

JAPAN PERSPECTIVES

No. 4

Recent Articles from the Tokyo Foundation Website

www.tokyofoundation.org/en

*Managing the
Japan-China Row:
Tokyo Foundation
Hosts Dialogue
among Japan-US-
China Experts*

*Previewing Park
Geun-hye's Foreign
Policy Agenda*

*The Evolving Role
of Think Tanks in
Japan*

Abe and the Triumph of the Old LDP

Between Okinawa and the Senkakus

Charting a Third Way on Japanese Security

A Theoretical Study of Security Exchange

*Toward a New Era in Japan-China
Relations*

A Prescription for Halting Deflation

Will Abenomics Work?

JAPAN PERSPECTIVES

Japan Perspectives is an English-language journal published by the Tokyo Foundation containing articles from the Foundation's website. In addition to translations of the public policy research recommendations made by the Foundation, *Japan Perspectives* offers timely insights into and analyses of Japanese politics, economy, society, and culture written specifically for overseas readers.

The Tokyo Foundation is an independent, not-for-profit think tank that brings together the minds and skills of outstanding human resources through policy research and global leadership development projects to offer fresh perspectives that lead to positive social change.

Visit the Foundation's website at: www.tokyofoundation.org/en

All rights reserved. This article, either in full or as an excerpt, may not be reprinted, copied, or retranslated without the express permission of the Tokyo Foundation. Citations must specify this report as a source. The opinions expressed in this article are those of the author and do not necessarily represent the views of the Tokyo Foundation.

Publisher: Masahiro Akiyama (President)
Editor-in-Chief: Akiko Imai (Director, Public Communications)
Senior Editor: Nozomu Kawamoto (Public Communications)
Associate Editor: Kaoru Matsushita (Public Communications)
Production Managers: Asako Uemura (Public Communications)
Satoko Yanoma (Public Communications)

The Nippon Foundation Bldg, 3rd Floor, 1-2-2 Akasaka, Minato-ku, Tokyo 107-0052, Japan
Tel: +81-3-6229-5504 (Public Communications) Fax: +81-3-6229-5508
E-mail: info@tkfd.or.jp URL: www.tokyofoundation.org/en

JAPAN PERSPECTIVES

Recent Articles from the Tokyo Foundation Website

No. 4, February 2013

CONTENTS

POLITICS & GOVERNMENT

Abe and the Triumph of the Old LDP	3
<i>Katsuyuki Yakushiji</i>	
Election Misconceptions	9
<i>Victoria Tuke</i>	
A Prescription for Halting Deflation	13
<i>The Tokyo Foundation</i>	
Dissecting the Tax Schemes of Japan's "Third Force"	18
<i>Shigeki Morinobu</i>	
Aging and Social Security in Japan	28
<i>Yutaka Harada</i>	
Emergency Planning for a Fiscal Meltdown	34
<i>Hideki Kato, Sota Kato, Keiichiro Kobayashi</i>	
Missed Opportunities at the Tokyo IMF-World Bank Meetings	42
<i>Hisayoshi Ina</i>	

INTERNATIONAL AFFAIRS

Managing the Japan-China Row: Tokyo Foundation Hosts Dialogue among Japan-US-China Experts	45
<i>The Tokyo Foundation</i>	
Between Okinawa and the Senkakus: Charting a Third Way on Japanese Security	51
<i>Tsuneo Watanabe</i>	
A Theoretical Study of Security Exchange: Toward a New Era in Japan-China Relations	57
<i>Masahiro Akiyama</i>	
Outlook for Chinese Foreign Policy: A Realistic Prognosis	74
<i>Takashi Sekiyama</i>	

Previewing Park Geun-hye's Foreign Policy Agenda	83
<i>Hiroyasu Akutsu</i>	

Extended Deterrence and Security in East Asia: A US-Japan-South Korea Dialogue	87
<i>Paul J. Saunders</i>	

INTELLECTUAL DISCOURSE

The Evolving Role of Think Tanks in Japan	91
<i>Akiko Imai</i>	

POLICY PROPOSALS

Expanding Academic Advancement Opportunities: Tokyo Foundation Policy Proposal on Higher Education for Individuals with Disabilities	101
---	-----

Promoting Community-Based Primary Care: Tokyo Foundation Policy Proposal on Healthcare Reform	105
--	-----

VOICES FROM THE SYLFF COMMUNITY

Japanese Language Education at Chinese Universities	107
<i>Yusuke Tanaka</i>	

Music and Hope for Tohoku: My Week with the Michinoku Wind Orchestra	110
<i>Simon Hutchinson</i>	

January 15, 2013

Abe and the Triumph of the Old LDP

Katsuyuki Yakushiji

The Liberal Democratic Party has returned to the helm with its landslide victory in the general election of December 16. What exactly has changed since the public rejected the LDP's approach to government three years ago? Political analyst Katsuyuki Yakushiji analyzes the election results and shares his concerns over government by an unreformed and unrepentant LDP.

National elections and leadership transitions were a dominant theme of 2012. In China, General Secretary Hu Jintao passed the baton to Xi Jinping as expected. Russians brought Vladimir Putin back to serve another term as president, Americans reelected President Barack Obama, and South Koreans elected their first woman president, Park Geun-hye.

Japan also ended up holding a general election in 2012—on December 16, a month after Prime Minister Yoshihiko Noda abruptly dissolved the House of Representatives. The timing was unexpected, but the results were not: the Liberal Democratic Party, led by former Prime Minister Shinzo Abe, swept the Democratic Party of Japan from power in a landslide. On December 26, Abe was designated prime minister by the National Diet and launched his new cabinet. It was the sixth time in six years that Japan had replaced its top leadership, a record unparalleled among the world's major powers.

In the following I offer a brief assessment of this electoral reversal and the immediate outlook for government policy under a resurgent LDP.

Fragmentation and the LDP Landslide

The December 16 election dramatically altered the balance of power in the House of Representatives. The DPJ, which came to power in 2009 by winning 308 lower house seats, was left with just 57, while the LDP surged from 119 to 294.

Katsuyuki Yakushiji *Professor, Toyo University. Former editor of the Political News Department and editorial writer, Asahi Shimbun, and former chief editor, Ronza magazine.*

Under the electoral system adopted a decade ago, the House of Representatives has 480 seats, of which 300 are chosen in single-seat districts and the remaining 180 are assigned by proportional representation. The seismic shift brought about by the 2012 general election occurred mainly among the 300 single-seat districts, where large, entrenched parties have a decisive advantage. The LDP won 237 of these seats—a full 84%—leaving the DPJ with only 27.

The magnitude of the DPJ's losses reflects the depth of Japanese voters' disillusionment with the party they chose in 2009 to lead them into a new era. The DPJ had promised not only new policies but fundamental changes in the way government works. That commitment had resonated deeply with an electorate fed up with government waste, inertia, and corruption after more than a half-century of LDP rule. Unfortunately, the DPJ government not only failed to deliver on most of its pledges but sank into dysfunction as party in-fighting and



Liberal Democratic Party headquarters in Tokyo.

friction with the bureaucracy undermined the operation of government at the most basic level.

Another factor contributing to the LDP's landslide was the frenetic formation of new parties in the weeks leading up to the election. The field was crowded with candidates from a total of 12 parties—the largest number ever. In addition to groups led by locally-based politicians like

the mayor of Osaka and the governor of Shiga Prefecture, a spate of ad hoc parties sprang up, as many DPJ politicians, intent on saving their own careers in the face of their party's dismal approval ratings, abandoned ship and scrambled aboard one political lifeboat or another. Most of these makeshift parties had no chance of winning in the single-seat constituencies but fielded candidates there anyway in hopes of boosting their share of the vote in the proportional-representation races. The large number of candidates worked to the LDP's benefit by splitting the vote of people seeking an alternative.

In this connection, it is worth noting that the LDP's total single-seat-district tally of 25.64 million votes actually fell short of its performance in the 2009 election, when it garnered 27.30 million votes in these constituencies. An over-

all decline in voter turnout is partly responsible for this paradox, but party fragmentation is another reason the LDP managed to more than double its strength in the lower house with fewer votes than in the previous election, when it went down to a decisive defeat.

It's the Economy . . . For Now

The newly launched Abe cabinet has vowed to reverse years of deflation and stimulate economic growth. Even before the election, Abe's pledge to work with the Bank of Japan toward a target of 2% inflation had a salutary impact on the market, pushing Japanese stock prices up and the yen's value down.

Abe's cabinet lineup reflects his focus on revitalizing the economy. As his minister of finance and deputy prime minister, Abe has tapped former Prime Minister Taro Aso, who shares Abe's faith in an expansionist fiscal policy. He has also resurrected the Council on Economic and Fiscal Policy—inactive over the past three years of DPJ rule—as an advisory body for macroeconomic issues, and will use the newly established Economic Revitalization Headquarters to support decisions on short-term stimulus measures.

At the top of the agenda is the drafting of a 10 trillion yen supplementary budget for fiscal year 2012 ending March 2013, to be followed by the fiscal 2013 budget. The government needs to rev up the economy quickly, or it could come under tremendous pressure to reject the planned consumption tax increase when it makes a final decision in the fall of 2013. The cabinet's economic priorities are also apparent in its flexible stance on resuming operations at the nation's idled nuclear power plants, a message the markets have found reassuring.

Meanwhile, when it comes to foreign policy, the hawkish proclivities that overseas media reports have played up are nowhere in evidence—nor are they likely to be any time soon.

In the run-up to the LDP's September 2012 party election, Abe branded himself as a dyed-in-the-wool nationalist. He took a hard line on Japan's territorial disputes with China and South Korea and raised the possibility of retracting previous government apologies for past Japanese aggression and brutality—including the 1993 statement by Chief Cabinet Secretary Yohei Kono apologizing for the recruitment of Korean comfort women and the 1995 statement by Prime Minister Tomiichi Murayama expressing contrition for Japanese militarism. He has also threatened to reopen old wounds by visiting Yasukuni Shrine, where war criminals are honored alongside Japan's other war dead.

