

# **“Fukuda vs. Ozawa: Japanese Politics at the Crossroad?”**

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Thank you very much. It is a great honor for me to be invited to speak to you today.

There has never been an easy time for political analysts whether in Japan or in the United States. In fact, it seems to be a widely shared assumption for any country that the predictions by political analysts can never be right on the mark. For example, in the United States was there anybody who predicted several years ago that Senator Hillary Clinton could enjoy such a big lead in the Democratic nomination race for the presidential candidate?

In Japan many political writers, including myself, could foresee the emergence of the ABE administration several years ago, but I do not know of anybody who predicted that ABE would step down in just one year and that YASUO FUKUDA would succeed him as prime minister of Japan. More recently, nobody in the Japanese news media was aware of ABE's resignation until the very day he announced. As a matter of fact, I may be the one who suffered most from not knowing this unexpected development. This conference was originally planned on September 13, the very day ABE made that surprise announcement. I watched it live on TV in the early morning of the 13<sup>th</sup> here in DC and ended up flying back to Tokyo immediately, canceling the speech at the last minute. I have to apologize for that to all of you.

Since that is the most recent score of my forecasting, I have to ask you to listen to my following remarks with that in your minds.

### [Current Status of Politics in Japan]

First, let me go over recent developments and the current status of Japanese politics.

The Upper House election back in July delivered a historical blow to the leading Liberal Democratic Party, or LDP, the party Prime Minister FUKUDA leads. While the LDP gained only 37 seats, the opposition Democratic Party of Japan, or DPJ, took 60. The defeat of the LDP was most clearly seen among the one-seat districts, where the competition was a one-on-one battle between the LDP and DPJ. Out of the 47 prefectures in Japan, 29 are such one-seat districts. The LDP gained only 6 and lost 23 to the opposition parties. These prefectures are mainly rural and the majority of the voters are farmers. The LDP used to have a strong support basis in these areas. Because of the so-called structural reform policy of both the KOIZUMI and ABE administrations, public works were cut and agriculture suffered from the opening of the Japanese market to foreign products. The election results clearly showed that the construction and agriculture sectors pulled back their support from the LDP.

The LDP lost to the DPJ in urban areas as well. Most symbolic was the result in the proportional representation district, which spread out to the entire country. The LDP has long maintained a good relationship with the Japan Medical Association, or JMA, the nationwide organization of medical doctors. The LDP got the votes of doctors in return for raising the medical treatment fees, over which the Japanese government has control. Mr. Taro Takemi, who dominated the JMA as president for 25 years beginning in 1957, established a very strong relationship with the LDP. His son Keizo Takemi sought his third term in the Upper House in the July election but lost. It was the first time that a

candidate with JMA backing lost. Through the structural reform by the KOIZUMI administration, medical treatment fees have been repeatedly reduced, and doctors lost their interest in rallying for LDP candidates.

The major reason for the defeat of the LDP in the July election was the surge of public outrage over the failure of the government-run pension system. This problem originates in the integration of several separate systems, which took place a decade ago. But it turned out that through that process approximately 50 million entries were misbooked and the information of the owners was lost. The government, of course, faced severe criticism. Prime minister ABE promised to finish the verification of those lost entries and fix the problem by next March, but that was not good enough to regain public support. ABE instead raised such ideological issues as amendment of the constitution and lifting of the ban on the use of right to collective defense, while OZAWA of the DPJ focused on pension reform and protection of agriculture with a unified slogan of “Life should be the first priority.”

In political science there are the terms “convergent agenda” and “divergent agenda.” A convergent agenda is an issue that the majority of voters cannot oppose. Examples are “structural reform” or “change.” This is Mr. OZAWA’s approach. In contrast, Mr. ABE raised a divergent agenda, including amendment of the constitution, as the main party platform. This approach narrowed support for the LDP and was a major tactical mistake. In rural areas, where frustration from the income gap caused by structural reform already ran high, this approach caused a major shift of support from the LDP to the DPJ. Even in urban areas, because ABE could not become “another KOIZUMI” and excite the voters, ABE suffered a historical defeat. As a result, in the Upper House the leading coalition of the LDP and KOMEI plunged deep into the minority.

ABE did not resign but instead stayed on as prime minister. In

August he reshuffled the cabinet and replaced the party leadership as a last-ditch effort to regain buoyancy in the cabinet. But money-related scandals involving cabinet ministers delivered a fatal blow and ABE made a surprise announcement to resign on September 12.

