



Center for Strategic & International Studies
Washington, DC

Summary of
"Readout on Japan's Upper House Elections"
Friday, August 3, 3:30-5:00 pm, CSIS

Washington, D.C.

On August 3rd, 2001, a panel of experts on Japanese domestic politics was convened at the Center for Strategic and International Studies to discuss the results of the recently held Upper House election. The panel was comprised of Yoshiyuki Wakamiya, Deputy Managing Editor for the Asahi Shimbun and visiting fellow at the Brookings Institution; Richard Cronin of the CRS; Tsuneo Watanabe, Research Fellow at CSIS; and L. William Heinrich Jr. of the Bureau of Intelligence and Research at the Department of State. As Mr. Wakamiya stated at the beginning of the discussion, the primary source of debate was whether or not Koizumi would be able to hold onto power in order to push through the reforms necessary for survival.

Mr. Wakamiya, the first to speak, drew a number of comparisons between the Koizumi administration and that of former Prime Minister Hosokawa. Mr. Wakamiya noted several similarities between the two Prime Ministers. First, both Koizumi and Hosokawa were known as reformers, and began their administrations with very high approval ratings. Second, both leaders departed from their predecessors' style; Hosokawa was the first prime minister to hold a press conference standing up, much like a U.S. President would; Koizumi speaks in front of the cameras everyday.

In terms of image, the two leaders had much in common, but the overall similarity ends there. Mr. Wakamiya said that the differences in leadership styles actually outweigh the similarities noted earlier.

The first difference he discussed, and probably the most obvious, is how different the leaders are in terms of sheer power. Currently, Koizumi is in a far more powerful position than Hosokawa ever was. As leader of the party with a comfortable majority, Koizumi has emerged from the recent election victorious, and now has the power to call a lower house election when we wants to. He was even tempted to bolt the party before the election. At the same time, the opposition DPJ stands ready to cooperate with him. As Mr. Wakamiya explained, such a situation could not have been more different than that which Hosokawa faced. Hosokawa was always a minority leader of an unruly coalition, and was constantly beleaguered by the LDP.

Next, Mr. Wakamiya discussed the differences in how the leaders handled their cabinets. As administrators, the two leaders could not be more different. Koizumi has actively constructed a cabinet of competent supporters loyal to him, and fully expects to clash with the Hashimoto faction and career bureaucrats, Hosokawa's cabinet was assembled by Ichiro Ozawa. Hosokawa was effectively stalled by those same bureaucratic forces Koizumi intends to take on.

The presentation then shifted to international relations and the economic crisis. Again, the contrast is glaring. Thus far, Koizumi has hewn closely to the United States, and has by all accounts very good rapport with President George W. Bush, while he has upset Asian neighbors with his plans to visit the Yasukuni shrine. During Hosokawa's tenure, the modus operandi was the exact opposite. He and Clinton apparently had a poor relationship, while Japan's Asian neighbors looked favorably upon Hosokawa's administration and his moves towards

reconciliation. While both administrations are squarely in the "post-bubble" period, it is clear that Koizumi faces a much more dire economic situation than Hosokawa did.

Mr. Wakamiya carefully pointed out that, all of these differences notwithstanding, there was still a chance that the Koizumi administration might be brought down early and completely, much like the Hosokawa administration was. In the face of daunting challenges such as the economic situation, relations with Asian countries, resistance from bureaucrats, and unexpected scandals that could arise, Mr. Wakamiya concluded by saying that Koizumi is the last chance for real reform in sight.

Dr. Richard Cronin was the next to speak, and he divided his presentation into three parts. First, he briefly summarized the election outcome, providing statistics on how the LDP made a remarkable turnaround. Next, he focused on the results' impact on Koizumi's agenda, and lastly, the impact they would have on U.S.-Japan relations.

The election results were impressive, Dr. Cronin said. The LDP won 64 out of 121 contested seats, along with 39% of the party preference results for the proportional representation ballots. Even Koizumi's rivals, like Hiromu Nonaka, gave him credit for the significant turnaround. In short, the election has validated the LDP's choice of Koizumi as their leader. Overall, there was a net gain of 4 seats for the LDP, and the Socialists went from 12 seats to 8, continuing what Dr. Cronin called their slide toward oblivion.

Next, Dr. Cronin looked at the larger trends at work. Perhaps the most interesting development was the LDP's rebound in urban areas, dubbed "the Koizumi Effect" by Dr. Cronin, which partially arrested the growth of the DPJ as the party of choice for the cities. In any case, for this election, the DPJ was little more than the default opposition. Beyond the election results, Dr. Cronin felt that Koizumi has played his cards very well, both domestically and internationally. Domestically, Koizumi took a level-headed approach in his stand-off with Foreign Minister Tanaka by not clamping down on her too severely. In doing so, he has used her popularity while effectively controlling her. Most remarkably, he has chosen a competent cabinet that supports him, and he has proposed potent political moves like reducing public spending on useless projects. He has also pretended to play the nationalist card, increasing his prestige. Most importantly, he can use his popularity as the ultimate weapon. On the international scene, Koizumi has tried to gain U.S. support for his policies, and has not had to give much in return. Dr. Cronin also thinks that Koizumi's reform agenda does in fact contain specifics, more than some commentators have given him credit for. Rather, Koizumi's outlines are quite specific, and he has already started to act on them.

