

# JAPAN ECONOMIC CURRENTS

A COMMENTARY ON ECONOMIC AND BUSINESS TRENDS

## Japan's Elections: What's Next?

by Tsuneo Watanabe, Center for Strategic and International Studies

In last month's elections for the Upper House of the Japanese Parliament (the Diet), the ruling Liberal Democratic Party (LDP) lost one seat, slipping from 50 to 49. The opposition Democratic Party of Japan (DPJ), gained ground and now holds 50 seats. And five independent candidates supported by DPJ and other opposition parties added to their total.

The results of the July elections came as a surprise to election watchers – most of whom had predicted an LDP win.

In a conventional sense, the result of the July 2004 Upper House election was not a reflection of a convincing victory by the opposition. The LDP and its coalition partner, the Komeito, still hold a majority 139 seats out of a total 242 Upper House seats. But the election result does ensure that the ruling party will hold a majority or tie-breaking vote in all standing committees with appointment of all

chairpersons from the coalition. Thanks to his coalition's majority in the Lower House, Prime Minister Koizumi continues to lead Japan.

That said, the LDP's poor performance in the Upper House election is likely to have profound future policy and political implications. In the near term, Koizumi's decline in popularity may affect the power balance between the reform-minded Koizumi cabinet and LDP powerbrokers that represent vested interests. Moreover, the LDP's poor showing may embolden a rising DPJ to push for a government change in near future.

### Media Predictions Fail

Most media and election watchers' predictions of an overwhelming LDP victory were based on several assumptions: First, the Japanese economic performance was reported to be recovering; GDP growth in the first quarter of the 2004 was clocked at 1.4 percent, which if sustained, would translate into a 5.6 percent annual expansion.

Second, Koizumi's popular support registered a relatively heady 40 percent, a good showing for a government in office for three

years, and especially when compared with past cabinets. Ironically because most LDP Diet members have been afraid to embrace politically risky reforms, no LDP member has challenged Koizumi for party leadership.

And third, expectations of the opposition's performance were very low. Just before the elections, a scandal related to senior party members' non-participation in Japan's national pension system exploded into newspaper headlines when it was reported that the chief cabinet secretary, Yasuo Fukuda, had not paid into the system, as required by law.

Following Fukuda's quick resignation from his cabinet post, the opposition leader, Naoto Kan – who had himself sharply criticized cabinet members for not making pension payments – was forced to resign his party leader job since he had not paid his full share for a certain period of time. The absurdity compounded when the next candidate for party leader, Ichiro Ozawa, gave up his post for the same reason.

Ozawa's surrender of his job may actually be a strategic move since his term as party leader would have

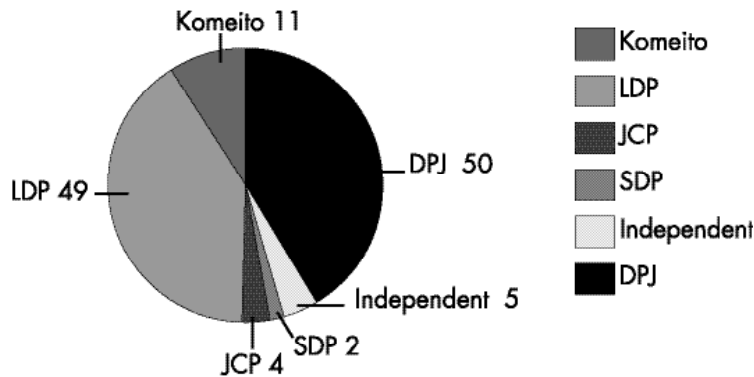
Currently No. 47 August 2004

**The Ties That Bind:  
The Role of Exchanges in  
Strengthening US–Japan Relations**  
*by Paige Cottingham-Streater,  
Mansfield Foundation*

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2004 UPPER HOUSE ELECTIONS, SEATS BY PARTY



expired in fall 2004, soon after the Upper House election.

### Why Did the LDP Lose?

But many of the media's conclusions based on those assumptions proved faulty. First, the effect of Japan's national economic recovery was limited because few rural regions actually felt the improvement recovery. Many rural economies, which are heavily dependent on public work spending, were still in trouble. Medium and small-sized companies continue to suffer from shortage of loans, caused by tight bank lending policies stemming from the rapid write-offs of non-performing loans. Many blamed the credit squeeze on the management by Prime Minister Koizumi and Heizo Takenaka, Minister of State for Financial Services, Economic and Fiscal Policy.