In the following party presidential election, FUKUDA received 330 votes and defeated TARO ASO, who received 197. FUKUDA was elected prime minister of Japan. FUKUDA advocates a moderate dovish approach in foreign policy. Regarding North Korea, he pushes for dialogue rather than pressure. He will not pay a visit to the controversial Yasukuni Shrine. He is cautious in lifting the ban on use of right to collective defense. He will visit Washington, DC this Thursday as his first trip abroad as prime minister and will meet with President Bush.

In terms of domestic policies, he has already made clear that he will review and adjust the structural reform of KOIZUMI. One example would be to freeze the increase of co-pays for elderly medical service.

#### [Divided Government]

The Fukuda administration has embarked in a difficult political environment. In the Lower House, since the LDP scored a sweeping victory in the election of 2005, the LDP along with KOMEI enjoys a super-majority, which exceeds two thirds. But in the Upper House the opposition has the majority and the current situation is a “divided government.” Under these circumstances, major policy initiatives cannot be implemented unless the DPJ supports them. The most typical is the case of the Anti-terrorism Special Measures Law, which expired on November 1. The law enabled the Maritime Self-Defense Force (MSDF) to conduct refueling operations for coalition navies in the Indian Ocean. The Japanese government could not extend it because they failed to

persuade the DPJ to support it. The oilers and escorting destroyer of the MSDF stopped operations and are now on their way back to Japan.

Mr. OZAWA opposed this extension on the ground that such operations are direct support for U.S. war efforts and the use of right to collective defense, which is regarded as unconstitutional under the current government interpretation of the constitution. Mr. Ozawa instead advocates participation in the International Security Assistance Force (ISAF) in Afghanistan. But he has not gained majority support within his own party, and the LDP strongly opposes such an idea.

As for the budget of fiscal year 2008, the budget bill itself can be enacted by being passed in the Lower House. But since the related legislation has to have approval from the Upper House as well, the FUKUDA administration will have a hard time passing the budget legislation as a whole. If the government fails to do so, revenue could be insufficient and there could be a direct negative impact on the daily lives of the people in Japan.

[Unsuccessful Grand Coalition]

Such a situation of the domestic politics in Japan has led to the recent one-on-one talks between FUKUDA and OZAWA regarding forming a possible grand coalition. This meeting was organized by Mr. Tsuneo Watanabe, the chairman of The Yomiuri Shimbun. Mr. Watanabe has long been an advocate of the revision of the constitution, and there must have been a thought behind this mediation that with the creation of a grand coalition between the LDP and the DPJ the revision could be possible. In reality, however, since the DPJ is not so positive about the revision, it is not likely that the situation will develop in that direction.

The talks on a grand coalition this time around had little to do with the revision of the constitution. In the face-to-face talks,

FUKUDA first requested a negotiation for building a consensus to implement policy initiatives, which otherwise will not go anywhere. OZAWA, according to sources, proposes in return to form a grand coalition. OZAWA explained later that FUKUDA proposed a compromise in which Japan's so-called international contribution, that is, deployment of Self-Defense Forces abroad, could only be permitted when there is a UN resolution that authorizes such an international collective effort. But FUKUDA denied making such a proposal. This surprise idea of a grand coalition was not realized after all, because the executive committee of the DPJ did not approve the idea.

OZAWA announced his intention to resign as president of the party, but then decided to stay, accepting the condition that he would never pursue a coalition with the LDP. From now on, Mr. OZAWA and the DPJ will pursue the path to power only through victory over the LDP in the Lower House election instead of working out a policy compromise.

#### [Policy Stagnation and “Putting Distance” Argument in Japan-US Alliance Management]

Now that the attempt to form a grand coalition between the LDP and DPJ has failed, the tension between the two parties will stay high and the political structure of divided government will continue. As a result, contentious policy initiatives will have no chance to be implemented. For example, the DPJ will propose bills for pension reform and additional agriculture subsidies to the Upper House and pass them with their majority, but they will be voted down in the Lower House by the LDP majority. The LDP has just passed a new law in the Lower House to enable the MSDF to resume refueling operations in the Indian Ocean, but it is expected to be rejected in the Upper House. The focus of attention is on whether Mr. FUKUDA will finally enact the bill by passing it with a two-thirds majority in the Lower House, thus

overriding the rejection of the Upper House. In that case the DPJ will perhaps submit a censure motion in the Upper House and pass it. Unlike a vote of no-confidence in the Lower House, this motion, if passed, is not legally binding. FUKUDA would not have to resign. But it is likely that the DPJ would boycott the next Ordinary Session of the Diet as long as FUKUDA stays. That would paralyze the Diet and eventually lead to the dissolution of the Lower House and a call for the general election to leave the matter to the will of the voters.

