

## Japan at the Turn of the Decade: Governments Change, the Problems Remain

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**Abstract.** After a half-century or more of almost single-party rule by the Liberal Democratic Party, the Democratic Party came to power in Japan in September 2009. The Japanese people had great hopes for the DPJ where revival of the country was concerned, but a little over a year after the Democrats' resounding victory it was clear that they were incapable of solving a number of long-standing social and economic problems, and were committing one grievous error after another in foreign policy. The author concludes that as the electorate's disappointment and dissatisfaction with the Democratic Party's actions grows, its prospects increasingly wane.

**Keywords:** *Liberal Democratic Party of Japan, Democratic Party of Japan, new strategy for growth, Japanese-American security treaty, territorial conflict, "Chinese peril," Russian-Japanese relations.*

### Historic Event or a Rearranging of Deck Chairs?

An event that many Japanese commentators and experts are calling historic took place in the domestic political life of Japan on August 30, 2009: the Liberal Democratic Party of Japan (LDPJ), which had governed the country almost uninterrupted for 54 years, suffered a crushing defeat in elections to the lower house of parliament. Its rival, the Democratic Party of Japan (DPJ), managed to win 308 of 480 mandates.<sup>1</sup>

The day after the elections, in an editorial titled "The DPJ's Historic Victory," the liberal newspaper *Asahi shimbun* proclaimed ecstatically "Sunday's elections to the lower house clearly demonstrated the enormous potential of the system of single-mandate election districts. Heralding a change of governments, the mighty wave of the people's will opened a new chapter in the nation's political history."<sup>2</sup>

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A number of analysts both in Japan and abroad hurried to assess the outcome of the elections as a clear step toward creating a full-fledged two-party political system in the country, as opposed to the so-called “one-and-a-half party system” that had reigned for many postwar decades. In that system, unity signified the governing Liberal Democratic Party; while 0.5, all of the other parties taken together.<sup>3</sup>

At the same time, more than a few doubts were expressed as to whether the above step symbolized an irreversible shift toward the “normal” political structure characteristic of Western democracies, in which there are regular changes of political parties at the heights of power. The abovementioned newspaper in the same article thus asked the question “Will these elections mark the arrival of a new ‘regime of 2009,’ with permanent chances for changes of government?”<sup>4</sup> It answered its own question, saying “It depends on the political actions of the two main parties in the coming years.”<sup>5</sup>

A key factor determining the outcome of the elections was the people’s dissatisfaction with the Liberal Democratic Party, which was for many years unable to solve serious social and economic problems, or to make badly needed structural changes in government and society.

In particular, the Liberal Democrats slept through the formation of the so-called economic soap bubble at the turn of the 1980s that resulted from the speculation-fueled inflated value of securities and real estate, especially land. The bursting of this bubble at the beginning of the 1990s threw the country’s economy into prolonged stagnation and dealt a serious blow to Japan’s standard of living. The term “lost decade” was current by the end of the 1990s, and with good reason; in recent years, the Japanese have begun talking of two lost decades.

As a result, in 2009 the LDPJ, the government, and Prime Minister Taro Aso approached the elections with unprecedented low ratings. Voting in the elections assumed a *de facto* protest character and was shaped by a thirst for change in the country. The DPJ’s election campaign played its role as well, as the party knew how to take advantage of such public moods. Many of its promises and pledges were openly populist in character.

In the Democrats’ campaign platform,<sup>6</sup> special emphasis was placed on solving social and economic problems, while very little attention was given to foreign policy issues. One of the DPJ’s main slogans was transferring management of the country from the hands of bureaucrats to the hands of politicians.

In addition, the party set goals that were both concrete and easily understood by the public: reducing government spending on pointless public works (unnecessary dams, bridges, highways and railroads), raising the financing of the social security system, paying out child allowances, introducing cost-free primary and secondary school education, reforming the pension system, improving medical services, abolishing tolls on high-speed motorways, and so on.

The euphoria that seized many Japanese upon the “historic change of governments” was manifested in the record high ratings of the DPJ. If, as one public poll showed, the share of voters who placed great hope in the party was 52%

in June 2009 (i.e., not long before the elections), it shot up to 72% at the beginning of September (shortly after the elections).<sup>7</sup>

Many of those who voted for the DPJ, however, expressed concern over its ability to govern the country, since the party was essentially a conglomerate of politicians of varying ideological orientations that included defectors from the LDPJ. Experts also expressed serious doubts as to whether the Democrats would be able to find financial means sufficient to make good on their campaign promises.

By midsummer 2010, it had already become clear that these fears were grounded. By this time, the DPJ had accomplished little in the way of living up to its social and economic pledges, while its leader, Yukio Hatoyama, was even forced into retirement. The reason for this was his own unfulfilled promise to resolve the issue of the U.S. Marine Corps removing its Futenma Air Station from the island of Okinawa (if not from within the country's borders entirely, at least from the island) by the end of May.<sup>8</sup> Another important factor was that while calling for "the separation of politics and money,"<sup>9</sup> Hatoyama himself ended up embroiled in a scandal involving donations from his wealthy mother to his party's political fund.

Naoto Kan, another prominent DPJ figure who replaced Hatoyama in June, immediately ran up against the need to prepare the party for the next elections to parliament's upper house (the House of Councillors), scheduled for July 11. He was forced to act not only under the pressure of time but in conditions extremely unfavourable for the Democrats: the ratings of the government and the party itself dropped sharply in this period, due primarily to the absence of any noticeable improvements in the socioeconomic sphere, Hatoyama's ignominious defeat in his "airbase litigation" against the Americans, and suspected "financial transgressions" with regard to two key DPJ figures: Hatoyama once again and Ichiro Ozawa, then general secretary of the party.

Hatoyama's departure from the office of prime minister and the removal of political heavyweight Ozawa from the post of party general secretary were *de facto* ritual sacrifices. This tactical move, made in the runup to elections to the House of Councillors, provided the DPJ with a noticeable upswing in ratings but did not lead to the expected results for the party.