Dr. Cronin then grouped Koizumi's reforms into 4 major clusters, and evaluated the prospects for each. The first group concerns structural reform, in particular the reform and/or elimination of special corporations, and tax reforms.

The next area touched upon was that of the non-performing loans clogging the banking system. Dr. Cronin felt that Koizumi's hopes for reforming the banks are unrealistic because they are based on persistent underreporting of bad loans by lenders. Foreign analysts have long contended that the situation is worse than the government has admitted. Worse still, demand for loans fell by 28% from April to June, which shows that Japan is locked in a classic liquidity trap. With all of this in the background, Cronin thinks that Koizumi's plans to write off the bad loans in 2-3 years are impossible. In Dr. Cronin's opinion, there is no way out of the trap without a write-off of these loans and massive injections of taxpayer money to recapitalize the banks. This is impossible for a democratic leader to do, and is, as he put it, 'a poison pill'. The situation will have to reach crisis proportions before it can be fully dealt with.

The next area of reform is the budget. Koizumi plans to limit deficit spending, but he has acknowledged that a supplemental budget might be necessary. He has openly said that he expects 2-3 years of recession, and does not believe that public works are going to help. Dr. Cronin postulated that by controlling the deficit, people might start to spend money again and in doing so stop the deflationary spiral.

The last area is the social safety net. The Koizumi administration has a number of initiatives in the works, including moves to shore up the unemployment system and try to increase labor mobility, which would facilitate the economic transition. He said that these would be key in encouraging people to spend again, because they would feel more assured of their individual futures.

Dr. Cronin briefly commented on Koizumi's style, noting that Asian political culture is more focused on face and authority than the actual exercise of power. In that sense, Koizumi is quite the opposite, more like a Western leader.

After discussing the reforms, the last major topic Dr. Cronin touched upon was the effect the election would have on U.S.-Japan relations. He felt that Koizumi is trying to keep things running smoothly, but is not putting a great deal of effort into new projects. Security cooperation will remain limited, but that situation could change, as Koizumi still would like to amend the Constitution. However, at the same time, he has made clear that changing Article 9 is not a high priority. Dr. Cronin felt that both sides will strive at the working level to smooth over issues in Okinawa. Currently, Sino-Japanese relations are not doing well, and Japan's difficulties with Korea over the textbook issue are not helping America's defense initiatives in East Asia. Dr. Cronin felt that budgetary difficulties make Asian fears of Japanese militarism unrealistic. Broadly put, Koizumi's priorities are strongly domestic. The best thing that Koizumi could do internationally would be to overcome Japan's domestic economic difficulties.

Mr. Tsuneo Watanabe of CSIS was third, and he gave an on-the-ground view of the election itself, from which he had very recently returned. Watanabe's first observation was, quite simply, that the LDP was back and Koizumi knows it. Even so, when it was clear that the LDP had won in the elections, watching on TV, Mr. Watanabe noted that Koizumi didn't flash a smile, or show any other sign of victory, because he is acutely aware of the challenges ahead.

Watanabe next recounted what he thought were the reasons for the LDP's victory, namely support from traditional quarters, and the "Koizumi Effect". He thought that the LDP was desperate to have its interest groups support their candidates, and tried hard to court them with the new election style, the so-called "no-binding slate". Furthermore, thanks to the "Koizumi Effect", LDP candidates swept back in. Unaffiliated voters went to the LDP candidates, simply because of Koizumi. Ironically, during the Mori era, one of the best assets a politician could have was to be independent; now it has completely reversed. The LDP did extremely well in single-seat constituencies- winning 25 out of 27, which are mostly rural prefectures. Watanabe predicted that Japan is approaching a two-party system. In sum, the ingredients for success were Koizumi's popularity, and traditional support from interest groups, which has weakened, compared to the past.

As someone who witnessed the elections on the local level, Watanabe felt that there are several factors working against Koizumi. First, it appears that people on the local level are very afraid of continued economic difficulties. Second, support for Koizumi has slipped from 77 to 59%, and 52% of respondents to a recent survey said that they felt anxiety about structural reform. Nationally speaking, Mr. Watanabe felt that the LDP's traditional structure would pose the most serious obstacle to Koizumi's reform plans, but also that the Hashimoto faction would be wise enough to pretend to cooperate with Koizumi for the time being.

Dr. Heinrich began his presentation with agreeing with Dr. Cronin that the election was a strong turnaround for the party, adding that Koizumi now believes that he has a mandate. Dr. Heinrich also noted that all quarters of the public seem to support the notion of economic reform, which is an important phenomenon that Koizumi will have to rely upon.

The main question that Dr. Heinrich raised was how long this consensus will last, amidst the actual pain of economic reform. Koizumi will have to watch his public approval, and will likely see something around 50% as his lowest level of support. Dr. Heinrich also noted that during the election, the Hashimoto faction was rent by dissension, which shows that it might not be quite as unified in opposing Koizumi when his plans start to take effect.

In regards to the U.S. dimension to the election, Dr. Heinrich pointed out that any reforms that Koizumi had in mind would have been easier if the U.S. economy were stronger. Dr. Heinrich predicted a difficult autumn in store for the Koizumi administration, with hard times even in the midst of constant recession. Hopefully, Koizumi will not backpeddle and resort to pump-priming, which would ultimately reduce his credibility in the eyes of voters. Koizumi is looking for a middle path, where he pursues enough reform to be taken seriously, but not so much that he aggravates the recessionary forces already at play.