I would like to point out a newly emerging phenomenon in Japanese politics, in which the sense of distance from the United States is changing. This is the so-called “RIBEI” argument, or “Putting Some Distance to the United States” argument. You can see such a trend in each of the following four areas of the political spectrum: Ultra Conservative, Moderate Conservative, Moderate Liberal, and Ultra Liberal. Among them, the most evident are the extreme ends of the spectrum. Anti-U.S. conservatives are frustrated with moves in the United States such as the Congressional resolution on Comfort Women, and more recently the delisting of North Korea as a terrorist state. Anti-U.S. liberals are protesting the U.S. military presence in Japan. But these two extreme groups are minorities in Japanese society and are not growing. They do not represent elements of instability in Japan-U.S. relations.

What needs to be noticed, on the other hand, are the moves of politicians and Kasumigaseki bureaucrats in the category of “center right.” One good example would be Ms. Satsuki Kaytayama, a rookie LDP member of the Lower House, who has made a career change from being an elite bureaucrat of the Ministry of Finance. She was well known for advocating a reduction of the defense budget and also a reduction of host nation support for U.S. forces stationed in Japan. Another would be Mr. Takemasa Moriya, who has just recently resigned as vice minister of the Ministry of Defense and is now receiving a lot of

attention for his inappropriate relationships with a defense contractor. While still in the office, he was famous for saying “no” to the U.S. government regarding alliance management issues such as Futenma relocation. Among younger diplomats at the Ministry of Foreign Affairs, there are some who think that the value of the alliance with the United States will relatively decrease in light of the rise of China.

This kind of argument has not been heard so much among LDP politicians, because Sino-Japanese relations were at a historical low due to the Yasukuni visits by Prime Minister KOIZUMI and also because the personal relationship between KOIZUMI and President Bush was superb. But with the departure of KOIZUMI, we started to hear some “RIBEI” arguments within the LDP under the ABE and FUKUDA administrations. The hasty improvement of relations between the United States and North Korea adds a sense of uneasiness and frustration among Japanese politicians. This kind of development could work negatively for the ongoing negotiation on host nation support for U.S. Forces in Japan.

You can also find “RIBEI” arguments in the “center left” of the DPJ. One young Diet member was very excited and told me that the suspension of refueling operations of the Maritime Self Force in the Indian Ocean is a noble reflection of the public will that was displayed in the recent Upper House election and that gave a big boost to the DPJ. Mr. OZAWA’s argument to seek UN authorization for Japan’s overseas military operations is nothing new. He first mentioned it at the time of the Gulf War back in 1991. This time around, his argument has grown into a specific proposal to dispatch the Self-Defense Forces to the ISAF in Afghanistan, while he decided that refueling U.S. Navy ships in the Indian Ocean was unconstitutional. It is fair to say that there is an element of the “RIBEI” argument in his thinking.

Mr. FUKUDA seems to wish to reestablish the bilateral



relationship between the United States and Japan through his upcoming visit to Washington, D.C. The agenda will include refueling operations in the Indian Ocean, the North Korean issue, and host nation support. He also plans to propose an expansion of intellectual exchange. On top of all that, how to deal with the rise of “RIBEI” sentiment in Japan should be the big issue for him in terms of managing bilateral relations.

#### [Road to the General Election]

At the center of focus for Japanese politics right now is the next general election of the Lower House. For the first time in the post-World War II history of Japan’s politics, two major parties, the LDP and the DPJ, will be engaged in a serious competition for power. It will be an all-out battle involving not only party platforms but also all the assets and tactical ideas both parties have. The possible timings for the election are limited to the following three:

- (1) At the beginning of the Ordinary Session of the Diet in January.
- (2) Right after the budget bills are passed. This will be from the end of March through April.
- (3) And finally, right after the G8 Summit Meeting in Toyako in Hokkaido in July.