The DPJ suffered a major defeat in the elections to the House of Councillors on July 11: its number of deputies in the house fell from 54 to 44. The DPJ, even along with its ally, the small and uninfluential People's New Party, was unable even to hang onto its majority in the house, which contains 242 deputy posts. This led to the most recent appearance of a hung parliament (*nejire kokkai*), in which the lower house is controlled by the governing party while the upper is controlled by the opposition.<sup>10</sup>

The voting revealed the electorate's great dissatisfaction with the DPJ over the ten months of its rule. The main reason for the Democrats' defeat, however, was the announcement by their leader Kan that the consumer tax needed to be raised from 5% to 10%, i.e., by 100%. He made no sufficiently substantive argu-

ments in favor of this measure, and failed to explain on what the income from the tax increase would be spent.

This was in fact a clearly tactical miscalculation by Kan, who, despite his rich political experience, failed to consider that no matter how things were in the country, raising taxes is the one thing voters want least of all. Even within the DPJ itself, there was no uniform opinion on the need for such an unpopular step.

There were other factors that had determined the Democrats' defeat: a slew of financial scandals involving Hatoyama and Ozawa, the clumsiness of the Hatoyama administration's approach to the issue of moving Futenma Air Station, the drawn-out quarrels between the DPJ and the opposition over the need for social benefits for children and others, and so on. The election results sharply weakened not only the DPJ's position in the domestic political arena, but Kan's own position within the party as well.

At the same time, it would be erroneous to believe that the LDPJ had recovered from its defeat in the elections to the House of Representatives in August 2009 as a result of the most recent contest. The irony of the situation is that the Liberal Democrats, like the DPJ in the balloting the year before, won the elections of June 2010 thanks not to its own merits but to the miscalculations of its opponent.

The simultaneous drop in the electorate's trust in the two main parties (LDPJ and DPJ) was made evident in Your Party ("Everyone's Party") winning ten seats at once.<sup>11</sup> Before the elections, the party had no seats in the House of Councilors at all. Many of those Japanese who had been disappointed with both the LDPJ and the DPJ voted for it. In the opinion of some Japanese commentators, the new alignment of forces in parliament after the July elections should provide an opportunity to hold productive talks on vital issues of domestic and foreign policy. They believe the opposition has to play a more constructive role.

In fact, the opposition parties had far fewer seats in parliament during the LDPJ's long period of rule than they do today. They therefore had no choice but to employ the tactic of prolonging the process of passing legislation, thus bargaining for concessions from the LDPJ. This led to negotiations between the ruling and opposition parties being conducted behind the scenes, and the political process itself was hidden from the eyes of the electorate.

This tactic was successful during the period of stable rates of growth in the Japanese economy. The rates have now slowed considerably, however, and (as *Asahi shimbun* writes) a financial crisis is looming on the horizon.<sup>12</sup> There is thus no time for behind-the-scenes deals. The newspaper is expressing hope that the opposition (in the form of the LDPJ) will not use the hung parliament to draw out the passing of bills needed to deal with pressing social and economic problems and major foreign policy issues.

The newspaper believes transparent action aimed at reaching agreement between the ruling and opposition camps would involve broad segments of the population in politics. In its opinion, therefore, the extraordinary session that began in October could be a turning point in Japanese politics.<sup>13</sup>

It should be noted, however, that tests of the political durability of the DPJ and the stability of the leadership of Kan himself in the party did not end along with the elections to the upper house of parliament. The literally and figuratively hot summer flowed smoothly into a no less hot autumn.<sup>14</sup>

The September 14 elections for the leader (president) of the DPJ became the next boiling point for political passions in Japan. Kan handily beat out his rival Ozawa, over whom the shadow of accusations of financial impropriety continued to hang. According to public opinion polls conducted by *Asahi shimbun*, 72% of the voters surveyed welcomed Kan's reelection as chairman of the ruling party.<sup>15</sup> Support for his cabinet was to a large degree also reaffirmed, but the newspaper believes these numbers more likely reflect the public's nonacceptance of his rival Ozawa. Kan's victory was largely due to the votes of his party's supporters and its rank-and-file members.<sup>16</sup>

At the same time, it should be noted that Ozawa received 200 (more than half) of the votes of the members of parliament who belong to the DPJ. This means that in performing the duties of prime minister, Kan might encounter greater forces of resistance within his own party than before.

In striving to preserve his image as a fighter for fair politics, Kan nevertheless decided to openly distance himself from Ozawa and did not offer him any important posts in either the party or the new cabinet of ministers. Some commentators suggested alarmingly that the offended politician would leave the DPJ and take with him his bloc of supporters. There were even fears among Japanese analysts that he might return to the LDPJ, from which he had once defected. This step could lead to even greater complication of the domestic political situation in Japan. Ozawa, however, being one of the brightest and most influential figures in the political world of contemporary Japan, hurried to announce that he would serve like a soldier as a rank-and-file party member.<sup>17</sup> The DPJ was thus able to avoid (for the time being, at least) the split that threatened it. Ozawa's defeat in the elections clearly shattered his image as the country's strongest electoral strategist, since he had for the first time lost the race for leadership of his party. The probable opening of a criminal case against him on charges of illegal financial transactions could put a full stop to his political career. If this happens, the only bright star in Japan's political firmament today could be extinguished.

As early as the October session of parliament, Prime Minister Kan had to deal with attacks by the opposition and its reluctance to cooperate, since its members felt that the DPJ's internal elections had weakened the party considerably due to their divisive character. LDPJ leader Sadakazu Tanigaki stated openly, "We shall consistently oppose the DPJ in order to force Kan to dissolve parliament and hold early elections."<sup>18</sup> Tanigaki thus clearly dispelled the speculation of some analysts that the LDPJ under the current circumstances might become the DPJ's only partner, since both parties needed each other due to their weakness and inability to effectively govern the country and there were no fundamental ideological differences between them. The leaders of other opposition

parties also accused Kan of being incapable of achieving noticeable success once he had become prime minister in June 2010. They also demonstrated their reluctance to join in any coalition with the DPJ.

It is meanwhile clear that Japanese politicians cannot ignore the opinion of the country's most influential lobbyist organization, the *Keidanren* (Federation of Economic Organizations), which represents Japan's big capital. The heads of this organization have already let them know they are interested in cooperating with the Democrats and Liberal Democrats in order to surmount as quickly as possible the prolonged troubles of the Japanese economy and to revitalize government finances.

