003. This was followed by the crisis that enveloped virtually all developed countries in 2008 after the bubble burst on the market for substandard mortgages in the United States, leading to a second wave of recession and deflation in Japan. Altogether, Japan’s period of deflation was the longest ever (15 years, with minor interruptions).

The monetary policy of “quantitative liberalization” was developed in Japan in 2001 through the efforts of the country’s central bank. Its principles were later

adopted in the United States and countries of the European Union, and continue to be employed there to this day.

Deflation makes debt more expensive and drives real interest rates up more than is normal. It gives businesses an incentive to refrain from risky capital investments, and provides consumers with grounds to avoid major purchases. It raises real bank margins, as a result of which banks find it more profitable to buy government bonds than to extend credit to businesses. This vicious circle helps to finance Japan's budget deficit.

Bank margins are, however, inclined to change, depending on the level of liquidity on the money market for interbank credits: the higher the liquidity, the lower the bank margins, and, therefore, the interest rates at which customers borrow from banks. The policy of "quantitative liberalization" is designed to break this vicious circle, lower interest rates, and revive investment in capital assets, new construction, and so forth, so that greater tax revenues will begin to flow into government coffers.

Central banks stimulate the economy with the help of the so-called open-market operations.²³ By selling government bonds to private financial institutions, banks siphon money off the market and finance the government; by buying these bonds, they add liquidity to the economy. That is, they increase the amount of money in circulation (the money supply).²⁴ The basic scheme behind how interest rates help move money along is: the money supply grows, interest rates fall, investments rise, and the output of goods increases.

The policy of "quantitative liberalization" means that the Bank of Japan conducts large-scale operations on the open market and very quickly increases the amount of money in circulation. It buys not only government bonds (40–50% of all new issues) from commercial banks, insurance companies, and pension funds, but private debt instruments as well, right up to commercial letters of credit. As a result, the relationship between the money supply and interest rates becomes quite favorable:

Years	Money supply (trillions of yen)	Average contractual bank interest rates on loans, %
December 2011	1,455,300	1.475
December 2012	1,495,003	1.475
December 2013	2,004,141	1.034
May 2014	2,270,758	0.912
<i>S o u r c e: Statistics from the Bank of Japan. URL: www.boj.or.jp.</i>		

Haruhiko Kuroda, Governor of the Bank of Japan, believes that the policy of "quantitative liberalization" can end only after the rate of price inflation is 2% annually, and to end it now would be premature.

By the middle of 2014, the results of the policy could be seen not only in cheaper credit but in a change in bank tactics as well. They “dumped” (sold to the Bank of Japan) 21% of their government bonds, since they generated income only at the low level of 6% annually. Experts at Japan Center for Economic Research believe that the policy of “quantitative liberalization” carries with it two types of risk. The first is that the Bank could be unable to transfer money to the treasury after another three years or so, due to exhaustion of its funds. The second is that the Bank itself could suffer losses as a result of its own poor receipts and would be unable to sustain a stable banking market.²⁵

In 2014, however, these prospects seem to be quite distant. Having now attained its goal, Japan, the first country to have suffered from prolonged deflation, is also the first to have succeeded in emerging from this oppressive state.

The forecasts for the next fiscal year (April 2014–March 2015) are somewhat restrained. The government believes that the annual increase in GDP will be 3.3% in current prices and 1.4% in constant prices. Consumer demand should rise 2.8% (0.4%).

At the same time, private capital investment is supposed to grow 5.9% (4.4%); state investment in infrastructure, by only 0.9% (in constant prices, it should even shrink 2.3%). The volume of exports is to grow 6.8% (5.4%); that of imports, 5.7% (3.5%). Prices on the consumer market are to rise 3.2%; in other words, there will be some inflation. The modest nature of this forecast is motivated by the favorable effect the tax has on retail sales fading away.²⁶

The forecast by Japan Center for Economic Research, made in constant prices, is a bit more optimistic. GDP should grow 2.3%; consumer demand, 2.5%; and private investment, 4.8%. Government investment ought to grow 2.9%.²⁷ The experts at the Center consider all possible foreign economic and political risks. “Instability in the world and a possible drop in inflation in the United States,” they write, “are the main factors that could once again raise the exchange rate of the yen.”