Abe has called for a revision of Japan's war-renouncing Constitution and recognition of the Self-Defense Forces as full-fledged armed forces. All these positions have stoked concerns overseas, especially in China and South Korea, where the media have sounded the alarm over the installation of a right-wing nationalist cabinet.

For now, however, Abe seems unlikely to tackle this agenda. The top political priority for his cabinet over the coming months is positioning the LDP to win the July 2013 election for the House of Councillors, which the opposition forces currently control. Until the LDP can break the opposition's hold on the upper house, it will face major roadblocks passing any legislation other than that relating to the budget. For this reason Abe is likely to focus his early efforts on popular pump-priming measures, rather than embark on foreign-policy and defense initiatives that would almost certainly invite disorder in the Diet, cut into the cabinet's approval ratings, and jeopardize the LDP's chances in the July upper house election.

Abe may be serious about establishing a cabinet-level national security council and revising the government's interpretation of the Constitution to allow Japan to exercise its right to collective self-defense, but he is unlikely to pursue these pet projects before the upper house poll. Rather than repeat the DPJ's mistake of tackling too much at once and accomplishing nothing, the new LDP cabinet will opt to play it safe with a view to building support in preparation for July's election

The LDP's Rise, Fall, and Rise

The biggest concern with the Abe cabinet is that it seems to have given new life to the old LDP, reviving the same outdated approach to politics and policy-making that voters rejected just three years earlier.

Formed from the merger of two leading conservative parties in 1955, the LDP was able to remain at the helm for decades by building a mutually beneficial three-way partnership with the bureaucracy and key industrial lobbies. What made this profit-sharing "iron triangle" sustainable were the ever-increasing revenues generated by Japan's rapidly growing economy. By generously targeting these government resources in the name of "redistribution of wealth," the LDP secured the political loyalty of business interests and rural constituencies and built a nearly unshakable power base.

But entrenched power breeds political corruption. In the late 1980s and early 1990s, the public soured on the LDP in the wake of incidents like the Recruit

and Sagawa Express influence-buying scandals. Meanwhile, the rapid economic growth that had sustained the LDP machine came to an end with the collapse of the 1980s asset-price bubble. Still, successive LDP administrations ignored this fundamental change and continued the big-spending policies that had kept it in power over the years. This is how Japan's public debt (central and local government combined) ballooned to twice the nation's GDP—dwarfing the overspending that has brought countries like Greece and Spain to the brink of default.

The LDP's historic defeat in 2009 was a public verdict against the LDP's way of running the country. Now the party seems to be regarding its December landslide as a mandate to resume exactly where it left off.

New Challenges for a Déjà Vu Government

An important mechanism by which the LDP maintained its mutual back-scratching arrangement with the bureaucracy and industry was the party's internal policy committees, in which senior LDP politicians met to set government policy in various areas. The powerful Tax System Research Commission, which exerted an iron grip over tax policy through the 1990s, played a key role on the revenue side, distributing government favors in the form of tax breaks. Business groups focused intense lobbying efforts on the panel, which then worked to revise the tax code. The DPJ objected to this arrangement, and when it took power, it established a government tax panel whose meetings were publicly streamed over the Internet.

One of the first things the LDP did after last December's election—even before Abe had taken office—was convene a meeting of the Tax System Research Commission to begin deliberating revisions to the tax code for fiscal 2013. After the meeting, Chairman Takeshi Noda justified the practice as a means of exerting political leadership over revenue issues instead of leaving the decisions to ministry officials.

Around the same time LDP headquarters began holding meetings of the various divisions of the party's Policy Affairs Research Council, the organs through which the LDP accommodated key interest groups via government expenditures. The Diet members who streamed into those meetings are *zoku giin*—the same politicians who kept the old LDP machine running through their policy efforts in behalf of powerful industry groups and other lobbies.

Tax and budget bills are first approved by the cabinet and then submitted to the Diet for deliberation. The initial policy decisions are thus the responsibil-

ity of the cabinet. The DPJ argued that the intervention of party politicians allied with vested interests led to corruption and irrational policy. Unfortunately, the DPJ's approach went too far in excluding party politicians from the policymaking process and contributed to the internal dissent and divisions that hastened its fall from power.

Rather than seek a happy medium, the LDP seems bent on resurrecting the old system wholesale so that powerful business lobbies can once again use the *zoku giin* to influence government policy.

Meanwhile, the cohesive internal factions that defined the old LDP are on the rise as well. All in all, the new government seems intent on a return to the "bad old days."

But the environment in which the LDP is functioning has changed dramatically. Japanese society has aged and continues to age rapidly. The days of high-paced growth and ever-rising tax revenues are behind us. The government can no longer delay painful fiscal reforms. Yet policy by *zoku giin* tends always toward higher spending and lower revenues. The approach that helped maintained the political status quo during the era of rapid economic growth could propel Japan headlong toward a full-blown debt crisis.

Can the government maintain fiscal discipline in the face of the party's built-in bias toward wasteful spending? Shinzo Abe's old LDP and déjà vu cabinet are facing a brand new challenge—one for which they seem singularly ill-prepared.

January 29, 2013

Election Misconceptions

Victoria Tuke

When Japan's political situation is critiqued from the outside, there is a tendency to form narratives that are often misplaced. Tokyo Foundation visiting fellow Victoria Tuke maintains that claims of Japan's "sharp turn right" and headlines highlighting the rise of right-wing parties create an image of Japan far from reality.

Misconceptions about Japan abound. Daily consumption of sushi and widespread use of robots are but a few. When Japan's political situation is critiqued from the outside, there is a similar tendency to form narratives that are often misplaced.

In the months leading up to and since a national election on December 16, commentary has often portrayed Japan as a country lurching ever further towards the political right. The election and return to government of Shinzo Abe and the Liberal Democratic Party and vocal provocations of Shintaro Ishihara, former governor of Tokyo, are seen as evidence of such a trend.

Claims of a "sharp turn right," headlines highlighting the rise of right-wing parties, and reports that Abe's first priority as prime minister would be dealing with China create an image of Japan far from reality. A closer look at the election results paints a more accurate picture.

Deconstructing the LDP Victory

True, the LDP won a significant number of seats. The number claimed by the Democratic Party of Japan fell from 230 to just 57, with only 27 of those won in single-seat constituencies. The LDP in contrast gained 294 out of the 480 available seats in the House of Representatives.

Yet a more detailed look at the statistics reveals that the LDP's victory was far less remarkable. First, within the constituency votes, the LDP won only

Victoria Tuke
Scholar, 2011.

Visiting Fellow, Tokyo Foundation; Daiwa Anglo-Japanese Foundation

43.01% of all votes cast, and just 27.79% in the proportional representation districts. The total number of votes the LDP received was actually less than in 2009, when the LDP suffered a humiliating loss to the DPJ and was forced into the opposition after almost half a century of uninterrupted rule. Indeed, the LDP came up almost 2 million votes short in its “victory” compared to 2009, hardly a ringing endorsement of the LDP agenda.

Second, Shinzo Abe’s promotion to leader of his party on September 26, 2012, was far from a foregone conclusion. In the weeks leading to the LDP leadership election, the chances of Abe winning the party’s support were considered low, the perception being Abe had had his chance in 2007 and failed due to personal illness. When he eventually won the party’s nomination, it was only by a narrow margin and due to support from fellow Diet members, rather than the LDP rank-and-file, who favored rival Shigeru Ishiba. In the months and years prior to his election to LDP leader, few were vocally calling for his return.



Abe on television on election night.

Third, an important reason why the LDP were able to win a majority was that anti-LDP groups did not form a united front, splintering into several smaller parties, such as Nippon Mirai no To (Tomorrow Party of Japan) and Your Party. Though able to impact the elections by siphoning away votes from the previously dominant DPJ, their post-election influence has been minimal.

The emergence of parties such as Nippon Isshin No Kai (Japan Restoration Party), served again to show apathy among the electorate with the status quo, rather than any dramatic ideological swing. Osaka Mayor Toru Hashimoto teamed up with former Tokyo Governor Shintaro Ishihara under the JRP banner only in September 2012, far too late to convince voters they could provide a genuine alternative in government.

Finally, voter turnout at just 59%, the lowest in Japan’s postwar history, skewed the final tally in the LDP’s favor. During its opposition years, the DPJ had relied on “floating” voters to lift their political fortunes, yet in December 2012, disgruntled with the options before them, many of these unaffiliated voters chose to stay away from the polls.

Prior to voting day, polls consistently showed approximately 40% of the

electorate to be “undecided.” For many, the decision in the polling booth was one of reluctance, described by one interviewed member of the electorate as merely a “process of elimination.”

Caution, at Least for Now

Abe and the LDP appreciate these shaky political foundations. Abe in particular needs to consolidate his base within the party as well the LDP’s mandate to govern. In his first news conference following the election, Abe was noticeably reticent about celebrating his party’s victory, aware that until the LDP secures a majority in the House of Councillors, due to hold elections in mid-2013, his leverage to enact major reforms is limited.

The “twisted Diet” scenario whereby the party in government does not hold a majority in the upper house, hampered Abe’s first term as prime minister in 2006-07 under an LDP-Komeito coalition, marking the beginning of his political downfall. Abe is also no doubt aware of the challenges for foreign policy faced during his first term, when he evoked ideology in the form of “values-based diplomacy.”