The need for a major restructuring of the political system, which assumes the existence of parties that enjoy widespread, consistent support from the people and are capable of offering them a long-term strategy of national socioeconomic development that they can understand, is clearly rife in Japan. It may be assumed that the domestic political situation in Japan will continue to remain extremely unstable in the near future. The possibility that the situation in terms of party structure will resemble the picture in a kaleidoscope, where the image changes fantastically depending on the combination of multicoloured glass pieces (political parties) as the tube rotates, cannot be excluded. Just such a situation was characteristic of Japan in the last 20 years now drawing to a close.

A little over one year after a "historic event" – the DPJ's assumption of power – hardly anyone would thus be willing to predict when and how the country will emerge from the domestic political turmoil in which it has been mired for the last two decades. Meanwhile, there is no shortage of alarmist prophecies. Veteran politician Shizuka Kamei, seasoned leader of one of the smaller opposition parties, the People's New Party, stated openly at his most recent press conference that the DPJ is already melting down like the LDPJ.<sup>19</sup> He warned that the DPJ would have to follow a clear economic policy; otherwise, the party could find itself in a dangerous situation.<sup>20</sup>

### A New Strategy for Growth: Plans and Obstacles

Following their victory in the 2009 elections, the DPJ and its leaders inherited, along with the reins of government, a whole crop of social and economic problems that demanded immediate solutions. Among these, we should take special note of Japan's chronic deflation, high level of unemployment, and weak consumer and investor demand. In addition, the government was forced to immediately confront the problem of a high yen keeping Japanese exports down.

In June 2010, Kan's government announced a new strategy for economic growth. It was to be implemented over a period of ten years and assumed the generation of an additional 123 trillion yen in demand that would correspondingly lead to the creation of 5 million new jobs. As its goal, the strategy had curing the Japanese economy of a serious illness – the deflation holding back its growth – no

later than the following fiscal year.<sup>21</sup> The strategy's long-term tasks were to accelerate the growth of the economy so that the annual nominal rates of growth in the period leading up to the 2020 fiscal year would average 3%.<sup>22</sup> Considering that these rates over the previous ten years had been in the negative numbers, one might say that the intended goals were ambitious in the extreme. It is obvious that sustained growth of the economy over a long period of time is a necessary condition for Kan to realize his slogan of "A strong economy, strong finances, and strong social security." Above all, the new prime minister was bent decisively on improving the situation in the area of government finances. These were characterized by enormous state debt that had reached an estimated 200% of GDP, and a massive budget deficit. As has already been mentioned, he was ready to take even such unpopular measures as doubling the consumer tax in order to accomplish this. As Japanese experts point out, however, no one will succeed in reviving state finances until the economy is out from under the negative effects of deflation. Since the original reason for the deflation in Japan was limited demand, private investment and consumer demand must be stimulated to bring the economy out of its deflationary spiral and put it back on the rails of sustained growth.

This requires that the government's economic policy be conducted in accordance with the new economic realities, however. As the drafters of the new economic growth policy believe, the government must concentrate on encouraging domestic demand, not so much on goods as on services that would enhance the quality of life, such as health care, care for the elderly, and tourism.

With regard to foreign demand, Japan must from the standpoint of economic growth reduce its dependence on exports to the markets of the United States and Europe, which have become less stable. At the same time, it must make greater efforts to create new foreign demand for its economy and to tailor Japanese products to the consumers of developing countries. Special importance is attached to winning foreign markets for goods and services capable of holding back global warming.

The new strategy for growth covers seven of the most important areas of the Japanese economy: the environment, energy, health care, Asian markets, tourism, and so on, along with 21 high-priority projects. Meanwhile, critics of the strategy note that it contains no clear plan for action to solve such pressing problems as the ageing of the population and its declining size, which could in fact be the main structural factors of low rates of growth for the Japanese economy in coming years.

Judging from the above, the Japanese government will have to follow two courses in solving this problem: first, it must open the door wide to immigrants; second, it must raise the retirement age. It will be difficult to decide on these measures, since both are risky with regard to the domestic political situation. In addition, female labor is an enormous reserve for improving the situation in the Japanese economy. In order for this to work, however, decisive measures must be taken to develop the branches of the economy associated with raising and caring for children.

The new strategy for growth was published by the Kan administration not long before the July elections to the upper house of parliament, and therefore did not touch upon certain extremely sensitive social and economic issues. One of these is opening up Japan's market to agricultural imports. It is obvious that under the conditions of the accelerating processes of integration and globalization, Japan will sooner or later be forced to take this step. For the time being, the DPJ has adopted a program to subsidize domestic farmers over the current fiscal year to improve their financial situation.

Concluding bilateral free trade agreements with the United States, Australia, China, and South Korea is another imperative omitted from the strategy for growth. Because of the uncompetitiveness of Japanese agriculture, Tokyo is drawing out the process any way it can.

Fear of losing the vote of the electorate in rural areas is also forcing the DPJ to approach with caution the idea of the trade agreement known as the Trans-Pacific Partnership, or TPP, promoted by eight countries of the Asia-Pacific Region, including the United States, Australia, New Zealand, and Singapore, with the aim of creating a regional free trade zone. This is in turn impeding the creation of an East Asian Economic Community based on a trilateral free trade agreement between Japan, China, and South Korea.

Japan's lagging behind the other countries in the matter of concluding free trade agreements puts Japanese exporters in a worse position than, say, South Korean manufacturers of automobiles and IT goods, since South Korea's free trade agreement with the United States and the European Union takes effect in 2011.

This situation could motivate Japanese companies to transfer their production abroad, leading to additional job losses in Japan itself. Japanese economists not only point out the need for Japan to participate in the TPP, they also call upon the government to assume leadership of the process, giving preference to the country's economic interests instead of the reasoning of the electorate. As they admit, however, the entire issue of raising the competitiveness of Japanese agriculture must be resolved in order to accomplish this. The most important consideration is to revive agriculture in general as an important branch of the economy. This is of special importance, since Japan is just over 40% self-sufficient in foodstuffs.

The Japanese initiatives at the APEC summit in Yokohama in November 2010 demonstrate how the Kan administration intends to conduct its policy in the field of integration processes in the Asia-Pacific Region.