The Russia-Japan-China Triangle in Abe’s Foreign Policy

In recent years, the relationship within the Russia-Japan-China triangle has been an increasingly important factor in the political situation in the Asia-Pacific Region and particularly in Northeast Asia. These relations require comprehensive analysis in the fields of both economics and security. At present, however, territorial issues occupy center stage in the relations between the three countries.

As is well known, the issue of territorial demarcation between Russia and China has now been solved, hopefully once and for all. However, territorial issues remain unsettled in dealings between Japan, China, and Russia, and seri-

ously affect relations among the three leading powers in Northeast Asia and the Asia-Pacific Region as a whole.

Attempts to settle them held an important place in the foreign policy of Prime Minister Shinzo Abe in 2013 and the first half of 2014.

It is obvious that the territorial dispute between Tokyo and Beijing over ownership of the Senkaku group of uninhabited islands in the East China Sea (known as the Diaoyudao Islands in Chinese) has long been the one most serious. In the last three years, however, it has acquired unprecedented prominence and become the *de facto* focus of the blatantly growing economic and military and political rivalry between two Asian giants: Japan (representing the old order) and China (representing the new one).

The changeover in the two countries' administrations at the end of 2012, when Japan was led for the second time by Shinzo Abe and China was headed by Xi Jinping, did nothing to help lower the level of confrontation between them. On the contrary, the scale of rhetoric and provocative actions by both sides only grew. Tokyo, alarmed over its neighbor's growing economic and political power, and by its aggressive actions with respect to the disputed islands, did its best to gain the support of a number of countries in the matter of "detering China."

Today, Japan considers the United States, with which it has the appropriate defense treaties, to be the sole guarantee of its military security and territorial integrity. The 2013 *Blue Book of Diplomacy* published by Japan's Foreign Ministry states plainly that Japan faces threats to its land, waters, airspace, and the lives of its citizens, since Chinese vessels continually violate the waters around the Senkaku Islands in the East China Sea.

The country's basic foreign policy document states that under these conditions, the government fully intends to strengthen its alliance with the United States as the cornerstone of its national security policy, since the need for increased deterrence is "inevitable."²⁸

Washington itself is, however, playing a *de facto* double game with respect to Japan's territorial dispute with China. Meeting with PRC Chairman Xi Jinping in California in June 2013, U.S. President Barak Obama urged his counterpart to de-escalate the territorial dispute with Japan. At the same time, though, Obama said that the United States is neutral with regard to who has sovereignty over the Senkaku Islands, and proposed that China settle its territorial dispute with Japan through dialogue.

In its *White Book on Defense*, published in April 2013, China claimed it was Japan that created the problem of the disputed islands,²⁹ while a representative of the PRC Foreign Ministry declared the Diaoyudao Islands to be of "fundamental interest."³⁰ Since the term "fundamental interests" was used earlier by Beijing only in reference to Tibet, Taiwan, and the Xinjiang-Uygur Autonomous Region, Japanese experts interpreted this as a declaration of China's intentions to take whatever steps are necessary in its territorial dispute with Japan.

For its part, Tokyo's 2013 *White Book on Defense* notes that individual Chinese ships and aircraft have violated Japan's territorial waters and airspace and taken dangerous measures that could serve to trigger extraordinary situations.

As regards the United States' so-called neutrality on the issue of sovereignty over the Senkakus/Diaoyudaos, high-ranking American officials have repeatedly declared that these islands are covered by the Japan-U.S. Security Treaty. To underline the seriousness of these statements, Tokyo and Washington held joint military exercises in California in June 2013, despite strong protests from Beijing. The scenario was that units of Japan Self-Defense Forces, supported by U.S. Armed Forces, would land on an island seized by an opponent and drive him back.

It was clear that the "opponent" was meant to be the Chinese army, and the "island" was the Senkaku/Diaoyudao archipelago. The exercises were of special significance, as this was the first time three types of Japanese Self-Defense Forces took part in maneuvers with the United States: ground, sea, and air combat. It is noteworthy that the exercises were consistent with Japan's new military policy, the aim of which is to strengthen the defenses of the Nansei island chain stretching from the island of Kyushu to Taiwan and effectively blocking China's exit into the open waters of the Pacific. To accomplish this, Tokyo intends in particular to create units of marine infantry equipped with the appropriate landing capabilities, following the example of the American army.