If the new administration is judged on its actions thus far, one can conclude that a measured, pragmatic Japan has evolved. Despite some hawkish statements in the months prior to the election, Abe’s diplomacy has been moderate. Immediately following the South Korean presidential election on December 19, Abe sent a private envoy to begin a dialogue with the new leader. Some of the more confrontational comments regarding the stationing of officials on the Senkaku Islands have disappeared from government rhetoric, and on January 25, Natsuo Yamaguchi, head of coalition partner Komeito, visited China’s new leader Xi Jinping.

Abe’s trip to Southeast Asia from January 16, ostensibly to boost trade, may well have been misguided, feeding the narrative that Japan seeks to “contain” China’s rise. Nevertheless, considerable efforts were made for Abe to make Washington his first visit before events surrounding President Obama’s second inauguration took precedence. Until the new Chinese cabinet is established in March, there is little need for Abe himself to travel to Beijing.

What the Elections Truly Signify

In the elections of December 2012, what mattered to voters was the economy and social welfare. Not even the complicated issue of restarting nuclear reac-

tors, a hot political topic since the triple disaster of 3/11, dominated the decision-making of Japanese voters.

During his earlier term, distractions from a gaffe-prone cabinet and tensions with neighbors prevented Abe from paying adequate attention to the economy, a lesson likely to be heeded in 2013. This can already be seen in Abe's economic policy, now frequently referred to as "Abenomics," a combination of monetary relaxation and fiscal stimulus making waves across international markets.

To extrapolate from the December election that Japan is slipping toward the right overlooks what really should be learnt from the national vote. Japan's electorate, particularly the young, is in fact becoming ever-more disengaged with its political system.

Furthermore, few are calling for further antagonism with Beijing. Whilst talk of military confrontation might be filling Chinese airwaves and online forums, in Japan there is little appetite to up the stakes. Around the streets of Nagatacho, Tokyo's political hub, voices calling for the permanent shutdown of nuclear facilities continue to shout louder than those pushing a right-wing agenda. According to some analysts, Abe's administration may even prove able to warm relations with Beijing due to the "Nixon effect," whereby a more hard-line leader is able to improve relations, as US President Nixon achieved in China in 1972.

Ultimately the national elections were a vote against the DPJ, mainstream parties, and the political system as a whole. Significant signals about Japan's political situation can be learnt from critiquing the decisions made by Japanese voters on December 16. But not the misconception often portrayed, that radical nationalism is on the rise.

February 4, 2013

A Prescription for Halting Deflation

Yale Professor Urges Bolder Actions from the BOJ

The Tokyo Foundation

Koichi Hamada, the Tuntex Professor Emeritus of Economics at Yale University and the mastermind behind Prime Minister Shinzo Abe's policy for economic revitalization—dubbed “Abenomics”—visited the Tokyo Foundation recently to share his thoughts with research fellows.

Hamada has been at the center of Japanese media attention for strongly endorsing Abe's antideflation strategy. The professor's remarks were widely quoted by the Liberal Democratic Party leader during the campaign for the December 16, 2012, House of Representatives election, which the LDP won by a landslide.

Hamada's remarks significantly boosted the LDP's standing among the public, many of whom are struggling to make ends meet. He advocates a bold quantitative easing policy to halt deflation and reverse the steep appreciation of the yen. Following the election victory, Hamada was appointed by the prime minister to serve as a special advisor to the cabinet.

* * *

Joined by Tokyo Foundation Senior Fellows Shigeki Morinobu and Yutaka Harada—experts on the economy and fiscal policy—and other Foundation research fellows at an informal Tokyo Foundation meeting on December 14, Koichi Hamada asserted it was high time for the Bank of Japan to overturn its cautious monetary policy.

“Real or structural problems in the Japanese economy, like higher oil prices that have little to do with the currency system, can't be addressed with monetary policy,” Hamada noted. “However, since deflation and the yen's steep appreciation are issues related to the domestic and foreign value of money, they should be dealt with policies that directly address currency values.”

Hamada believes, though, that Japan's monetary authorities have been trying to treat the symptoms with the wrong medicine for the past 15 years. “It's like trying to cure a stomach ailment with drugs for a heart condition.”

The Bank of Japan contends that its zero-interest-rate policy already fur-

nishes enough funds to the market and that any additional quantitative easing will not lead to increased lending. "All you have to do is look at the Federal Reserve's purchases of mortgage-backed securities in the United States to realize that such arguments don't hold water," Hamada contended. "In Japan, the BOJ can easily purchase CPs, EFTs, REITs, and foreign currency denominated bonds."



Koichi Hamada, the Tuntex Professor Emeritus of Economics at Yale University.

Just as expectations of deflation can in itself have a negative impact on the national psyche, "the belief that deflation is going to be overcome will have a positive effect," he added. Indeed, the yen has depreciated by more than 10% since November, hitting a two-and-a-half-year low of around 91 per dol-

lar in late January.

"Monetary policy is something that must be applied when the market needs it most," Hamada emphasized. "It's common knowledge in economics that monetary policy is more effective than fiscal policy under flexible rates. A bill was passed last year to raise Japan's consumption tax to 8% by April 2014 and to 10% by October 2015. "Raising taxes first and then relaxing monetary policy is precisely what you shouldn't do," Hamada warned. "You need a recovery from deflation first, and then you can use a tax hike to control it, if necessary. And the consumption tax should be the last thing you raise. A much better idea would be an environment tax," he said, which could encourage innovations in eco-friendly technologies.

Is the Yen Really Too Strong?

While admitting that deflation can be mitigated with monetary tools, Tokyo Foundation Senior Fellow and Chuo University Law School Professor Shigeki Morinobu cautioned that real-world trends must also be taken into considera-

tion, such as the end of the Cold War that opened the floodgates to cheaper labor in Eastern Europe and demographic changes toward an aging society in Japan. "Inflation targeting can be effective," he said, "but there remains the question of whether it can be stopped once the target is reached, say, at around 2 percent." He also pointed to the negative consequences of having to make higher interest payments for one's debt once inflation kicks in.

Morinobu also questioned the common assumption that the yen is too strong against the dollar. "In terms of purchasing power, comparing the prices of fast food in Japan and the United States, for instance," he said, "I don't think 80 yen is intolerably high. In fact, companies claiming the yen is too strong might simply be trying to cover up for the shortcomings in their own projections."

Senior Fellow and Waseda University Professor Yutaka Harada took issue with this view, pointing out that just before the global financial crisis of the late 2000s, the yen was trading at around 120 yen per dollar. "When it steadily climbed to around 80 yen," Harada said, "many Japanese businesses were forced to lay workers off or halt production of items that no longer paid at that exchange rate. Curtailing production," he emphasized, "means fewer jobs."

Many companies have been able to survive as a result of these adjustments, but the ranks of the unemployed have swelled, and promising R&D projects have been abandoned. "Many of these technologies were picked up by companies in South Korea and elsewhere," Harada noted, further compounding the woes of Japanese manufacturers.

The general lowering of income levels from higher unemployment and sluggish corporate profits, Harada commented, has been affecting demand in the nonexport sectors of the economy as well, exacerbating deflation. "There's no denying that the exchange rate has presented a serious challenge to many Japanese companies," Harada added.

Because the yen's value is the rate vis-à-vis the US dollar, it is bound to rise if the United States expands the amount of money in the economy through quantitative easing while Japan does nothing. "The Fed doubled the money supply with QE1 and tripled it with QE2," Harada said, as a means of overcoming the financial crisis. The money supply in Japan, which was not as severely affected by the crisis, has expanded by only around 30%. "That's not nearly enough," Harada asserted. "If Japan had at least doubled its money supply, the yen wouldn't have shot up as high, and jobs wouldn't have been lost."

Working at a Disadvantage

Economists have pointed to the fact that while Japan's per capita gross domestic product is nearly identical with that of South Korea in purchasing power terms, it is twice the South Korean figure when calculated using exchange rates, suggesting that the yen is disproportionately strong against the won.

"The Korean won depreciated by 30 percent against the dollar while the yen appreciated by 30 percent," Harada said, "so there's obviously going to be a big gap in the values of the two currencies."

South Korea has been known to intervene directly in the currency market to adjust the exchange rate, "But the BOJ can do the same if it wanted to," asserted Hamada. "It's been overly timid, thinking that if it aimed for the green it would overshoot it, so it's been using a putter to get itself out of a bunker for the past fifteen years. Many excellent studies have shown the extent to which Japanese companies have been placed at a disadvantage by this policy," the Yale professor said, "but such studies have categorically been ignored by the central bank and the major media in Japan."

The issue of Japan's huge public debt cannot be overlooked, however, and the Abe administration has announced a fiscal stimulus package that is likely to exacerbate that debt. "Under the circumstances, there's really no choice but to opt for reflation and somehow get the economy to a state close to full employment," Hamada said. "Only then can we gauge how bad Japan's fiscal condition really is. Any hike in the consumption can wait until then."

Morinobu, though, pointed to the potential risks of higher interest rates on



(From left to right) Shigeki Morinobu, Koichi Hamada, and Yutaka Harada.

the real economy. "Higher interest will mean that the value of government bonds held by Japanese financial institutions will depreciate," he claimed. "A 1 percent rise in interest rates will mean a decline of 10 trillion yen in the book value of these bonds. Such a drop will surely affect the capital adequacy ratio, and could lead to a credit squeeze."

Harada offered the reminder that this has been the argument given by the Bank of Japan for not adopting a quantitative easing policy. "Bonds aren't the only assets financial institutions own," Harada said. "They also have loans, equities, and real estate. The bigger banks also have overseas assets, so a cheaper yen will boost those values. If quantitative easing can produce a lower yen, higher nominal GDP, more jobs, and increased tax revenues, there's no good reason not to take this step."

"The points we discussed today have been pondered at great length by economists over the past 250 years," Hamada said in closing, "but our arguments have often gone unheard, even by central bankers. So in that sense, the attention given me by Mr. Shinzo Abe has been a source of great joy for me. At the same time," he said, "I'm humbled by the fact that it takes politicians to get our message across to the media and the general public."