Development of new strategy for growth began as early as the end of 2009, when Kan was the minister responsible for national policy in the Hatoyama administration. He then stated that the reason for the failures of the more than ten strategies for growth drawn up by previous LDPJ cabinets over the last ten years was "the lack of long-term vision and political leadership." Now, Japanese commentators note with irony, the new strategy is testing the vision and political leadership of Kan himself.



Meanwhile, Kan and the government he has formed are immersed in solving a selection of today's most serious economic and social problems. The situation is complicated, however, by Kan having to push his measures for dealing with them through a hung parliament. This was made especially clear by the example of adopting the supplemental budget for fiscal year 2010 that was needed to stimulate the economy further. It was submitted for discussion at the extraordinary session of parliament that opened on October 1. One of the reasons for the supplemental budget being drafted by the Kan administration was the prime minister's desire to build a constructive relationship with the opposition, which was calling for more substantial economic stimuli. The opposition's main forces – the DPJ and its ally the New Komeito Party – proposed spending 4 to 5 trillion yen toward this goal. The draft of the supplemental budget presented by the government was for 5.05 trillion yen.<sup>23</sup>

Kan was also forced to consider calls for additional expenditures issuing from the depths of the DPJ itself. During the elections for head of the party, Kan's main rival Ozawa proposed economic measures worth 2 trillion yen. The needed money was found. In fiscal year 2009, the budget was calculated to provide a net profit, and tax revenues exceeded the calculated figures in the 2010 fiscal year. At the same time, the extremely low interest rates are apparently reducing the cost of servicing the state debt. Together, these factors are yielding an estimated 3 to 5 trillion yen. This obviously determined the monetary scope of the supplemental budget as well.

According to government calculations, the supplemental budget should raise the economy's annual rates of growth by 0.6 percentage points and create 450,000-500,000 new jobs. Of its 5.05 trillion yen, 3.1 trillion are to be used to stimulate the economy in the regions; this includes helping to support small and medium-sized businesses and carrying out infrastructure projects, while 1.1 trillion yen will go to improve the health care system and children's institutions.

The package of economic stimuli in the form of the supplemental budget also includes an undisclosed sum intended to provide Japanese industry with rare earth metals. The last allocation is a sort of emergency measure in light of China's ban on exports of these metals to Japan due to the territorial disputes over the Senkaku Islands (Diaoyudao in Chinese) that upset the entire array of Japanese-Chinese relations in September-October 2010.

It is important to emphasize that unlike the hurriedly drafted plan for spending money from Japan's reserve funds, the supplemental budget is based on a number of key points:

- First, the government will not have to issue additional bonds to fund the above budget. This is especially important in light of the gigantic state debt, the largest among the industrially developed countries. If the Kan administration shows even the slightest signs of weakening budgetary discipline in this extraordinary situation, mistrust toward the government could increase among both taxpayers and market players.

- Second, the new package of stimulus measures ought to be oriented toward the government's strategy for growth, the main aim of the budget in fiscal year 2011, and toward the creation of new jobs. In August 2010, unemployment in Japan stood at 5.1%, an extraordinarily high figure for the country. It is the creation of new jobs that Kan has placed at the forefront of his economic policy.

Earlier, the government demanded that ministries and agencies reduce spending in their areas of responsibility by 10% in order to scrape up 1 trillion yen for special subsidies to revive the economy. The above-mentioned 3 to 5 trillion yen exceeds this sum considerably. Since revenues in the form of corporate taxes will hardly grow as a result of the high yen exchange rate, these funds are an important source of financing for the government.

- Third, the very process of drafting a supplemental budget should serve as a precedent for successful collaboration between the governing and opposition parties. Under the conditions of a hung parliament, the governing party especially needs to cooperate with the opposition in order to have its laws passed. The DPJ has therefore expressed its willingness to embark on a substantial review of its populist pledges made in connection with last year's elections to the upper house of parliament. The LDPJ criticized these promises as attempts to "scatter money among the voters."

The Kan administration thus has yet to come up with any new basic recipes for putting the country on the track of sustainable economic growth and, in the spirit of earlier cabinets formed by the DPJ, adopted a policy of injecting the economy with money from state funds in the form of basic and supplemental budgets and other packages of financial stimuli. This policy was reinforced by the record budget for fiscal year 2010, which was more than 92 trillion yen.

The supplemental budget for fiscal year 2010 had as its goal not just combating deflation but mitigating the consequences of what has become yet another chronic illness: the high yen exchange rate. The high yen has an extremely negative effect on the economy as a whole, since it leads to higher prices for Japanese exports and correspondingly to reduced income for Japanese companies oriented toward foreign markets, one of the mainstays of Japan's economy. A strong yen also leads to cheaper imports, which in turn helps strengthen deflation.

An important factor in the recent sharp rise in the yen exchange rate is investor fear with regard to the prospects for the American economy, producing a flow of capital from the United States, Europe, and the developing economies into the yen, which is considered a relatively stable asset. In addition, Japan's financial system has turned out to be less susceptible than the United States or Europe to the negative effects of the so-called Lehman shock that triggered the world financial crisis.

- Finally, Japan has a positive balance of current payments and its budget deficit is not seen as a serious problem at present, since it is financed mainly from domestic sources. The United States and Europe, however, are in no rush to drive up the dollar and euro, due to the need to stimulate their own exports as a result of the unfavorable situation in their economies. Japanese experts thus believe that the yen will remain a more stable currency than the dollar in the near future, and will even rise toward the record set in 1979, when \$1 equalled 79.75 yen.<sup>24</sup>

One of Kan's decisive steps after his victory in the elections for leader of the DPJ in September 2010 was a currency intervention to lower the yen exchange rate. Japan dumped 2 trillion yen (\$23.4 billion) on the currency market all at once.<sup>25</sup> This was the first intervention in six and a half years and was larger than the 1.6 trillion intervention of January 2004. It produced a slight drop in the exchange rate, from 82 yen to the dollar to 85.<sup>26</sup>

The effect turned out to be relative, since Japan took the move independently, without having secured the support of the United States or Europe. Experts point out that the yen could go up again if there is a slowdown in the rate of growth of the American economy in the near future.