A public opinion poll conducted by the University of Tokyo and the

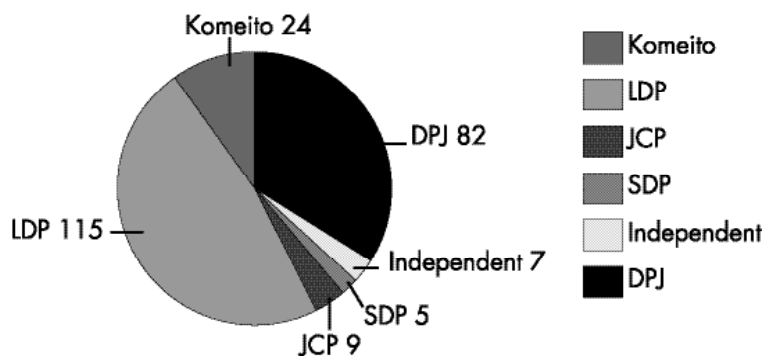
Asahi newspaper immediately before the Upper House election asked voters about their priorities. Fully 47 percent responded that their top priority was national pension reform, 24 percent said economic growth and employment, and 12 percent answered the dispatch of Japan Self-Defense Forces to aid with the reconstruction in Iraq.

Koizumi and LDP candidates have failed to respond to widespread frustration and have under-

estimated public concerns, particularly with regard to the national pension system and economic recovery. But perhaps worse of all, Koizumi cabinet and LDP mishandled procedures related to the national pension reform bill immediately before the election. Specifically, many complaints were lodged that the new pension reform bill would raise the tax burden on individuals but fail to provide a clear guarantee about the future stability and health of the national pension system. Disregarding criticisms, the coalition rammed the bills through both houses of the Diet after terminating questions from opponents.

In addition, the Social Insurance Agency's explanation was contradictory. At first, the Agency stated that pay-out for eligible retirees would be more than 50 percent of their pre-retirement salary. After the bill was passed in the Lower

CURRENT TOTAL UPPER HOUSE, SEATS BY PARTY



House, however, the eligibility was dropped to 75 year-old recipients receiving 45.1 percent of pre-retirement salary and 85 year-old plus recipients receiving 40.5 percent of their pre-retirement salary.

The Agency corrected its statistical assumptions (boosting the birth rate in 2003 from 1.32 to 1.29, the initial basis for the future pension calculation during election). But the Social Insurance Agency was already embroiled in a

storm of criticism was amplified and stirred public anger. Koizumi's answer to the opposition leader was, "Jinsei iro iro, Kaisha mo iro iro" which translates roughly to "as all lives are various, so are companies" (that may employ a non-working individual such as young Koizumi).

This significant phrase ("Jinsei iro iro" is a title of the popular hit song) by the media-savvy Koizumi was immediately seized upon by the opposition as a demonstration of

percent public support and his campaign posters were actually stolen off city streets by enthusiastic voters. But those days have long passed — the media has gone has gone back to its customary job of criticizing the shortcomings of the prime minister.

Not surprisingly, in a new poll taken on July 17, Koizumi's popular support declined further, to 36 percent – his lowest showing since taking office in 2001 and a manifestation of eroded expectations and popular confidence.

By contrast, the opposition DPJ's media tactics worked well. Sensing Koizumi's shortcomings, the DPJ conducted an effective media policy. Before the election, the new party leader, Ichiro Okada was seen as a square and boring person. But by drawing unflattering comparisons between their candidate and Koizumi's insincerity, DPJ succeeded in recasting Okada's image as sincere and honest.

Just one week before election day, polls predicted an LDP loss. Scared, the LDP did its best to utilize available but now limited resources – Koizumi's reformist stances had eroded support from traditional allies, such as local postal office groups and local construction companies —by reaching out to solicit the cooperation of the coalition partner,

"The LDP's poor performance in the July 2004 Upper House election is likely to have profound future policy and political implications..."

corruption scandal related to the former director-general. Koizumi's appointment of a new director-general from the private sector during the campaign did not help matters.

But the situation was aggravated at the worse possible time when it was revealed that, as a young man, Prime Minister Koizumi had joined the social security/pension plan managed by a company for which he did not actually work but was a political supporter of Koizumi's father and himself.

Though having done so was not illegal, Koizumi's response to the

Koizumi's insincerity. Koizumi's image was further damaged by the attitude he adopted in reporting JSDF's participation in the new coalition force after the recovery of Iraqi sovereignty following his announcement in G8 at Sea Island. His comments poured oil on already inflamed public anxiety and anger.