In parallel with strengthening its alliance with the United States to counter China's aggressive actions over the disputed islands, Tokyo plans to enlist the military support of a number of other countries in the Asia-Pacific Region. To this end, the Abe administration in 2013 regularly dispatched high-ranking representatives of Japan Self-Defense Forces to other nations in Asia, and to Australia. Vietnam, the Philippines, Thailand, India, and Pakistan were among the Asian nations. The Japanese media have openly stated that the government's efforts in this direction are due to the growing concern over China's increased naval activity.

Occupying a special place in Tokyo's policy of "deterring China" is India, yet another of Asia's rising economic giants whose political role in the international arena has also grown significantly in recent times. The Japanese government views India not only as an economic counterweight to China – one capable of greatly reducing Japan's excessive and already dangerous dependency on China's economy – but as a military and political equalizer. Japanese politicians are thus planning to cultivate Delhi's similar concern over Beijing's growing naval might and the territorial disputes that already exist between the two countries.

The Abe administration also views cooperation with the nations of Southeast Asia not only as an important factor in recovering from the current problems in the Japanese economy but as a way of weakening China's territorial pressure on

the countries neighboring it as well. Japanese attempts to organize resistance to China within ASEAN (which depends strongly on China, economically) have yet to meet with success. Tokyo nevertheless attaches great importance to bilateral military and political cooperation with those members of the organization that have their own territorial conflicts with China in the South China Sea, particularly Vietnam and the Philippines.

Along with improving economic cooperation, the March 2014 visit of Trương Tấn Sang, President of Vietnam, to Japan had, in the opinion of Japanese experts, the aim of demonstrating the possibility of coordinating actions by Japan and Vietnam with respect to both countries' territorial problems with China.

The same can be said about the June 2014 visit to Tokyo by Benigno Aquino, President of the Republic of the Philippines, Japan intends to supply both countries with large patrol boats and train their crews in order to improve their combat capabilities in any naval confrontation with China.

Despite their diverse nature, it is increasingly obvious that Japan generally views the countries of Southeast Asia as allies in respect to the so-called "Chinese threat." This term has in recent years firmly embedded itself in the lexicon not only of Japanese analysts and politicians but in that of official documents of the Japanese government as well. Japan is doing its best to draw Australia and New Zealand into the circle of Pacific nations that share the idea of "detering China" in its territorial disputes with neighboring countries.

The topic of involving Russia in a global system of anti-China deterrence and counterbalances carefully crafted by Tokyo has been raised more and more often recently, both among analysts and in the Japanese media. The situation is paradoxical in that Japanese analysts view Russia – a country with which it has no formal peace treaty – as an ally in battling the threat from China, a country with which it *does* have a treaty of peace and friendship. It is worth noting that the conflict over the Senkaku/Diaoyudao Islands effectively ruined the ceremonies held across Japan and China in August 2013 to mark the 35th anniversary of the treaty.

The Japanese are of the opinion that the growing alarm in Russia over China's increasing economic and political might, and the expansion of its naval activities (including its plans to open the Northern Sea Route), ought to serve as grounds for Russian-Chinese collaboration. They believe these factors are perceived in Russia as a "Chinese threat" in the Far East with respect to economics and security, and that they are forcing Moscow to seek an accord with Tokyo for its joint neutralization. Japanese political scientists believe that Japan should take advantage of Moscow's concern in order to present a united front against China.

The newspaper *Sankei Shimbun* is more open than most on this matter. It writes that "Ever since last year, the idea that cooperation with Japan must be strengthened has been floated in Russia. One reason for this is a sense of alarm over the actions of China, which is striving for maritime hegemony."³¹ The same

newspaper noted in a different edition that the Japanese prime minister intended to use Russia's wish for an accord and improved relations with Japan to create a so-called "net enveloping China."³²