November 5, 2012

Dissecting the Tax Schemes of Japan's "Third Force"

Shigeki Morinobu

Osaka Mayor Toru Hashimoto's drive to transform public administration in Japan has drawn renewed attention since his party went national last September, but the economic policies of his Japan Restoration Party are difficult to pin down. Senior Fellow Shigeki Morinobu uses his tax expertise to probe the substance behind the rhetoric of the party's much-debated but poorly understood platform.

At the end of August, the reform movement led by Osaka Mayor Toru Hashimoto released the final draft of its official platform preparatory to the national launch of Nippon Ishin no Kai (Japan Restoration Party). If the party makes a strong showing in the coming general election, as many predict it will, its reforms could have a profound impact on Japan's domestic economy and the lives of its people. And while Hashimoto has indicated that the Ishin Hassaku ("Eight-Point Restoration Plan") is not an election manifesto, it is all we have at this point to judge the economic policies advocated by a group that hopes to emerge as a "third force" in national politics. Unfortunately, while the platform is long on such neoliberal principles as small government and individual self-reliance, it offers neither a clear economic vision nor specific measures for meeting Japan's immediate challenges. Nonetheless, my hope is to make use of the material available to shed some light on the substance and merit of the party's economic platform as it stands.

Overview

The Ishin Hassaku is strangely silent when it comes to numerical goals and concrete strategies for economic growth. The platform does call for boosting competitiveness on the supply side and promoting participation in free trade

Shigeki Morinobu *Senior Fellow, Tokyo Foundation; President, Japan Tax Institute; Professor of Law, Chuo University; Special Expert Advisor, Government Tax Committee.*

agreements, such as the Trans-Pacific Partnership. But the largest economic impact would doubtless come from the decentralization of public administration through a new regional system that would replace the 47 prefectures with about a dozen fiscally autonomous *doshu* jurisdictions.

Like the two major mainstream groups (one centered on the ruling Democratic Party of Japan and the other on the Liberal Democratic Party and its longtime partner, the New Komeito), the JRP seeks to set a timetable for achieving primary balance in the budget, to correct inequities in the tax burden between and within generations, to clarify the relationship between the burdens and benefits of public programs, and to rationalize and streamline social security disbursements. None of these ideas are particularly novel.

However, the platform does put forth some tax ideas that deserve closer scrutiny.

First, it calls for an “accurate tracking of personal income and assets (flow and stock) through a comprehensive national identification number system” to facilitate a new “emphasis on taxation of assets, not just flow.” Under the heading of social security, it calls for “a guaranteed minimum calculated by income and assets combined” and “a limit on social security payments to individuals with income and assets.” In these proposals the party sets itself apart with a commitment to rebuild the tax and social security systems with the help of a mechanism for accurately determining the value of each citizen’s assets.

Also noteworthy under the categories of taxation and social security are its calls for “a negative income tax/basic income approach” and a “radically simplified tax system, i.e., a flat tax.”

Finally, the document speaks of “turning the national consumption tax into a local tax and instituting an interregional fiscal adjustment system,” while “abolishing the distribution of national tax revenues to local governments.” The last two items are clearly oriented to the eventual adoption of a decentralized *doshu* system of regional administration.

These tax reforms, while not fully fleshed out, are by far the most concrete economic proposals the JRP offers. This reflects the basic thrust of the party’s platform, which focuses on the adoption of a decentralized *doshu* system and the construction of a new tax system to raise the revenues required for such a system. In the following, I will examine these proposals one by one.

Negative Income Tax/Basic Income Approach

The term “basic income” calls to mind welfare systems that guarantee each in-

dividual a sum of money deemed necessary to maintain a basic standard of living. However, in the latest version of the Ishin Hassaku, the party makes clear that it is not proposing a new benefit but rather a system guaranteeing a minimum after-tax earned income.

The term “negative income tax” is potentially misleading as well. In its pure form, the negative income tax—as advocated by US economist Milton Friedman in conjunction with a flat tax—offers cash benefits to all those who earn less than the minimum taxable income, with the benefits calculated by applying the same tax rate to the shortfall. However, by inserting the qualification “income according to effort” in parentheses, the platform seems to suggest that this cash benefit would be available only to those who are gainfully employed. This suggests the party envisions a refundable tax credit, such as the US Earned Income Tax Credit (EITC) or the British Working Tax Credit (WTC).

As it happens, I have studied refundable tax credits, including the earned income tax credit, for over 10 years, and in 2010 I drew up a Tokyo Foundation policy proposal recommending the adoption such a tax credit. (See “From Cash Handouts to Refundable Tax Credits,” www.tokyofoundation.org/en/t/1pes2) Today, with the working poor posing a growing problem for Japanese society, the nation must begin replacing its safety net with something akin to a springboard. When people slip and fall out of the market economy, we must not merely catch them but provide vocational and job training to return them to the economy again. Tax and welfare policies should also be instituted that provide incentives to work and ensure that those who do work can live decent lives (the workfare concept).

Flat Tax

While the term *flat tax* is sometimes used to refer to a single-rate income tax, scholars usually reserve it for something similar to the Hall-Rabushka flat tax. This system, which had a considerable influence on the US tax reforms implemented during the second term of President Ronald Reagan (1986–90) and continues to attract many proponents, is basically a single-rate consumption-based tax computed on the basis of value added. Since the Ishin Hassaku equates its “flat tax” with “a radically simplified tax system,” it seems reasonable to assume that it is envisioning something along the lines of the Hall-Rabushka flat tax, rather than a single-rate income tax.

Let us examine how such a system works. Tax is levied on two types of added value generated by capital—individual wages (generated by human

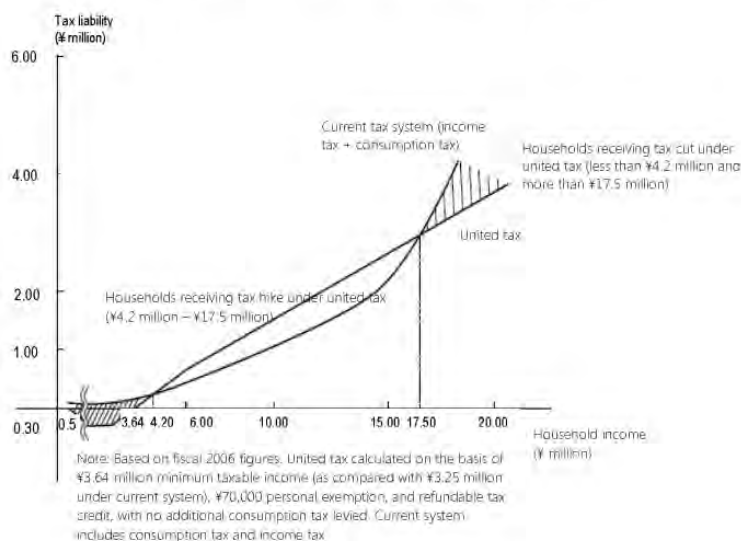
capital) on the one hand and corporate profits and interest income on the other. At the personal level, wages are taxed at a single rate, and at the corporate level, that same rate is applied to interest income and profits. Advocates claim that the system is simple enough to allow each American taxpayer to file a return using a single postcard.

Under this system, individuals are not taxed on interest income, dividends, or capital gains. This eliminates the “double taxation” of the same earnings at the corporate level (as profits) and the personal level (as dividends). Exemptions based on household structure, together with a minimum taxable income, give it a degree of progressivity.

At the corporate level, businesses would compute their taxes by deducting employee wages and benefits, allowable purchases, and capital investment from business revenue. The system encourages capital investment by allowing businesses to deduct the full cost of plant and equipment purchases, doing away with complicated annual depreciation schedules. On the other hand, it does not treat interest payments as a deductible expense.

The basic objection to a flat tax is that a single tax rate can exacerbate income and wealth disparities. This is the rationale for pairing such a tax with a refundable tax credit that offers cash benefits for low-income individuals or households.

Tax Liability by Income under Current Tax System and United Tax (standard model for household of married couple and two children)



In 2008, I put forth just such a proposal, combining a flat tax with a refundable tax credit. I dubbed my tax system a “united tax,” since it integrates the income and consumption taxes. The accompanying figure compares the annual taxes owed by

households at different income levels under the current system and under the proposed united tax with the rate set so as to maintain the same level of tax revenues.

As the figure indicates, the united tax would reduce the overall tax bill for families with incomes up to 4.2 million yen (two-parent, two-child household), offering an incentive to work, even at lower income levels. Households earning more than 17.5 million yen annually would also benefit by a substantial reduction in the marginal tax rate, increasing their incentive to earn. However, families earning between 4.2 million yen and 17.5 million yen would see an increase in taxes. It can be anticipated that much of this added burden would be offset by the tax system's stimulatory effect on the economy. However, since the immediate result would be a tax increase for large numbers of middle-income households, winning support for such a reform could take some time.

Be that as it may, at a time of persistent economic stagnation, the JRP should be applauded for inserting a new perspective into the discussion.

Reality Check on Decentralization and Local Taxes

I agree with the JRP that Japan's highly centralized administrative structure is outdated and incapable of meeting the diversified needs of the nation, and that we need to strengthen the functions of municipal government and continue pursuing the devolution of power.

However, the JRP has called for a *doshu* system of regional administration without offering any details to clarify how such a system would operate. The Constitution of Japan establishes a unitary state and does not allow for partial transfer of the central government's legislative or judicial powers to local governments. When we talk about devolution, we must recognize that there are inherent limits to decentralization in Japan.

What Kind of Tax Should Finance Local Government?