### The Media Turns

The mass media, which had once fully championed Koizumi, no longer accords him the kind of treatment normally given to rock stars. Early in his office as Prime Minister, Koizumi had enjoyed 90

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Komeito. Komeito is supported by the largest Buddhist organization (Sokagakkai), which has accumulated electoral tactics and a vast network. In fact, LDP preceded its electoral cooperation with Komeito further by bartering proportional representative votes for constituency votes. In other words, LDP candidate asked their supporters to cast a vote for Komeito for proportional representative seats, instead of for the LDP. After the fact, several political analysts calculated that the LDP would have lost more even seats without this cooperative arrangement with Komeito. Clearly, Komeito's voice is getting louder in the coalition.

### What's Next?

In the aftermath of the July Upper House election, the new political reality in Japan bears three irrefutable features: less Koizumi charisma, more influence of the critical coalition partner, Komeito, and more weakened organizational support for the LDP.

In the security arena, Koizumi will continue to pursue its close stance with Bush Administration

with regard to Iraq and reconstruction in that country. But if casualties befall the Japan Special Defense Forces (JSDF) now stationed in Iraq, the aggressive position assumed by the Koizumi government will be much more vulnerable than before, since Koizumi's charisma is gone, the more voices from the dovish Komeito are stronger, and the stronger power exercised by the DPJ, long a vocal opponent of the dispatch of JSDF troops.

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That said, the opposition's criticism of the Japan's SDF activities is completely different from Japan's traditional war opponents such as Communist and Social Democratic Party, which have always been skeptical of the US-Japan security alliance. Today there

are no major parties which oppose the US-Japan alliance. Even the dovish Komeito party has accepted a series of Japan's military cooperative actions with the US since it joined the coalition. And DPJ leader Okada said he would accept the use of forces for international security purpose based on the UN resolution.

Indeed, support fell for both the Social Democrats and Communists in the Upper House election – the social democrats won only two seats while the communists only held on to 4 of its 15 seated incumbents. The bottom line is that Japan's trend toward assuming a more realistic security posture has not been slowed down by the election result.

With regard to Koizumi's economic structural reform program, the largest obstacle is still resistance from vested interests from within party, especially the largest Hashimoto faction.

Koizumi's tarnished charisma may well invite a revolt from the

LDP members. However, the election showed weakened LDP organization such as the hereditary postal service network, long a source of political capital for Hashimoto faction. In addition, the Hashimoto faction is now in trouble over an alleged \$1 million dollar illegal political money transaction to the faction leader, Ryutaro Hashimoto from the Japan Dental Association. Mr. Hashimoto, the former prime minister, was forced to resign as faction leader. However, the investigation continues.

istic by nature and his support base has been in urban areas. Successful or not, he may well choose to pursue his own reformist agenda until the end of his tenure. ■

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“Structural reform is eventually dependent on Koizumi’s determination and political skills, but the outcome will not be clear until the cabinet reshuffle in September.”

This delicate and ever-shifting power balance may help bolster Koizumi’s commitment to an economic structural reform agenda. Structural reform is eventually dependent on Koizumi’s determination and political skills, but the outcome will not be clear until the cabinet reshuffle in September.

Koizumi may not care much about LDP’s political infrastructure crisis. He is individual-

# The Ties That Bind: The Role of Exchanges in Strengthening US-Japan Relations

by Paige Cottingham-Streater, Maureen and Mike Mansfield Foundation

Cemented by warm relations at the highest levels of government, the US-Japan relationship is demonstrably stronger today than it has been at any time during the post-war period. Without question, it is important that the leaders of the world's two largest economies share a bond of trust and confidence that helps them face the formidable challenges of a post-September 11 world.

The bilateral relationship was established and strengthened by face-to-face interactions between Americans and Japanese. Countless American and Japanese diplomats, students, government officials, businesspeople, scientists, artists, scholars and ordinary citizens have learned each others' language, and examined the similarities and differences of communication styles, decision-making and national interests through exchanges.

Just four years into a new century, a multitude of challenges and responsibilities confront Japan and the United States —continued bloodshed in Iraq and unrest throughout the Middle East, the reconstruction of Afghanistan, tensions in the Korean peninsula, exploration of space and technological research, research of alternative energy uses, global health crises, and the like.

The foundation of the bilateral friendship is based on mutual respect and understanding, along with strong personal relationships and informed decision making. These elements are the cornerstone not only of diplomatic and political stability, but also economic health and international cooperation. For example, Prime Minister Koizumi's friendship with President Bush led to his request that Japan's Diet take the unprecedented step of deploying its Self Defense Forces to Iraq as a gesture of support for Japan's closest ally. As Mike Mansfield famously observed, mutual understanding occurs when there is firsthand knowledge of another nation and its people.