It is true that in parallel with this, Tokyo has its own fears regarding coordinated action by Moscow and Beijing in their territorial disputes with Japan. In addition, the Japanese media clearly interpret the China-Russia Joint Declaration signed during the then President Dmitry Medvedev's September 2010 visit to Beijing as an instrument of Russia and China's joint pressure on Japan in their territorial conflicts with it. The liberal newspaper *Asahi Shimbun* states bluntly that "The document can be interpreted as China and Russia's declaration that they have decided to create a united front in their disputes with Japan over the Senkaku Islands and the Northern Territories [the South Kuriles – V.K.] held by Russia since the end of the World War II."³³

Logically, however, we can hardly talk of a united Russian-Chinese territorial front against Japan when the South Kurile Islands are shown as Japanese territory on current Chinese maps. It would appear they acquired this status during the period of confrontation between the Soviet Union and the People's Republic of China in the second half of the 20th century. We can only hope that this is nothing more than a relic of that bygone conflict.

Japanese analysts find confirmation of their assumptions on Moscow's alarm over the so-called "Chinese threat" in the creation of a new negotiating structure with the participation of the foreign and defense ministers of Russia and Japan (the 2 + 2 format), as was agreed upon by Vladimir Putin and Shinzo Abe at their April 2013 meeting in Moscow.

The newspaper *Nihon Keizai Shimbun*, the mouthpiece of Japanese business circles, writes that "Such factors of instability as China's military efforts and the problem of North Korea's nuclear weapons pose a common threat to both Japan and Russia. Under these conditions, the start of negotiations in the '2 + 2' format is a great step forward."³⁴ We should stress, however, that even before the November 2013 start of the first round of Russian-Japanese "2 + 2" negotiations in Tokyo, Russia officially announced that it had no intention of discussing the "Chinese issue" at them.

It should also be noted that by playing on Moscow's evident concern over the "Chinese threat," Japanese experts are hoping for concessions in its territorial dispute with Tokyo in respect to the South Kuriles, as a condition for an anti-China accord between Russia and Japan.

The logic behind the need to retire the Russian-Japanese territorial dispute against the background of the Japanese-Chinese island conflict can be seen in an editorial in the newspaper *The Japan Times*. It writes that "The Abe administration, now at loggerheads with China with regard to sovereignty over the Senkakus, is counting on building relations of cooperation with neighboring countries. It, therefore, cannot allow itself to become involved in prolonged

negotiations [with Russia – *V.K.*] to resolve the territorial dispute.”³⁵ It is apparent that this is yet another primary Japanese motive for hastening negotiations for the conclusion of a peace treaty between Russia and Japan, to which Putin and Abe agreed during the Japanese Prime Minister’s visit to Moscow in April 2013.

Meanwhile, the newspaper *Sankei Shimbun* has expressed concern that under conditions of improving Russian-Chinese relations on the one hand, and deteriorating Japanese-Chinese relations on the other, Beijing will favor further accord with Moscow. The newspaper poses the question “How far will the Abe administration be able to drive a wedge between China and Russia, which always coordinate their steps?”³⁶ In general, we may assume that Prime Minister Abe currently hopes to achieve, if not a complete breakthrough, at least some progress that favors Japan over Russia in its territorial disputes with its neighbors. Putin’s statement that Russia is ready to seek a mutually acceptable solution to the territorial problem in relations between Moscow and Tokyo, and that it is even necessary to arrive at a zero-sum solution, has no doubt given Abe some measure of confidence.

These statements stand in sharp contrast to Beijing and Seoul’s categorical refusal to discuss their own territorial disputes with Tokyo. The Japanese leadership would, therefore, like to reduce the heavy burden of territorial disputes immediately with its three neighboring countries, including South Korea, with which (as is well known) Japan disagrees as to who has sovereignty over the Tokto (or Takeshima, in Japanese) Islands.

All things considered, Abe’s dramatic presence at the opening of the Winter Olympic Games in Sochi against the background of a number of Western leaders declining to attend was also aimed at achieving this goal. As *Sankei Shimbun* frankly wrote, the reverse side of strengthening relations between Japan and Russia is the strategic objective of openly conducting friendly relations with Moscow in order to restrain an ascendant China.³⁷

At the same time, Japan’s largest and most influential newspaper *Yomiuri Shimbun* expressed doubts as to the success of Abe’s “Olympics diplomacy.” The newspaper was alarmed by Putin’s meeting with PRC Chairman Xi Jinping on the very eve of his meeting with Abe in Sochi.