The best tax for financing local government is one that provides stable revenues and minimizes regional disparities. It should also allow administrators and citizens to grasp the relationship between burdens and benefits. Ideally, if local residents want additional services, they should be able to make an informed choice between a tax increase and a cut in other services.

From this perspective, the taxes best suited to financing local government are direct taxes—that is, property taxes and local income taxes. Property taxes

make sense to local citizens in that they place a larger burden on owners of large homes or extensive properties, who benefit more from such services as law enforcement, fire fighting, and garbage collection. In Britain, local governments rely exclusively on property taxes in the form of the council tax. Rates vary drastically, reflecting the level of services provided.

The generous social services provided by local governments in Sweden are financed exclusively by personal income taxes. In Germany, municipalities get two-thirds of their tax revenue from personal income taxes. In these countries it is clear to all that services are provided at the expense of the residents.

In this way, local tax systems should empower citizens to decide for themselves whether they want to live in a community that spends more on its police force, fire department, school system, and welfare services at the cost of higher taxes, or whether they prefer to pay lower taxes, even if it means a lower level of services.

Flaws in the Consumption Tax Proposal

What about transferring the consumption tax wholesale to the local governments, as advocated by the JRP? A local consumption tax is not an outlandish notion; indeed, Carl Shoup himself (regarded by many as the father of the value-added tax) recommended an income-based VAT as a source of local government revenue. However, the JRP's proposal for converting Japan's national consumption tax to a local tax has serious flaws.

Local fiscal responsibility requires that residents be able to grasp the relationship between burdens and benefits in any given local jurisdiction. This is not feasible with the Japanese consumption tax as it stands, since it is imposed at a uniform rate nationwide. As for allowing each local government to establish its own rate, this is impractical because—unlike the local sales taxes common in the United States—Japan's consumption tax is a multistage tax, imposed at each stage of distribution in localities around the country.

When businesses in Japan calculate the consumption tax they owe to the government, they deduct the consumption taxes they paid to suppliers from the taxes they received from customers. Let us suppose, then, that a Kanto (Tokyo area) local government adopted a consumption tax rate of 8%, while its Hokkaido counterpart set the consumption tax at 10%. A retailer in the Kanto region that purchased an item from a Hokkaido wholesaler for 400 yen (excluding tax) to sell for 500 yen would charge its customers 40 yen in consumption tax (500 yen \times 8%). It would then owe the Kanto local government the dif-

ference between that 40 yen and the tax it paid to its Hokkaido supplier—namely, 40 yen (400 yen \times 10%). In other words, the retailer would owe nothing to the Kanto local government, and the Kanto local government would receive no revenues from the consumption of this item, even though it was sold at a profit.

Regional differences in the consumption tax rate would also encourage businesses engaged in internet, mail-order, and telephone sales to relocate to jurisdictions with low consumption tax rates and encourage shoppers in jurisdictions with higher taxes to shop across the border where the tax was lower. These trends, in turn, could trigger a “race to the bottom” tax competition, with regions lowering their taxes in order to attract businesses, resulting in lower tax revenues for all districts. These issues help explain why only one industrial country in the world, Canada, currently uses a multilevel consumption tax as the primary source of local tax revenue.

The second problem with the JRP proposal is that the consumption tax is an important source of social security funding for the state, which has full responsibility for old-age pensions and must inevitably play a central role in healthcare as well. A portion of the revenues from the consumption tax are already shared with local governments through two systems: the so called local consumption tax and the local allocation tax. But given the soaring cost of pensions and healthcare in Japan’s rapidly aging society, transferring all the revenues from the consumption tax to local governments simply is simply not a realistic option.

In fact, I have yet to hear a rational defense of the JRP’s proposals for turning the consumption tax over to local governments wholesale. Surely this is the least realistic of the policies outlined in the Ishin Hassaku.

A Better Option for the Local Consumption Tax

If we approach the issue in terms of supporting a shift to greater local fiscal autonomy, a better solution presents itself. Under current law, one-fifth of the consumption tax is automatically transferred to the local governments as “local consumption tax.” Under the present rate of 5%, therefore, the central government gets 4% (the “national consumption tax”), while local governments get 1% (“local consumption tax”). This means that any increase in the national consumption tax automatically means an increase in the local consumption tax and that an independent increase in the local consumption tax is impossible.

The first step, then, is to separate the national and local consumption taxes,

leaving them at their current rates (4% and 1%). That way, if local governments need more revenues, the rate for just the local tax can be raised to 2% or 3%. To avoid economic chaos, however, it would still be necessary to maintain a single rate nationwide and to keep the central government in charge of tax collection.

Once decentralization is a *fait accompli*, each local government would need to rely on direct taxes for the bulk of its revenues, as explained above. To supplement these, however, or to finance reductions in local corporate taxes to stimulate business activity, local governments might seek an across-the-board increase in the local consumption tax. Such choices would allow residents to more clearly grasp the relationship between burden and benefits. This is the proper role of national and local consumption taxes under a decentralized system.

Interregional Fiscal Adjustment Mechanism

The JRP calls for abolishing the system by which the central government shares tax revenues with local governments via the so-called local allocation tax, which is based on each jurisdiction's local finance plan. In conjunction with conversion of the consumption tax to a local tax, the platform also calls for an interregional mechanism for adjusting fiscal disparities. The basic goal underlying these policies is to make local governments fiscally independent from the central government in a manner consistent with a decentralized system. In this sense, the JRP is on the right track.

Problems with the Local Allocation Tax

The current local allocation tax system has a number of problems. Let us take a closer look at the system and its defects.

The ostensible purpose of the local allocation tax is to ensure that a minimum standard of government services is maintained nationwide. While guaranteeing each local government the necessary fiscal resources to maintain these standards, it also seeks to reduce regional disparities in fiscal resources by distributing funds on the basis of need. Need is determined by the Local Fiscal Plan drawn up by the central government (specifically, the Ministry of Internal Affairs and Communications). Through this mechanism, the central government intervenes in various areas of local government on the pretext of maintaining a national minimum standard in government services. In much the same way, individual ministries intervene in local government through the allocation of various grants.

This reliance on funds from the central government severs the link between burdens and benefits at the local level. Since neither the local government nor the local citizens feel the burden of the government services provided, there is little incentive to exercise fiscal responsibility, and local the budgets have a tendency to become bloated and inefficient.

The obvious answer is to transfer fiscal authority—including the raising of tax revenues—to the local governments. But without some mechanism to compensate for the interregional disparities in revenue-raising capacity, economic disparities are likely to increase. We need a system that can mitigate such inequities without heavy-handed interference by the central government. By calling for an “interregional fiscal adjustment system,” the JRP appears to be proposing a method for sharing resources horizontally.

Challenges of Horizontal Equalization

Under Japan’s current system of vertical transfers, the central government supplements the revenue of the less affluent prefectures and municipalities through the local allocation tax. However, this still leaves a jurisdiction like Tokyo Prefecture with a superabundance of tax resources compared with many rural prefectures, despite the fact that it receives no local allocation tax at all.

By contrast, under the horizontal equalization system used in Germany and Sweden, local governments pool their revenues and share them according to need. In Japan’s case, this would mean taking Tokyo’s abundant tax revenues and parceling them out among prefectures with fewer resources. Leaving aside the political feasibility of such a plan, the constitutionality of imposing local taxes on one jurisdiction to spend on another is open to question.

In 2008, the Japanese government introduced a “special local corporate tax,” designed to help close the huge disparity in corporate tax revenues between Tokyo and the outlying prefectures, such as Okinawa. The way it works is that one-half of the prefectural enterprise tax is remitted to the central government, which redistributes it to the prefectural governments on the basis of demographic and economic factors. Despite the relatively small amount of revenue involved (about 2.5 trillion yen, or 1% of the revenue from the consumption tax), this provoked a backlash among the wealthier jurisdictions. In December 2011, the governors of Tokyo Metropolis and Osaka, Kanagawa, and Aichi prefectures submitted a letter to the government demanding that the new system be repealed. Among the signers was Toru Hashimoto, then governor of Osaka Prefecture.

If the wealthier jurisdictions (including Osaka) object to a transfer of resources on this order, one can hardly expect them to stand for a horizontal transfer scheme in which all local revenues are subject to redistribution.

The economic platform of the JRP is a work in progress. It raises important issues and suggests a way forward for the nation. Unfortunately, most of its proposals are excessively vague, and several—including the call to turn the consumption tax over to local governments—are impractical. The party should move as quickly as possible to refine its policies, draw up a realistic timetable for implementation, and let the debate begin in earnest.

October 12, 2012

Aging and Social Security in Japan

Yutaka Harada

Japan's social security system, built when the country enjoyed high growth and aging was not yet a problem, is too generous. Asian countries are now also creating very generous social security systems for the aged, but this will not be sustainable. This is something they can prevent, though, by learning from the Japanese example.

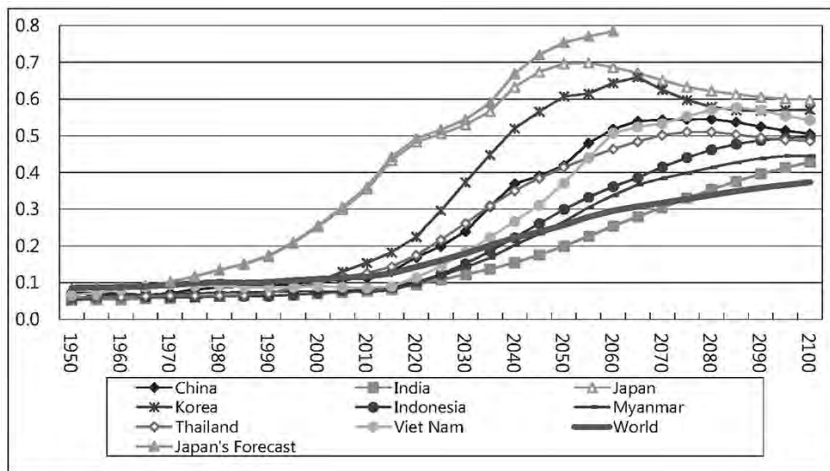
Japan's social security system is too generous, and current benefit levels cannot realistically be maintained. The system was created when Japan enjoyed relatively high growth and aging was not yet a serious problem. Asian countries are now in a situation similar to what Japan faced in the 1960s and 1970s. They are creating very generous social security systems for the aged, but this will not be sustainable and could come back to haunt them in the future. This is something they can prevent, though, by learning from the Japanese example.