“Mutual respect and understanding are the cornerstone not only of diplomatic and political stability, but also economic health and international cooperation.”

For the past 150 years, grassroots, intellectual and professional exchanges have been an effective tool in building bridges of understanding and cooperation. In 1870, Rutgers University and Amherst College conferred degrees on Taro Kusakabe and Shimeta Niijima, the first Japanese students to graduate from an American college and university. Niijima went

on to establish Doshisha University, one of Japan's prestigious universities. These early pioneers were followed by thousands of other Japanese students who attended US universities and professors who served as lecturers and educators.

Since 1987, the Japanese government-sponsored Japan Exchange and Teaching Programme (JET) has sent 17,000 Americans to cities and prefectures throughout Japan. JET participants teach English, organize international events, and are involved in their local communities on a daily basis. Japan's investment in this program to promote internationalization has yielded a new generation of Americans with personal knowledge about Japan. Many of the

program's alumni pursue careers in the United States' public and private sectors as educators, civil servants, Japanese language professors, and businesspeople.

For its part, the US Department of State's Bureau of Educational and Cultural Affairs supports a range of public diplomacy programs that allow Japanese nationals to learn about American values and culture.

Indeed, more than 2,300 future leaders from Japan, including Nobel Laureate Kenzaburo Oe and former Prime Ministers Kaifu and Hosokawa have participated in the program since 1953.

Some 6,500 Japanese students have studied in the United States under Fulbright scholarships while 2,000 American students have studied in Japan. Other exchange programs, such as those sponsored by local Japan-America Societies and sister-city relationships provide programs and similar benefits.

Ten years ago, the US Congress established the Mike Mansfield Fellowship Program – a two-year fellowship for US government officials (one year of full-time language and areas studies training followed by a second year working inside Japanese government agencies). During their stint, Fellows develop Japanese language proficiency, professional relationships and a firsthand knowledge about the Japanese government and how it works. To date, 63 participants have returned to federal service and are applying their Japan expertise.

To be sure, some private companies have established specialized programs to promote exchanges in science, education and technology, but most exchanges are supported and administered by the public and

“To be sure, some private companies have established specialized programs to promote exchanges in science, education and technology, but most exchanges are supported and administered by the public and non-governmental sectors and philanthropic organizations.”

non-governmental sectors and philanthropic organizations.

The conveniences of trans-Pacific transportation and technology have helped to narrow the gap of communication between the United States and Japan, but face-to-face interaction is irreplaceable. There are simply no substitutes for living abroad to experience daily life, sharing space in a laboratory to learn new techniques, or observing the numbers of individuals involved in the development of a business decision.

While a number of successful US-Japan exchanges are in place, there is room for more face-to-face interaction between professionals. According to a 2002 Association of Departments of Foreign Languages study, 52,238 students attending 782 institutions of higher learning are enrolled in Japanese language courses – logical candidates for continued exposure to Japan.

In the business arena, employees of US-owned affiliates in Japan and Japanese affiliates in the US support their countries' economies as employees with not only business

expertise, but contribute strong cross-cultural communication skills and an understanding of the business environment.

Increasing the numbers and types of professional and grass-roots exchanges for business people, policymakers, journalists, elected officials, scientists, and artists would make a valuable contribution to the ever-evolving United States-Japan relationship. Each of these constituencies has a unique perspective on how Japan and the United States might address issues of mutual interest and benefit from sharing their various points of view with their counterparts.

In order to ensure their sustainability, stakeholders in the United States and Japan should consider the following recommendations:

- The private sector and philanthropic community should increase funding for Japan-related exchanges;
- Legislators should invest time in overseas travel focusing on issues in local communities and well as national concerns;

## The Ties That Bind: The Role of Exchanges in Strengthening US-Japan Relations

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- Organizing institutions should reach out to diverse populations and explore a variety of issues;
- Participants of exchanges should share their experiences and observations with others in their community.
- The United States should reform its current visa process to encourage participation of international visitors in public policy and educational programs that include not only participants from the US and Japan, but from other parts of Asia.

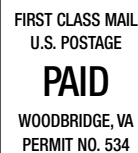
In the post-September 11 world that involves uncertainty and unrest, there are numerous possibilities for cooperation between

Japan and the United States. How both countries address the domestic and international challenges they face will depend upon the skill of the leadership and the will of the people.

Through broad-based and innovative exchanges, Japan and the United States can build well-informed societies and help educate effective decisionmakers who have developed strong, enduring bonds of mutual respect and understanding. ■

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KKC fosters a deeper understanding of Japan's basic social structure. Furthermore, it conducts public affairs activities to improve the Japanese people's recognition of Japan's global role.

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