The possible outcomes are as follows:

- (1) A sweeping victory for the LDP

In the previous Lower House election of September 2005, in which the privatization of Japan’s postal system was the main issue, the LDP, along with its coalition partner KOMEI, secured 330 seats out of the entire 480. This time around, even

if the LDP loses some of its seats, if it manages to maintain a level close to 300, the FUKUDA administration could strengthen its political standing. The DPJ would still maintain majority rule in the Upper House, but it would be harder to launch a strong opposition to the LDP. There would even be the possibility of part of the DPJ breaking away to join the LDP. The president of the DPJ, Mr. OZAWA, would resign, and new party leadership would be elected. The possible choices for the party president would be Mr. KATSUYA OKADA and Mr. YOSHIHIKO NODA.

## (2) Victory for the DPJ

The DPJ suffered a severe defeat in the previous Lower House election in 2005. Now their seats are down to around 110. But with the tailwind of “Anti-LDP” public opinion, it is not unrealistic to assume that they could get back to 200. If the opposition as a whole, including Social Democrats and Communists, could go over 240, thus gaining the majority, there would be a change of administration. Mr. OZAWA would be the prime minister and form a new cabinet. The new administration would, of course, try to implement a set of new policies based on the party platform, but for a while they would maintain current LDP policy. For Mr. OZAWA, memory of the failure of the HOKOSKAWA administration would still be fresh, and he would probably proceed with great caution this time. The LDP would be thrown into chaos. Mr. FUKUDA would resign as party president and it is likely that Mr. TARO ASO, who lost to Mr. FUKUDA in the most recent party president election in September, would succeed him. Some LDP members might leave the party and join the DPJ.

## (3) A virtual tie between the LDP and DPJ

The LDP, along with KOMEI, manages to maintain a majority, but the DPJ makes a substantial gain and gets very close to a change of administration. FUKUDA would continue to run the government, but being the minority in the Upper House, the

leadership would be very weak and the state of governance would be unstable. On the part of the DPJ, Mr. OZAWA would resign, because he could not achieve the change of administration that he promised. With a new leader, whoever it may be, the DPJ would continue its pursuit of power through another Lower House election. Since divided government would continue, there would be constant tension in Japanese politics if the LDP and DPJ would form a grand coalition or collide with each other in another election. Under these circumstances there would be little hope for new policy initiatives.

The forecast of election results will vary, depending on the timing of the election itself. I would say at this moment that each one of these three scenarios has approximately the same probability. But as I pointed out in the analysis of the last Upper House election, the LDP's support base has been badly damaged. If you look at the situation 10 years down the road, I believe the possibility of a power shift from the LDP to the DPJ is substantially high.

There are two significant elements that will dictate the course of the election. One is the question of which party could come up with a more appealing policy package. Social security policy, including pension reform, will be the key. But an increase of the burden on the public will never be popular. A tax increase, including a raise of the consumption tax, will be sealed.

In terms of foreign policy, distinct gaps between the two parties have already disappeared with the beginning of the FUKUDA administration. The DPJ may take a positive stance to expand overseas deployments of the Self-Defense Forces with a condition of UN authorization just as Mr. OZAWA has been advocating. On the other hand LDP may become cautious and prudent.

[Outlook for Reform]

Over the last two decades Japan has achieved a number of reforms in many areas. In the early 1990s, it was political reform, in which the electoral system was fundamentally changed to a one-seat district system. In the late 1990s, the finance system was reformed. In this decade, under the KOIZUMI administration, structural reform, which was aimed at a reduction of public works, and privatization of the postal system were achieved. But the overall reform of Japan still has a long way to go. The most serious of all is the backwardness and obsolescence of the administrative system of the government. The dysfunctional pension system is a case in point. The policy making process, which is currently dominated and controlled by bureaucrats, also has to be overhauled. The ¥8 trillion budgetary deficit is a serious problem yet to be solved. In the field of foreign policy and national security policy, Japan has made a number of policy advances, including participation in UN peacekeeping operations, redefinition of the Japan-U.S. alliance, revision of Guidelines for Defense Cooperation, an enactment of a law for situations in area surrounding Japan, National Emergency Legislation, and the dispatch of Self-Defense Forces to Operation Enduring Freedom and Operation Iraqi Freedom, just to name a few. Japan still lags behind the change in the global security environment. It is a pending issue whether or not to enact permanent legislation for international contributions, which would enable the Self-Defense Forces to deploy overseas without ad-hoc legislation, as is required now. It is no doubt that Japan's politics are now at a crossroads, and the question is whether the nation will meet these challenges under the continuous rule of the LDP or leave them to a new government led by the DPJ, or even choose the path of a grand coalition.

Thank you very much. I would be happy to take any questions you may have.

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