Aging in Asian Countries

Population aging is a phenomenon seen in almost all Asian countries. Figure 1 shows the age dependency ratio (ratio of the population 65 or over to the population between 15 and 64) in various Asian countries. In 2060, the ratio is projected to be 0.464 in Thailand, 0.508 in Viet Nam, 0.518 in China, 0.643 in Korea, and 0.784 in Japan.

The data was taken from the UN's "World Population Prospects" except for "Japan's Forecast," which came from the National Institute of Population and Social Security Research of Japan's Ministry of Health, Labor, and Welfare. As the figure shows, the Japanese government's data projects a higher ratio than the UN data, but both are serious.

Yutaka Harada Senior Fellow, Tokyo Foundation; Professor, School of Political Science and Economics, Waseda University.

Figure 1. Age Dependency Ratios of Asian Countries

Sources: Population Division, Department of Economic and Social Affairs, United Nations Secretariat, "World Population Prospects: The 2010 Revision," <http://esa.un.org/unpd/wpp/index.htm>; National Institute of Population and Social Security Research, "Population Projection for Japan: 2010-2060 (January 2012)."

What It Will Take to Maintain Benefit Levels

Aging and social security is a very serious issue in Japan. If the government were to use consumption tax revenues to maintain the present level of social security benefits, the rate would have to be raised to anywhere between 70% and 80% by 2060.

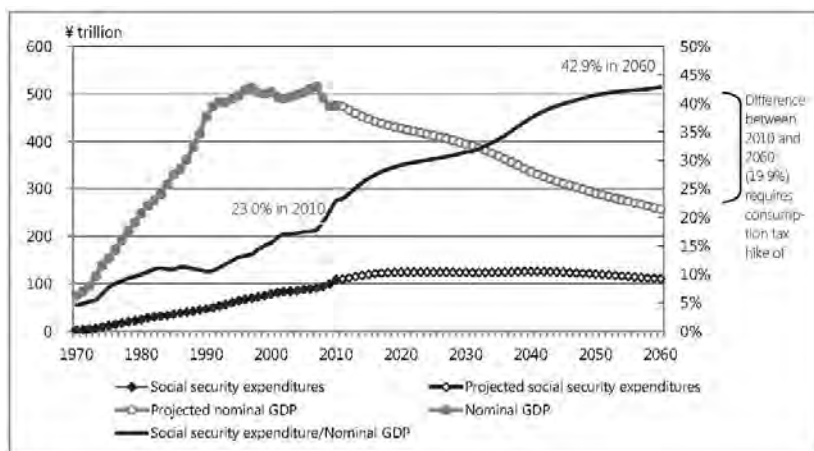
This is based on a simple calculation. In 2010, Japan spent 81 trillion yen for social security (pensions, medical treatment, nursing care, etc.) for the aged. This means that Japan spent 2.76 million yen per senior citizen. If this expenditure level is maintained, total social security expenditures would rise with the increase in the number of the aged. Using the future population projections by age group released by the National Institute of Population and Social Security Research, I calculated total social security expenditures by multiplying per capita expenditures by the projected number of the elderly.

Will the economy be able to support such expenditures? I estimated future gross domestic product by multiplying the projected working-age population by the per capita working-age GDP in 2010. Then, I calculated the future ratio of social security expenditures to GDP.

One must, of course, consider productivity increases and inflation, but per capita social security expenditures generally also rise when productivity and prices increase. This is because when productivity increases, real wages tend to increase as well. As prices rise, so do nominal wages. The government, then, needs to increase insurance payments to doctors, nurses, and care workers as well as pension benefits. When the denominator increases, the numerator also increases. So productivity and inflation are not essential factors in the long run.

Figure 2 shows the results of these calculations. The ratio of social security expenditures to nominal GDP was 23.0% in 2010, but it is estimated to rise to 42.9% in 2060. This is a 19.9-percentage-point jump in social security expenditures. A 1% hike in the consumption tax produces revenues equivalent to 0.5% of GDP. Financing a 19.9-point jump would thus require an additional 39.8% rise in the consumption tax.

Figure 2. Projections of Social Security Expenditures and GDP



Sources: National Institute of Population and Social Security Research, "Population Projections for Japan: 2010-2060 (January 2012)"; Cabinet Office, "National Accounts of Japan"; Ministry of Health, Labor, and Welfare, "Estimates of National Medical Care Expenditure."

Note: Social security expenditures in 2010 were estimated from the social security budget of the Ministry of Health, Labor and Welfare. Projections of social security expenditures were made as follows: Social security expenditures were divided into medical care, pensions, and others in the Social Expenditure Database. Medical expenditures were divided by age group in accordance with the MHLW's "Estimates of National Medical Care Expenditure." Future medical expenditures were estimated by age group by multiplying the projected populations for each age group. Future pensions were estimated using projections of the 65-and-over population. Others were estimated by the projected growth of the total population.

This is not the end of the story. Until today, the aged did not bear a full burden of social welfare costs. In 1989, when the consumption tax was introduced, and in 1997, when the rate was raised from 3% to 5%, pension benefits were also raised to offset the higher costs for pensioners. This effectively meant that those living on pensions did not have to bear the burden of the tax hike; it was borne by the rest of the population. Since working-age people will make up only 60.1% of the population in 2060, the 39.8% hike in the consumption tax rate will need to be divided by 0.601, resulting in an equivalent of a 66% increase for people not receiving pensions. The consumption tax rate in 2060, therefore, will be the current 5%, plus 66%, plus the 5% hike that was recently enacted to defray rising social security costs, resulting in a total of 76%.

Obviously, a 70% or 80% consumption tax would be impossible. So social security expenditures would inevitably have to be cut, but politicians are reluctant to see this “inconvenient truth.” Instead, they want to believe that a small increase in the consumption tax would solve the problem. This was the gist of the Diet debate over a bill to raise the consumption tax hike by 5%. In the very near future, however, they will find that a 5% or even 10% rise would hardly be enough.

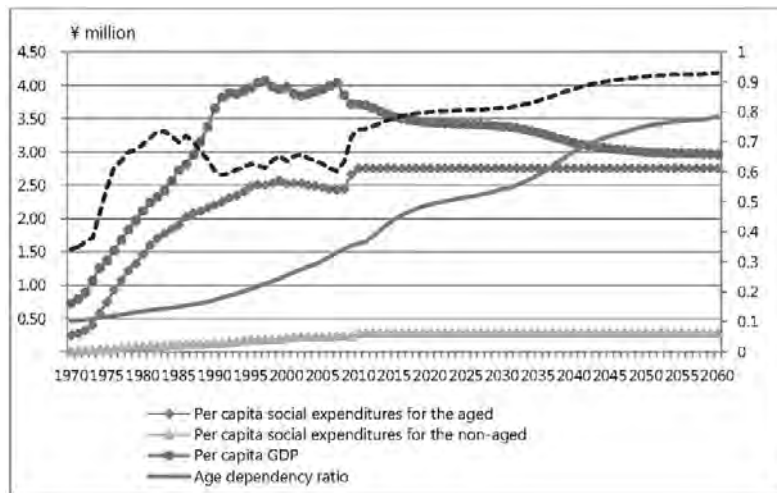
Future Tax Rates

The “inconvenient truth” is the product of an overly generous social security system created in the past. Why was such a system built? For answers, we will have to take a look at the past.

The Figure 3 shows social security expenditures for the aged, for the non-aged, as per capita GDP, and the age dependency the ratio. In 1970, the ratio of social security expenditures per elderly person to per capita GDP was only 34.3%, but this more than doubled to 74.1% in 2010. Such a high percentage suggests that social security benefits for the elderly are overly generous.

Additionally, the figure shows that social security expenditures for the non-aged have hardly increased at all. The ratio of social security expenditure for the non-aged to per capita GDP was 2.4% in 1970 and was still hovering around 7.7% in 2010. This indicates that Japan’s social security expenditures have largely been made for the elderly.

At the same time, the age dependency ratio increased from 0.102 in 1970 to 0.361 in 2010, and consequently the ratio of per capita social security expenditures for the aged to per capita GDP increased by 34.9 points, from 34.3% in 1970 to 69.2% in 1980.

Figure 3. Projections of Social Security Expenditures

Sources and notes: Same as Figure 2.

Recognizing this problem, the Japanese government has been trying to reduce this percentage since the early 1980s. After climbing to 73.6% in 1983, it fell to 60.3% in 2007 – a drop of 13.3 points. It made a noticeable jump in 2009, though, so the government obviously needs to do more. One way of meeting rising social security costs is to increase the consumption tax, and the government did recently succeed in passing a tax hike bill. But this will not solve the problem, since the rates needed to meet projected costs will be unrealistic. The government will have no choice but to cut expenditures.

The decline in the ratio through 2008 was, I believe, a reflection of government policy. Some might argue that a bigger factor was an increase in nominal and real GDP, but I do not think this is correct. It is true that both the late 1980s and the 2003–07 period were boom years, but with the rise in revenues, pressure mounted to expand the budget. It was against these pressures that politicians in both periods reduced the ratio.