On the whole, we can predict that whether Tokyo wants to or not, it will have to take an active part in the international exchange rate war that has become noticeably more intense since October 2010, and the movement in this direction looks to be irreversible. In an editorial, *Nihon keizai shimbun*, the sounding board of Japan's financial circles, assessed the results from the G20 summit of finance ministers and central bank heads held in the South Korean city of Kenju in October 2010 as "unsatisfactory," saying it was impossible to avoid a currency war with the agreements reached there.<sup>27</sup>

As ammunition in its military operations on the currency front, the Japanese government is prepared to expend the unprecedented sum of 40 trillion yen in currency interventions on the domestic and foreign markets. The Bank of Japan also intends to take measures to restrain the rise in the yen exchange rate by pouring additional liquidity into the financial markets. To accomplish this, it might increase its volume of purchases of long-term obligations from financial institutions and continue to provide low-interest credit to commercial banks. The success of Kan's efforts to put Japan on the rails of progressive growth, and how well the country's many local but nonetheless serious socioeconomic problems are solved will depend largely on just how effectively the rise in the yen exchange rate can be held down.

### Zigzags in Foreign Policy

In the opinion of many Japanese experts and observers, Japan's role in the international arena shrank considerably in the outgoing decade. They find the

explanation for this not only in the country's prolonged economic stagnation but in its lack of effective national diplomacy as well. This is largely associated with the rapid turnover of LDPJ leaders in the post of prime minister during the last years of the party's rule, before the DPJ came to power in autumn of 2009.

It is obvious that Japan's position at the recent G8 summits, at which coordinated approaches to solving pressing international problems were drawn up by the world's leading powers, was weakened considerably since each one was attended by a new Japanese premier: Shinzo Abe in 2007, Yasuo Fukuda in 2008, and Taro Aso in 2009. Neither is the situation improved by the changing of the top guard in Japan taking place as a rule in September, when the UN General Assembly, at which heads of state are expected to announce their foreign policy strategies to the world community, is in session.

Under these conditions, it is understandably difficult to count on continuity in international policy or the development of an effective foreign policy oriented toward the long term. As a result, the Japanese were placing great hope in the DPJ and Yukio Hatoyama, who might have broken the abovementioned negative trends and elevated Japan's role and prestige in the international arena.

A pamphlet titled *My Political Philosophy* came out not long before Hatoyama's assumption of power. The key concept of the work is conveyed by the word *yuai*, which consists of two kanji: *yu* (friendship) and *ai* (love). In English, it corresponds to the word *fraternity*. As follows from Hatoyama's explanation, *yuai* is a way of thinking that honors one's own freedom and human dignity while also respecting the freedom and human dignity of others. One cannot help but note that Hatoyama's *yuai* is somewhat reminiscent of Mikhail Gorbachev's "new political thinking."

In Hatoyama's political philosophy, the thesis that the era of U.S.-led globalism is coming to an end as a result of the failure of the war in Iraq and the financial crisis, and that the international community is moving from a unipolar world headed by the United States to an era of multipolarism, drew the greatest attention from foreign analysts.

Once he had become prime minister, Hatoyama admitted that Japanese diplomacy had been in a state of stagnation throughout the several decades of LDPJ rule. In his speech to the UN General Assembly in September 2009, he made public his vision for Japan's foreign policy. In his words, the changing of the guard in Japan would help the country become a bridge for the entire world in solving the problems of the economy, the environment, and strengthening peace. He stated too that Japan would also make every effort to become a bridge between East and West, between the developed and developing countries, and between different civilizations.

Hatoyama's promise, made as early as the election campaign, that the DPJ would conduct a foreign policy more independent of the United States and build a more equitable relationship with Washington, was also part of his political philosophy. In addition, the creation of an East Asian Community, which in

Hatoyama's opinion ought to play an important role in strengthening Japan's position in Asia and the world arena as a whole, was one of the centerpieces of his political philosophy. Hatoyama likened the East Asian Community to the European Union even as he pointed out a number of major differences in the history, economics, politics, and other areas of both regions. True, Hatoyama failed to give his concept any substantive content either while he held the post of prime minister or afterward. It should be noted, however, that in delivering a lecture at the Diplomatic Academy of the RF Foreign Ministry in September 2010, he mentioned the possibility of both the United States and Russia participating in such a community. This could be considered a bold new step, since U.S. membership in the project was not envisioned earlier, and Russia's name was never even mentioned.

Unlike the political philosopher Hatoyama, the Naoto Kan who succeeded him is considered a realist and pragmatist. As Japanese analysts have noted, however, he is a politician more oriented toward domestic matters, and has virtually no experience in international affairs. Like Hatoyama, he had to make public his vision for the country's foreign policy at the September 2010 session of the UN General Assembly, literally just after he had become prime minister for a second time as a result of elections for leader of the DPJ. In his speech, Kan expressed Japan's determination to play a more responsible role in ensuring peace and international security. He promised that Japan, as the only country to have ever been subjected to atomic bombardment, would head the international community's efforts aimed at nuclear disarmament and the nonproliferation of nuclear arms. Kan also stated that because of its atomic bombardment, his country deserved a seat as a permanent member of the UN Security Council in the 21st century, pointing out that reform of this United Nations' most important body is inevitable as it must reflect the reality of today's international community in order to remain effective and legitimate.<sup>28</sup>

In addition, the Japanese prime minister expressed concern over the nuclear programs of both North Korea and Iran and called upon all members of the United Nations to firmly uphold UNSC resolutions on international sanctions. He pointed out that North Korea's nuclear and missile programs "present a threat to the entire international community" and stressed once again that resolving the issue of Japanese citizens kidnapped by North Korean spy agencies was an "absolutely necessary" condition for Tokyo to normalize relations with Pyongyang.<sup>29</sup> Kan also repeated Japan's pledge to reduce its emissions of greenhouse gases by 25% relative to 1990 levels by the year 2020, calling upon all of the main producers of such gases to cooperate honestly and effectively in combating global warming.