At the meeting, both leaders stressed that in 2015, the 70th anniversary of the end of the World War II, the two countries will hold joint celebrations dedicated to their victory over the Axis. The article called on Japan to recognize that Beijing and Moscow coordinate their actions on issues concerning Japan’s history. On its part, *Sankei Shimbun* believes that Japan will face a tug-of-war with China in the future in order to draw Russia to its side in political conflicts between the two countries.³⁸

All things considered, Japan is highly interested in maintaining nonconfrontational relations with Russia in light of the predicted tightening of Beijing’s policy toward Tokyo on territorial and other issues.

It is from this angle that Japanese analysts view the results of the latest session of China's National People's Congress, held in the Chinese capital in March 2014. The newspaper *Yomiuri Shimbun* has cited the words of PRC Foreign Minister Wang Yi on relations with Japan, spoken at a press conference held during the above session: "There is no room for compromise on two key issues – history and territory."³⁹

It is obvious, however, that no matter how relations between Japan and China turn out, Russia is interested in having them on its eastern borders as countries with which it can build neighborly, mutually beneficial relations among equals in the areas of economics, guaranteeing security, and so on.

Its interests, like those of the entire region, would also benefit from reduced tension in relations between Tokyo and Beijing, and a settling of the complicated issues involved (territorial and otherwise) on the basis of constructive dialogue.

Geopolitical logic dictates that Russia should follow a policy of keeping equal distance from both Japan and China in its relations with them. However, such 2014 events as Russia's annexation of the Crimea and the situation surrounding Ukraine could require certain adjustments to this logic.

Japan's media are taking an active part in the harsh campaign of criticism and condemnation of Russia's annexation of the Crimean Peninsula now unfolding in the West. Things have gone so far that some commentators are projecting the situation around the Crimea onto the territorial dispute over the South Kuriles. The deputy editor-in-chief of the newspaper *Sankei Shimbun* writes frankly that the population of the northern territories occupied [*sic* – *V.K.*] by Russia (as Japan refers to the South Kuriles) is now primarily Russian, and if, as a result of difficult negotiations, Japan were to reestablish its sovereignty over the four islands, Russia would no doubt easily find a pretext to invade them, following the example of the Crimea.⁴⁰

The Japanese government, however, now finds itself in an awkward position. On the one hand, it will have to find a golden mean between its desire to preserve whatever is positive in its relations so far with Russia; on the other, it must show loyalty to its main (and sole) military and political ally, the United States. In light of the infamous "Chinese threat," the latter is especially important for Tokyo. In addition, Japan (unlike the United States) is sorely in need of Russian energy resources, particularly as a result of the *de facto* freeze on its nuclear energy program following the Fukushima-1 nuclear disaster in March 2011.

Tokyo's attempts to follow a middle course in the Crimean crisis are apparent, in that the latest Russia-Japan Investment Forum was held last March in Tokyo against the background of Japan's announcement that it was imposing sanctions on Russia. Japanese Foreign Minister Fumio Kishida's scheduled visit to Moscow was then postponed, but not canceled altogether. He was to lay the groundwork for the Russian president's visit to Tokyo in the autumn of 2014.

Japan's sanctions, however, are of mostly symbolic value: suspending negotiations on relaxing the visa regime for Russia and cancelling scheduled negotiations on investments, along with cooperation in the military sphere and space exploration.

It should also be noted that as part of its sanctions, Tokyo followed Washington's example and declared 23 high-ranking Russian officials *persona non grata*. The list has not been published, but Sergei Naryshkin, Speaker of the Council of the Federation of Russia's parliament and one figure on the analogous American list, visited Japan in early June to open the Festival of Russian Culture. Some Japanese analysts believe this was Prime Minister Abe's way of showing the Americans some degree of independence in Japan's policy toward Russia.

Meanwhile, the possibility of a further tightening of Japan's position toward Russia's actions in the Crimea and Ukraine cannot be excluded. In his speech to parliament on March 19, Abe condemned Russia harshly for the first time, declaring that attempts to alter the *status quo* by threatening the use of force are unacceptable. Some commentators believe, though, that this declaration was aimed at more than one party: it was also addressed to China as a result of its actions around the Senkaku Islands.