The highest reasonable rate for the consumption tax would probably be around 20%. To meet social security expenditures with this rate, the government would have to cut spending by 30% from 2.76 million yen per aged person. Total social security expenditures would then fall to 1.91 million yen, the level in 1985, and the projected ratio of social security expenditures to nominal GDP in 2060 would become 30% – only 7 points higher than the 23% in 2010. Since a 1% hike in the consumption tax produces revenues equivalent to 0.5%

of GDP, as noted above, financing a 7-point increase in expenses would require a 14% hike. Assuming that the aged are asked this time to bear the burden of the higher rate—allowing the government to cut other expenses to reduce the budget deficit—the higher expenses could realistically be covered with a 20% consumption tax: the current 5% plus a 14% hike and an additional 1% to allow for leeway.

Lessons for Asia

The source of Japan's skyrocketing social security costs was created in the 1970s. At that time, while the high-growth era had come to an end, Japan's growth rate was still higher than those of other developed countries. The age dependency ratio was as yet relatively low, allowing Japan to increase social security expenditures. This is a lesson from which Asian countries can learn. Many are now trying to create overall social security systems, while growth rates are high and aging is not yet a serious issue. They can therefore afford to create generous social security systems for the aged. They must realize, though, that this will not be sustainable over the long run and that such a system could come back to haunt them in the future.

September 26, 2012

Emergency Planning for a Fiscal Meltdown

Hideki Kato, Sota Kato, and Keiichiro Kobayashi

While experts differ sharply as to the risk of a Japanese debt crisis, the authors of this article point to the lessons of Fukushima—as well as the sobering spectacle of Europe—in urging the government to plan now for a worst-case scenario. Stressing the need to secure prior approval for prompt measures to contain a debt crisis, they outline six key points policymakers should address in planning for a financial disaster.

The European sovereign debt crisis shows no sign of abating. The situation escalated in May after the results of elections in Greece and France placed those nations' fiscal austerity commitments in jeopardy. On the eve of a Greek ballot scheduled for June 17, Greece's withdrawal from the eurozone was looming as a distinct possibility. The result was a massive decline in the value of the euro and in stock market prices worldwide. Meanwhile, Spain's borrowing costs rose to new highs after one of the nation's top banks requested a government bailout.

In Europe, market movements galvanized leaders of the European Union, key European governments, and organizations like the International Monetary Fund to formulate policy measures and force commitments from Greece, Italy, Portugal, and Spain. The election results in Greece and France were in large part a popular backlash against decisions reached through such a political process. The Greek and French governments had adopted sweeping economic policies without holding a national debate, let alone building a consensus, and they paid the price.

These developments have cast into sharp relief the limitations of democratic government, particularly the slow pace of decision making. And as the crisis has spread from one country to another, observers around the world have be-

Hideki Kato President, Japan Initiative.

Sota Kato Senior Fellow, Tokyo Foundation; Professor, International University of Japan.

Keiichiro Kobayashi Senior Fellow, Research Institute of Economy, Trade and Industry; Professor, Hitotsubashi University; Research Director, Canon Institute for Global Studies.

gun asking whether democracy is capable of meeting the challenges of our time. World markets move at a pace that leaves the democratic process in the dust, and as governments resort to undemocratic policymaking processes in an attempt to keep up, voter resentment builds, raising the risk of a political backlash.

The time lag between the markets and the democratic decision-making process is one potent argument for advance planning to deal with a Japanese debt crisis that has yet to arise. Taking the time before a crisis occurs to deliberate and secure political support for a response plan is one way to reconcile the imperatives of democracy with those of the marketplace. But another important reason to prepare for such eventuality is that a timely announcement of countermeasures that already have the nation's support could well be sufficient to head off a full-blown crisis before it materializes.

Lessons from Japan's "Unanticipated" Nuclear Disaster

The ratio of public debt to gross domestic product has reached monumental proportions in Japan, and almost all economic estimates agree that, without a decisive change in course, the debt will only continue to balloon. Given Japan's persistent deflationary climate, it may be hard for the average Japanese citizen to accept the idea that the nation's government finances are spiraling out of control. Yet most economists agree that at some point within the next few decades—and possibly even within the next few years—Japan could suddenly find itself in the midst of a sovereign debt crisis similar to that facing Greece.

A sovereign debt crisis is a situation with serious financial and economic repercussions. Bond prices plummet, the government's fund-raising mechanism ceases to function, inflation rises steeply, the value of the national currency plummets, and unemployment soars. As we have seen in the case of Greece, the economic, political, and social costs are likely to be huge, and in the final analysis, it is the people who pay the price. What can we do to prepare for such a disaster?

If we have learned anything from the March 2011 nuclear accident it is the need to think about the "unthinkable." Because neither the government nor the power industry had envisioned such a disaster and its aftermath, they were unable to respond rapidly, and their delays led to unnecessary suffering and confusion. Moreover, prompt action to deal with a fiscal crisis could be even more difficult owing to the complex procedures mandated by law and the need to marshal support for a tough course of action in the face of various compet-

ing interests and conflicting opinions. To dismiss such a scenario as unthinkable would be to ignore the lessons of Fukushima. Denying the possibility of a crisis—making it taboo even to discuss the possibility—in order to maintain a false sense of security among the people actually exposes the public to greater risk.

Needless to say, preventing such a crisis by implementing fiscal reforms now would cost the nation far less than managing a debt crisis after it has arisen. Clearly, Japan's policymakers should do everything in their power to prevent a debt crisis farther down the road. But planning in advance for such a contingency is extremely important from a policy standpoint.

Having such a plan in place is also an important means of preventing a developing crisis from escalating into a full-blown emergency. Psychological forces in the marketplace can make fears of a financial meltdown self-fulfilling. A single event or report can spread panic among market players, triggering a massive selloff leading to a bond market crash. In such a case the government could find itself facing insolvency regardless of the nation's economic fundamentals. One important way of averting a panic is to secure the nation's support in advance for a debt-crisis response plan.

When a debt crisis develops, it tends to escalate quite rapidly. From a policy standpoint, it is essential to respond to the crisis at the earliest stages to prevent the situation from progressing past the point of no return. With this in mind, the government needs to plan its response in two separate phases, one corresponding to the earliest stages of a crisis and the other a full-blown fiscal emergency. In the following, we discuss the key policy objectives and considerations that need to be addressed when planning the government response at both stages.

Early Response to a Developing Crisis

The first key to effective crisis planning is to establish the conditions under which the response plan would go into effect and ensure that everyone involved understands and accepts those criteria. A prior understanding regarding these criteria would facilitate a rapid early response in the event of a debt crisis by eliminating the need for protracted consultations at various levels to secure approval for implementation. And rapid implementation could make all the difference when it comes to calming jittery markets.

With regard to the criteria for action, aggregate indicators may be more appropriate than simple quantitative triggers. It will be necessary to reach a

common understanding among key policymakers and officials as to the thresholds for a “developing crisis” in such key indicators as the following.

Long-term interest rates: What level (expressed as a percentage), persisting over what period of time, should be taken as signaling a developing crisis?

Long-term government cash-flow forecast: What is the threshold level—based on a previously agreed method of calculation—for declaring a developing crisis?

Point 1: Preemptive Action in a Developing Crisis

While immediate stopgap measures, such as recapitalization of domestic financial institutions, are an important component of any early debt-crisis response, the central goal must be restoring the markets’ confidence in the nation’s fiscal sustainability. For this, the government must promptly demonstrate its commitment to fiscal rehabilitation by announcing an ironclad commitment to two basic policies: (1) major cuts in spending, including social security expenditures, and (2) major increases in revenue, primarily by means of the consumption tax. Without restoring the conditions for issuing bonds from a position of long-term fiscal sustainability, the government cannot ultimately regain the markets’ confidence, and the crisis will at some point reignite.

Further, to prevent an escalation of a crisis during the early stages, the government must move as quickly as possible to outline a concrete fiscal rehabilitation plan that the markets see as viable. For this purpose, it needs to deliberate the substance of such a policy well in advance and draw up a blueprint for fiscal rehabilitation that clearly specifies where, when, and by how much the government intends to curtail spending.

The need to specify cuts in advance is particularly important from the standpoint of social security policy. When it comes to social spending cuts, the prime target should unquestionably be pension benefits, but attacking livelihood support and other welfare benefits would be the politically safe route to take. If forced to decide in the midst of a crisis, government leaders may be inclined to make cuts that are politically expedient but negatively impact the welfare of our society.

Point 2: Propping Up Local Economies

During the early stages of a debt crisis, when government bond prices are falling, regional financial institutions—local banks, so-called *shinkin banks*, and

credit unions—will most likely be the first to feel a serious impact. Local institutions not only lack the sheer mass of larger nationwide banks but are geographically constrained in their operations as well. As a percentage of their total assets, these local banks are less heavily invested in government bonds than the so-called megabanks, but because corporate bond holdings occupy such a large share of their portfolio, soaring interest rates and falling bond prices would cut deeply into their assets.

Faced with eroding assets, local financial institutions would tighten credit, making it difficult for small businesses to raise cash and remain solvent. This would be devastating for regional economies. Since cushioning the impact on local economies is likely to emerge as a key political issue in the event of a crash in government bond prices, the government should plan such measures in advance, with the following points in mind.

Emergency recapitalization of local financial institutions will be needed to prevent or mitigate a credit crunch. The government should draw up a detailed plan to minimize the impact of a debt crisis on local economies, including decision-making procedures for approval of capital infusions and similar measures.

To mitigate the negative impact on the cash flow of small businesses, the government should establish other credit mechanisms to supplement the role of local financial institutions, such as public organizations that offer micro-financing to small and very small businesses and publicly held local investment funds that offer equity financing.

Response to a Full-Blown Crisis

In a full-blown debt crisis, confidence falls to the point where the government's cash flow is jeopardized—the situation Greece was facing in 2011. For example, when repeated government bond offerings fail to attract sufficient subscribers, the government finds itself hard-pressed to raise the cash needed to maintain services and meet its obligations.