Another of Tokyo's important pledges in the international arena was its promise to allocate \$8.5 billion over the five years beginning in 2011 to improve health care and education in developing countries as part of the United Nations' aim to reduce poverty. The same basic policy for Japan that it followed in the

international arena over several decades of LDPJ rule can thus also be seen clearly in the new prime minister's speech. An important weapon of Japanese diplomacy in this policy is official development assistance, or ODA. For quite some time now, Japan has been a world leader in the field of offering ODA. As a result of its economic difficulties, however, it has been forced to cut its expenditures for such purposes. In 2010, the ODA budget was 618.7 billion yen – a 50% reduction relative to 1997, the year in which the budget hit its peak and Japan was the number one country in the world in terms of ODA volume.<sup>30</sup>

According to 2010 data, Japan now holds only fifth place in the world in terms of this indicator, lowering its influence in developing nations. In the opinion of Japanese experts, this figure is alarming against the backdrop of China, Brazil, and other so-called new economic powers using their growing economic might to strengthen their influence in a number of developing countries.

The experts are especially concerned by China actively providing “diplomatic aid” to African countries rich in energy and mineral resources. They also openly point out the need to use ODA to acquire friends in the international community. In their opinion, it is particularly important to use offers of ODA to make world public opinion its ally in situations similar to those now developing in the territorial dispute between China and Japan. The experts therefore believe that Kan should seek opportunities to increase the ODA budget by reducing other government expenditures and raising the consumer tax.<sup>31</sup>

Kan attempted to offer a more substantive vision of Japan's foreign policy in his speech at the opening of the extraordinary session of parliament in early October 2010. It attracted much attention from analysts and observers, since diplomacy is considered to be the Achilles' heel of the DPJ government.<sup>32</sup> The party is essentially an “eclectic assembly of politicians with strongly divergent views on issues of national security.”<sup>33</sup>

In the abovementioned speech, the new premier proclaimed an “independent and active diplomacy” based on nationwide consensus achieved through discussion among the citizens, who view diplomatic challenges as their own personal problem.<sup>34</sup> These statements were, however, roundly criticized by the experts as being too superficial. It is obvious that the new government did not have enough time to develop any deeper approaches, since it had to deal immediately with major problems in relations with such important partners in the international arena as the United States and China, and with an important neighbor right next door – Russia. For a time, these problems overshadowed (but did not mitigate) the importance of even such chronically sensitive issues as the missile/nuclear threat from North Korea.

One can judge the former and likely zigzags of Japanese foreign policy from the inaugural press conference of Japan's new foreign minister, Seiji Maehara.<sup>35</sup> He served in Hatoyama's cabinet as his minister for territories, transportation, and infrastructure, and as minister for Okinawan affairs and the Northern Territories, the latter being a reference to Russia's South Kuril Islands.

In a 2005 speech in the United States, Maehara, appearing as leader of the then-opposition DPJ, referred to China as a “real threat” in terms of it cultivating and modernizing its military potential. He also stated that China was infringing on Japan’s interests with regard to the gas fields in the East China Sea. Serving in the same ministerial post but in Kan’s cabinet, Maehara referred to the actions of the Chinese trawler in the waters of the disputed Senkaku Islands as irresponsible. In his opinion, it was this behavior that led to its collision with a Japanese Coast Guard vessel. As has already been mentioned, this incident was the start of an unprecedented worsening of Japanese-Chinese relations.

In the opinion of a number of Japanese and foreign analysts, it was the growing economic might of China and diplomatic inexperience of Prime Minister Kan, along with the tension in Japanese-American relations, that lay at the heart of Beijing’s harsh reaction to the Japanese Coast Guard’s arrest of the Chinese ship’s captain after the collision. At the abovementioned press conference, however, Maehara refrained from using the word “threat” in referring to China, calling the collision accidental. In his speech, Japan’s new foreign minister particularly stressed that economic diplomacy, including the signing of agreements on free trade and economic partnership, were the cornerstones of his foreign policy.

Maehara’s appointment as head of the foreign policy establishment was nevertheless met with great guardedness in China, and Chinese Central Television stated in its report from Tokyo that an “anti-Chinese hawk” had been appointed to the post of Japanese foreign minister.<sup>36</sup>

The unprecedented escalation of tension in Japanese-Chinese relations in September and early October 2010 demonstrated the difficulty of the task apparently facing the DPJ in the realm of foreign policy: making it more balanced by somewhat distancing Japan from the United States and correspondingly drawing closer to China.

The mere framing of such a issue, however, evoked a negative response from Washington, where the possibility that it might be resolved at the expense of U.S. interests in the Asia-Pacific Region could not be excluded. The Japanese were at once made to understand that the focus of American policy in the field of regional security could shift to South Korea and other Asian nations.

The Japanese take a dual approach to China: on the one hand, Tokyo truly fears China’s cultivation of its military potential and was especially alarmed by the PRC navy openly flexing its muscles in 2010. On the other hand, the Japanese cannot help but consider that China is their largest trading and economic partner, and that the state of their economy depends largely on the Chinese. Beijing, incidentally, has not failed to take advantage of this. The embargo on exports of rare earth metals to Japan and the tightening of customs procedures for Japanese companies doing business with China are among its methods for applying pressure during the smoldering territorial dispute.<sup>37</sup> This in turn has led to cries in Japan to lower the country’s economic dependence on China in order to avoid such blackmail in the future.

Prime Minister Kan has been strongly criticized in Japan for allegedly showing weakness and failing to uphold national interests in his approaches to China with regard to the conflict over the Senkaku Islands. It might be assumed that he faces an enormous and difficult task in establishing “mutually beneficial relations based on common strategic goals” with China, the need for which both Tokyo and Beijing earlier expressed.

The autumn deterioration of relations with Beijing is forcing DPJ politicians and the government they have formed to value more positively Japan’s ties with its main military and political ally, the United States. It is perhaps in these relations that Japan’s foreign policy zigzags in the period immediately prior to the DPJ cabinets’ rule can be seen most clearly.

Washington, unlike Beijing, welcomed Maehara’s appointment to the post of Japanese foreign minister, believing him to be pro-American and assuming that he and Kan would adopt a policy of straightening out the kinks put in Japanese-American relations by Hatoyama. Judging by their actions, both figures intend to back up and elevate the importance of these relations in Japanese foreign policy strategy in today’s complicated East Asian security environment.

On its part, the United States has shown its readiness to encourage Japan’s movement in this direction, having announced its openly pro-Japanese position in the territorial dispute over the Senkakus and plainly stated through Secretary of State Hillary Clinton that these islands fall under the provisions of the Japanese-American security treaty.