The Japanese prime minister used basically the same harsh wording at a press conference during the March 2014 nuclear summit of the G7 in the Hague. However, the declaration there was softened somewhat by Yoshihide Suga, Chief Cabinet Secretary, who said at a press conference in Tokyo that the resolution adopted in the Hague did not mean that Russia would be permanently excluded from the G8.

It is nevertheless entirely likely that under pressure from Washington and Brussels, Tokyo will do more to coordinate its actions with them in the G7's "punishing" of Russia. This will also be driven by Tokyo's fears that if they do not, as they say, "punish" Moscow for the Crimea, this could encourage China to follow Russia's example and take the Senkaku/Diaoyudao Islands from Japan by force. It was this topic that dominated Abe's April 2014 meeting with U.S. President Barak Obama in Tokyo.

The Crimean and Ukrainian situation also poses a dilemma for the Japanese government in respect to its immediate territorial dispute with Russia. On the one hand, as some Japanese experts believe, the prospect of isolating Moscow could compel it to make concessions on this issue. On the other hand, they think that Russia's actions in the Crimea should dispel any illusions of Putin's readiness to hand any of the islands in the so-called Northern Territories over to Japan.

In a March article on Russian-Japanese relations under the characteristic title "End of a Romance," the influential British magazine *The Economist* clearly subscribed to the second point of view. It stated unequivocally that "For the present, at least, Japan can safely join in the West's economic sanctions against Russia without having to fear for its sources of energy.... However, Mr Abe can defi-

nitely kiss his ambitions to sign a peace treaty goodbye. There is now even less likelihood that Mr Putin will concede any territories.

“The only positive upshot of this is that there will now be even more pressure on Mr Abe to relax Japan’s tense relations with two other important neighbors, South Korea and China.”⁴¹

The Economist was echoing *Sankei Shimbun*, which stated that the G7 suspending Russia’s participation in the G8 summits would inevitably influence the negotiations on the Northern Territories. The newspaper pointed out that Prime Minister Abe strongly desired to resolve the territorial issue during his term in office, but it would destroy the unity of the G7’s actions if Japan were to seek an accord with Russia. It also believed that stormclouds were once again gathering over the territorial negotiations.⁴²

It is obvious in any case that the scenario for developing relations between Russia and Japan in the future will largely depend on Tokyo’s position on the situation around the Crimea and Ukraine. As the newspaper *The Japan Times* wrote, Japan will have to toe a fine diplomatic line that recognizes Russia’s interests in Ukraine without agreeing to the dismemberment of a sovereign nation. In the newspaper’s opinion, this balancing act has only just begun.⁴³

It is clear that there is a definite correlation between the two extremes: the more Tokyo is inclined toward Washington and Brussels with respect to the Crimean and Ukrainian issues, the closer Moscow will move to China.

The prospects of a Russian-Chinese accord cannot help but disturb Tokyo. On this issue, the newspaper *Nikkei*, the mouthpiece of Japanese business circles, writes: “The leaders of the G7 also discussed the possibility that excessive pressure on Russia could push Moscow closer to Beijing. This discussion was opened by Japanese Prime Minister Shinzo Abe, who noted that Russia thanked China for its position on the situation in Ukraine. Abe said that the situation in Ukraine is a global problem, and cautious approaches are needed to prevent China and Russia uniting on this issue.”⁴⁴

NOTES:

1. Results from the survey conducted by the newspaper can be found on its official website at URL: <http://www.yomiuri.co.jp/election/poll/>
2. *Yomiuri Shimbun*, July 17, 2013.
3. *Asahi Shimbun*, May 13, 2013.
4. Approval by two-thirds of the deputies of both houses of parliament is required before raising the issue of amending the constitution in a national referendum. Even though part of the opposition is ready to support Abe’s initiative, the Komeito, ally of the Liberal Democrats in the ruling coalition, favors keeping the postwar pacifist constitution untouchable.
5. *Sankei Shimbun*, December 18, 2013.
6. *Mainichi Shimbun*, December 19, 2013.
7. *Mainichi Shimbun*, May 3, 2014.
8. *The Japan Times*, March 24, 2014.