Similar developments are taking place in Northeast Asia following assertions by some Japanese and American political scientists that the “Chinese military threat” in the region is taking the place of the Soviet military threat of the Cold War. We may therefore expect that the “Chinese factor” will greatly strengthen the centripetal forces in the realm of security in Japanese-American relations. It is obvious that along with the “North Korean threat,” this factor will strengthen the position of those Japanese who wish to keep the USMC Futenma Air Station on Okinawa. The question is whether Kan’s government will succeed in convincing the administration and population of the island of the need for this, as they are both strongly against U.S. forces being stationed on their territory.

As the newspaper *The Japan Times* noted in an editorial dedicated to the 50th anniversary of the signing of the revised Japanese-American security treaty, Japan and the United States should make serious efforts to reduce the burden on the Prefecture of Okinawa, where American bases are concentrated. In the newspaper’s opinion, the agreement will no longer function adequately without the understanding of the island’s residents.<sup>38</sup>

It is assumed that the incident with the Chinese trawler in the vicinity of the Senkaku Islands (which are part of the prefecture’s territory) could help in attaining such understanding. It should be noted in the meantime that the candidates for the post of governor of the Prefecture of Okinawa, whether they belong to the



ruling party or the opposition, are all in favor of moving the bases beyond the borders of the island.<sup>39</sup>

### **Tokyo's Territorial Zugzwang**

The change of governments in Japan in September 2009 that brought Yukio Hatoyama to the post of prime minister generated certain hopes among politicians and analysts in both Russia and Japan for an improvement in political relations between the two countries and the possibility of compromise in negotiations on the territorial issue, which were at a virtual dead end. These hopes were associated with Hatoyama being the nephew of Japanese prime minister Itiro Hatoyama, who signed the Soviet-Japanese Declaration of 1956 that restored diplomatic relations between the two countries.

Developing relations between Japan and the Soviet Union (and then Russia) is considered a Hatoyama family tradition. In addition, Yukio Hatoyama, unlike other political leaders in Japan, has a reputation as an expert on Russia with active ties to members of the Russian Establishment. As early as the start of his premiership, Hatoyama declared his intention to progress toward resolving the territorial issue within six months to a year. It was obvious, however, that he could not retreat from Japan's classic position: demands to return all four of the islands. The reason was not just that the DPJ's manifesto contained a requirement to achieve the soonest possible return of the islands (the document's only task with regard to Russia), or that any departure from this position would mean political death for any public figure in Japan. Moreover, the actions of Hatoyama's government, which had approved a document drafted by Japan's foreign ministry containing the phrase "Russia's illegal occupation of the South Kuril Islands," struck a dissonant chord against the background of Hatoyama's stated desire to improve relations with Moscow. In addition, Seiji Maehara, who held the post of minister of territories in Hatoyama's cabinet, made a harsh statement on "Russia's illegal occupation of the Northern Territories." These steps met with a negative reaction from the Russian foreign ministry.

A paradoxical situation thus emerged, in which relatively normal Japanese-Russian political relations in fact cooled off under a pro-Russian (by Japanese standards) Japanese prime minister. Relations became even cooler after Hatoyama retired, although no immediate cause-and-effect relationship is evident here. At least three separate causes were at work: First, Russia's introduction of a new memorial day marking the end of World War II was viewed negatively in Japan. The name was clearly perceived there as a euphemism for the Soviet Union's victory in the war against Japan in August 1945, though Tokyo did not react officially at all to the introduction of the new memorial day because of the phrase's neutral tone.

Second, Japan's political figures and media were extremely critical of the clause in the Russian-Chinese joint declaration signed during RF President Dmitri Medvedev's visit to China in September 2010 stating that the parties

affirm their intention not to allow revision of the results of World War II, and to oppose attempts to falsify its history; to glorify Nazis, militarists, and their accomplices; and to villainize liberators.

This declaration was interpreted in Japan not only as a desire to coordinate the approaches of Russia and China to comprehending the history of their difficult relations with Tokyo but also as a means for applying joint pressure on Japan in their territorial conflicts with it. However, in response to questioning by the opposition in parliament on October 10, 2010, Prime Minister Kan said he did not agree with this interpretation.

Third, President Medvedev's stated intention to visit the South Kurils evoked an extremely sharp reaction in Japan at the official level. Tokyo spoke through Foreign Minister Maehara of the undesirability of such a trip and its possible negative consequences for bilateral relations. A powerful anti-Russian campaign, a concentrated form of which can be found in Russian on a Japanese website, was simultaneously launched in the Japanese media.<sup>40</sup> The conservative newspaper *Sankei shimbun* went farther than others in this campaign, demanding that Japan's ambassador to Moscow be recalled. The unprecedentedly sharp reaction by the Japanese could be explained by the desire of Japan's leaders to show their mettle in upholding the country's territorial interests at a time when they are being roundly criticized by the public and opposition for lacking such resolve in relations with China. Whether this is true or not, Moscow and Tokyo are faced with a difficult search for ways to draw bilateral political relations out of the outlandish territorial dead end in which they found themselves at the close of the new century's first decade.

A more favorable atmosphere for this could probably be created if Yukio Hatoyama were appointed Japanese ambassador to Russia, the possibility of which has been reported by unofficial Japanese sources. However, his desire to return to high-level politics, made public at the end of October, dims the prospects of his appointment, but it is believed that he could in any case try to achieve his vision of Russian-Japanese relations in the form of a "carriage with two wheels," one of which is economics and the other politics.

In the abovementioned speech at the RF Diplomatic Academy, Hatoyama perfected this model of relations by adding a third wheel to his carriage: cultural ties. He believes with some justification that the more wheels a vehicle has, the more stable it will obviously be. In addition, it is easier to steer a third wheel (politics) onto the right track with the help of two wheels (economics and culture). The question is, Will the two sides be able to come to a common understanding of what is a right track?

Meanwhile, Japan's leading economic publication *Nihon keizai shimbun*, pointing out in an editorial that five summit meetings were held between Russia and China in 2010 alone, criticized the DPJ for not having a single sitting Japanese prime minister visit Russia after its coming to power. It was the newspaper's opinion that this would only delay the resolution of the territorial issue.<sup>41</sup>

It should be added that no light is visible at the end of the tunnel in Japan's territorial disputes with other countries, including the ongoing conflict with China over the Senkaku Islands, which can only get worse. The unilateral whipping up of the atmosphere in relations with Russia after Medvedev's visit to the South Kurils must be assessed as nothing other than the latest major foreign policy miscalculation (not to say failure) of the DPJ government after it came to power in September 2010.

The Kan administration's embroilment in, so to speak, military actions on two territorial fronts at once (the Chinese and the Russian) can be explained only by diplomacy not being the DPJ's trump card, as was mentioned above. Such clumsy actions might be a side effect of the party's slogan of taking important government decisions out of the hands of bureaucrats (in this case, the foreign ministry's) and putting them in the hands of politicians.

For Tokyo, however, the real drama of the situation also stems from Japan having territorial conflicts with virtually all other Northeast Asian countries besides Russia and China. These include a dispute with South Korea over possession of the Takeshima Islands (Tokto, in Korean) and claims to Taiwan's Senkaku Islands, with Taipei in this case acting in parallel with Mainland China. We should also add North Korea to the list: despite its hostility toward Seoul, Pyongyang supports its compatriots in the south of the Korean Peninsula in the matter of the Takeshima Islands' ownership.

A not very happy picture thus emerges for Tokyo: Japan finds itself in a semicircle of neighboring countries with all of which it has long-standing territorial disputes. The other half of the circle is made up of the water expanses of the Pacific Ocean, on the far side of which lies the United States, the country's only military and political ally at the moment. The reason for the current situation must obviously be sought in Japan's policy toward its mainland neighbors over the last two centuries.

It should be stressed that, as a rule, the pettiest of tensions in Japan's relations with its neighboring Asian nations, especially on territorial matters, leads to the strongest of anti-Japanese campaigns in these countries. The foundation for these campaigns lies in the anti-Japanese sentiments of the local population. Such feelings have often been slumbering for many postwar decades and are ready to ignite from the smallest spark and grow into furious anti-Japanese demonstrations.

The sole exception in this regard is Russia, the only country among those with territorial disputes with Japan that has expressed its willingness to seek compromises with her. It seems, however, that Tokyo does not really appreciate this and has recently only increased its pressure on Moscow, apparently assuming that Russia is the weakest link in the chain of Japan's territorial conflicts with its neighbors.

The Kan administration will thus probably have to prove to its electorate that by developing a strategy suited to today's international realities and resolving long-standing important issues along the way, the DPJ is capable of conducting a more effective foreign policy than its predecessor, the LDPJ.

## NOTES:

1. In Japan, the leader of the party that wins a majority of seats in the lower house of parliament (the House of Representatives) becomes prime minister. The premier in turn forms a government.
2. *Asahi shimbun*, September 1, 2009.
3. In this respect, some Russian Japan experts inclined toward scathing comparisons even compared the LDPJ with the CPSU.
4. The period of undivided LDPJ rule correspondingly received the title "The Regime of 1955" from the moment the party came to power.
5. *Asahi shimbun*, September 1, 2009.
6. In Japan, campaign platforms or programs are referred to as manifestos.
7. *Yomiuri shimbun*, September 13, 2009.
8. For more detail, see: V. Kistanov, "Baza Futenma lishila Yaponiyu premyera" [The Futenma Air Station Robbed Japan of a Premier], *Nezavisimaya gazeta*, July 26, 2010. *Dipkurier* supplement.
9. Illegal donations of money to party and individual politicians' coffers are, along with other forms of buying off public figures, a chronic illness of Japanese society.
10. The paradox is that before September 2009, the situation in Japan was exactly the opposite: the LDPJ reigned in the lower house, while the DPJ had a majority in the upper house. This allowed it to derail legislation of the Liberal Democrats (even though, according to Japan's constitution, if a bill fails to pass the House of Councillors, it is returned to the House of Representatives, where the ruling party, having a majority of the vote, usually passes it).
11. "The Party of Everyone" is the name of the party as translated literally from the Japanese (*minna-no to*). In English, it is known as "Your Party."
12. *Asahi shimbun*, September 30, 2010.
13. *Ibid.*
14. In Japan, as in Russia, the summer of 2010 was notable for its abnormally high temperatures, which led to a higher mortality rate among the population.
15. *Asahi shimbun*, September 17, 2010.
16. Alongside the rank-and-file members of the party, so-called registered "supporters" have the right to vote at DPJ party forums.
17. *Nihon keizai shimbun*, September 18, 2010.
18. *The Japan Times*, September 15, 2010.
19. At the press conference, Kamei used the collocation "*meruto daun*," a borrowing from the English "melt down."
20. *Yomiuri shimbun*, October 20, 2010.
21. In Japan, the fiscal year begins on April 1 and ends on March 31 of the following year.
22. *Asahi shimbun*, June 19, 2010.
23. *The Japan Times*, October 9, 2010.
24. *Ibid.*, August 14, 2010.
25. *Asahi shimbun*, September 17, 2010.
26. *Ibid.*
27. *Nihon keizai shimbun*, October 24, 2010.
28. *The Japan Times*, September 26, 2010.
29. *Ibid.*
30. *Nihon keizai shimbun*, September 26, 2010.
31. *Ibid.*
32. *Asahi shimbun*, October 2, 2010.

33. *Ibid.*

34. *Ibid.*

35. See: *Asahi shimbun*, September 20, 2010.

36. *Ibid.*

37. The list also includes refusing bilateral meetings at the ministerial level, cancelling the reception for a large youth delegation at EXPO 2010 in Shanghai, closing down Chinese tourism to Japan, curtailing contacts at a number of military agencies, arresting white-collar workers from Japanese companies in China on suspicion of espionage, ignoring Japanese wishes to organize a high-level meeting to settle the conflict, large-scale anti-Japanese demonstrations, campaigns in the Chinese media, and so on. We should also note that Japan repaid the favor by launching an enormous critical campaign against China in its own media.

38. *The Japan Times*, July 24, 2010.

39. Gubernatorial elections were scheduled for November 2010.

40. See: <http://www.eri-21.or.jp/russia/opinion/press/index.shtml>.

41. *Nihon keizai shimbun*, October 10, 2010.

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