9. Data on the cabinet's rating in the first half of 2013 can be found in the text of this article. As regards the second half, the level of support for the Abe cabinet was 63% in August, 67% in September (rising basically as a result of Tokyo winning the right to hold the 2020 Olympic Games), and 67% in October, according to data from the newspaper *Yomiuri*. In November and December, the level of support dropped to 64% and 55%, respectively. In 2014, ratings remained at consistently high levels. Even the consumer tax hike in April 2014 did not affect the government's popularity, as the level of support for that month was 58% (after dropping slightly from 59% in March 2014).
10. *Japan's Fiscal Condition*, December 2013. URL: www.mof.go.jp
11. The next country in the size of its gross national debt is Greece with 165.6% of its GDP, *Japan's Fiscal Condition*, December 2013; *Budget Frame for 2014*, March 2014. URL: www.mof.go.jp
12. For bonds to be bought by banks and not dumped, the Ministry of Finance pays 0.6% on the bonds it issues with lifetime of ten years. The average bank interest on deposits is 0.3%.
13. *Highlights of the Budget for FY 2014*. URL: www.mof.go.jp
14. *The Nikkei*, November 4, 2013. In fiscal year 2012, projects costing 4.240 trillion yen were executed under the terms of state and private partnership. Works performed with funds only from the federal budget cost 5.260 trillion yen. The government proposes to raise this sum to 12 trillion yen over the next ten years.
15. Data from Japan's Ministry of Economy, Trade, and Industry. URL: www.meti.go.jp
16. *The Nikkei*, May 7, 2014.
17. *The Nikkei*, February 9, 2014.
18. *The Nikkei*, April 5, 2014. According to survey data, half of the respondents participated in this frenzy.
19. According to data from the Tokyo Stock Exchange, private investors hold 26% of all shares issued by Japanese companies, *2012 Share Ownership Survey*. URL: www.tse.or.jp
20. *Highlights of the Budget for FY 2014*. URL: www.mof.go.jp p. 2; JCER, April 2014. URL: www.jcer.or.jp
21. The Japan Center for Economic Research, *The 40th Medium-Term Economic Forecast (FY 2013-FY 2025)*.
22. Together with local taxes, the effective national tax rate is even higher: 40.69%. In Germany, the same tax rate on profits is 29.8%; in France, it is 33.3%; in China, it is 25%.
23. Open market operations are the buying and selling of government bonds by the country's central bank.
24. The money supply depends on how private citizens and companies (money holders) allocate their money: how much they spend and how much they save in bank accounts. Based on the amount of money in accounts, banks (money lenders) issue credits for fixed periods of time. Some credits are used to build new businesses. Others are used to meet the national budget. And so on. The Bank of Japan controls these processes indirectly, through the prices of monetary instruments.
25. *Japan Financial Report: Quantitative and Qualitative Monetary Easing Effects and Associated Risks*. The Japan Center for Economic Research, December 2013. URL: www.jcer.or.jp
26. *Fiscal 2014 Economic Outlook and Basic Stance for Economic and Fiscal Management*. January 24, 2014. URL: www.cao.go.jp
27. The Japan Center for Economic Research. *The 158th Quarterly Forecast*. June 2014. URL: www.jcer.or.jp
28. *Quoted from: The Japan Times*, April 6, 2013.
29. *Quoted from: Yomiuri Shimbun*, April 22, 2013.

30. *Quoted from: The Japan Times*, April 27, 2013.
 31. *Sankei Shimbun*, February 8, 2013.
 32. *Ibid.*, February 7, 2013.
 33. *Asahi Shimbun*, January 4, 2011.
 34. *Nihon Keizai Shimbun*, May 1, 2013.
 35. *The Japan Times*, January 11, 2013.
 36. *Sankei Shimbun*, December 19, 2012.
 37. *Ibid.*, February 11, 2014.
 38. *Ibid.*
 39. *Quoted from: Yomiuri Shimbun*, March 16, 2014.
 40. *Sankei Shimbun*, March 22, 2014.
 41. URL: <http://www.economist.com/blogs/banyan/2014/03/japans-relations-russia?zid=306&ah=1b164dbd43b0cb27ba0d4c3b12a5e227>
 42. *Sankei Shimbun*, March 26, 2014.
 43. *The Japan Times*, March 3, 2014.
 44. *The Nikkei*, April 21, 2014.
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