Point 3: Funding the Government in a Full-Blown Debt Crisis

In a situation in which the government finds itself unable to raise cash through the normal channel of bond issues, it must resort to emergency measures to secure the funds needed to keep functioning smoothly. Policymakers need to anticipate such a contingency and identify steps to be taken in cooperation

with the Bank of Japan, including emergency legislation and budget cuts, with particular attention to the following:

Identifying in advance the procedural hurdles to action by the Bank of Japan to ease government cash flow (legislative action, Diet resolutions, Policy Board decisions, etc.,) and formulating measures to facilitate quick action in the event of an emergency.

Targeting and prioritizing budget programs to be suspended or curtailed in the event that the government must cut budget spending on an emergency basis or implement large-scale budget cuts.

Point 4: Measures to Contain a Full-Blown Crisis (Preventing a Financial Meltdown)

The government should also formulate measures to minimize chaos in the financial markets and the real economy in the event of a full-blown debt crisis. The focus here should be measures to ensure that the effect of the debt crisis on private banks with extensive holdings of Japanese government bonds does not precipitate a financial meltdown.

With this in mind, the government needs to plan appropriate measures in advance, keeping in mind the following questions: What steps can the government take within the confines of the laws governing the financial industry and accounting practice? What steps should the government and the Bank of Japan take to stabilize the financial markets?

At the present time, Japan's net foreign assets exceed 250 trillion yen, but as our public debt accumulates at an ever faster pace over the next decade, our overseas assets are likely to dwindle rapidly. If Japan were to find itself a net debtor nation with a sovereign debt crisis on its hands, its financial institutions, private industry, and government would all face a critical shortage of foreign currency. In such a case, the nation could find itself cut off from international financial markets and hard-pressed to secure adequate supplies of food and vital resources. This is another contingency for which policymakers must prepare in advance.

Point 5: Restoring the Market's Confidence through Fiscal Rehabilitation

To restore market confidence, the government will need to implement a policy package that signals a strong commitment to fiscal rehabilitation. The substance of this program is the same as that discussed under Point 1 as part of the early response, but in the event of a full-fledged crisis, the government would

have to commit itself to an accelerated timetable. To ensure that the government can stabilize its finances quickly through prompt implementation of spending cuts and tax hikes, policymakers should prepare an “express timetable” for accelerated implementation of the fiscal rehabilitation plan discussed under Point 1.

Point 6: Ultra Long Term Economic and Social Reforms

Stabilization of government finances is a necessary condition for sustainable economic and social development. But in the long run, such sustainable development will require structural reform at every level. Given the outlook for a long-term demographic shift to a hyper-aged society—leading ultimately to the “piggyback” situation of one unproductive elderly person for every productive working-age citizen—surely two of our top priorities should be technological innovation for improved elder care and a shift in our industrial emphasis toward goods and services oriented to the needs of a rapidly aging society. In addition, the government must tackle the challenge of boosting the fertility rate so as to stabilize the population over the long term.

To accelerate the aforementioned technological progress and industrial shift, the government must set appropriate policy priorities and focus its resources accordingly, while at the same time pursuing the regulatory and structural reforms needed to hasten the replacement of the social and industrial structure.

In the event of a developing or full-blown debt crisis, the government must be able to present such a reform plan for the nation’s approval and move toward implementation without undue delay. This means preparing a basic roadmap for reform before such a crisis strikes.

A Crisis Is No Time for Debate

The foregoing is a summary of the issues that policymakers need to begin deliberating now in order to ensure that the nation is adequately prepared in the event of a debt crisis. The time to discuss and debate such matters is not after a crisis has arrived on one’s doorstep. Just as with evacuation drills, advance planning for a debt crisis would facilitate a rapid, automatic response, freeing officials from the need to spend precious time securing approval for each measure. In the case of sovereign debt, moreover, having such a plan could actually prevent an emerging crisis from snowballing into national insolvency.

It is imperative that Japan's policymakers stop treating the subject of a sovereign debt crisis as taboo and begin formulating procedures—predicated on a practical understanding of our systems and the policy tools at our disposal—to deal with such an eventuality.

For this purpose it is not sufficient to hold closed-door deliberations among a select group of finance officials and committee members. Because the effect of a sovereign debt crisis on the real economy and the lives of ordinary people is pervasive and profound, and because close bipartisan cooperation is of the essence in dealing with a national crisis, any response plan must have broad-based national support crossing party lines. In a crisis situation, there is simply no time to gauge and shape public opinion via the democratic process.

In addition to the obvious expedient of thought experiments by policymakers inside of government, it would be highly advisable to seek nonpartisan recommendations from experts in the private sector on the kinds of measures required in the event of a fiscal crisis. With such deliberations and recommendations as a starting point, the government can build a public consensus for a decisive emergency response. Having witnessed the ongoing chaos of the European debt crisis, we are convinced that contingency planning is critical to this nation's future.

Translated with permission from an article originally published in Japanese ("Ima kara Nihon no zaisei hatan o kangaeru") on Nikkei Business Online, June 8, 2012.

November 1, 2012

Missed Opportunities at the Tokyo IMF–World Bank Meetings

Hisayoshi Ina

For Japan, the first IMF–World Bank meeting hosted by Tokyo in 48 years was an opportunity to take stock, contemplate life after Geithner, stew over a snub by China, and estimate the price of Christine Lagarde’s shoes. Hisayoshi Ina reports.

Your typical shopper in downtown Tokyo may not know much about the annual meetings of the International Monetary Fund and the World Bank. But many no doubt noticed that something big and international was going on, for from October 9 to October 14, approximately 20,000 finance officials from around the world converged on Japan’s capital, causing traffic jams on streets around the city.



The upscale shopping district of Ginza, Tokyo.

Unlike a gathering of national leaders, such as a Group of Eight summit, though, the IMF/World Bank Annual Meetings did not result in abnormally heavy security.

The Boards of Governors of the IMF and World Bank customarily hold an-

Hisayoshi Ina Foreign policy columnist, Nikkei Newspapers.

nual meetings each year in Washington, DC, for two consecutive years and in another member country every third year. This naturally creates a bit of excitement for the city selected, and Tokyo was no exception. But this year's meeting also provided an opportunity to spotlight the changing relationship between Japan and the IMF-World Bank over the 60 years that Japan has been a member.

From Beneficiary to Donor

The last IMF-World Bank meeting in Tokyo was 48 years ago, in 1964. That was also the year Tokyo hosted the Summer Olympics, a major milestone for postwar Japan. The 1964 Games not only showcased the remarkable progress Japan had made in the 19 years since the end of World War II but also provided an impetus for the completion of a series of ambitious infrastructure projects that allowed Japan to sustain that growth and development. What many Japanese have forgotten is that Japan did not manage this by its own efforts alone.

The two biggest infrastructure projects launched in advance of the 1964 Games were the Shinkansen "bullet train" and the national expressway system—both of which remain at the core of Japan's modern transportation system. These projects were financed in large part by loans from the World Bank. In this sense, the success of the Olympics was also an IMF-World Bank success story. The meeting in October rescued this long-neglected story from oblivion, as it was shared with the Japanese people and the world.

Beyond that, however, the media were hard-pressed to sum up the significance of a six-day conference consisting of dozens of seminars and workshops, as well as plenary meetings. For one NHK newscaster, the event provided a rare opportunity to blog about IMF Managing Director Christine Lagarde's pricey footwear. For others, disappointment in no-shows and wallflowers was the dominant theme.

Low Profile and No Profile

Viewing the meetings from a political perspective, some Japanese observers took note of the remarkably low profile maintained by US Treasury Secretary Timothy Geithner, who recently reiterated his intention to leave the government at the end of President Barack Obama's current term.

In the October 12 online edition of the *Nihon Keizai Shimbun*, Nikkei's

Washington correspondent Toshiaki Yazawa conveyed some disappointment at Geithner's failure to make more of the opportunity. Noting that some consider Geithner a basically pro-Japanese official who has been relatively tolerant— notwithstanding his official position— of the Bank of Japan's currency intervention, Yazawa suggested that his departure could add to Japan's exchange-rate woes.

But if the Japanese were expecting any parting favors, or even a sentimental farewell, they were disappointed. With the US presidential election approaching, Geithner seemed keen to avoid any controversy by limiting his Tokyo appearances to a hotel interview, at which he did little more than express his confidence in Japan's ability to overcome its current challenges.

In terms of conspicuous absences, the prize certainly went to China, which opted to register its displeasure with Japan over the Senkaku Islands dispute by keeping its top-level officials at home. People's Bank of China Governor Zhou Xiaochuan and Minister of Finance Xie Xuren both cancelled their plans to attend to the IMF-World Bank meetings in Tokyo.

China's snub drew a tactful rebuke from Managing Director Lagarde. Responding to a question at a Tokyo press conference on October 11, she stressed the importance of both nations to the global economy and the role of the IMF as "a forum for dialogue" and urged the two to resolve their differences "harmoniously and expeditiously."

"They will be missing a great meeting," Lagarde said of the Chinese, "because really Tokyo is at its best. The colors are beautiful; the trees have the most beautiful colors you could think of. . . . I think they lose out by not attending the meetings."

The boycott by China made a particularly unfavorable impression in the northeastern city of Sendai, where international officials and finance ministers gathered on October 9 and 10 to share thoughts about disaster risk management in the wake of the tsunami that devastated the region in March 2011. In an October 12 editorial, the *Kahoku Shimpō*, a major regional newspaper, slammed Beijing's decision to opt out of an important global meeting on account of a bilateral disagreement, calling it "an abdication of China's responsibility as a superpower" and a "bad judgment call from which the nation stands to gain nothing."

January 29, 2013

Managing the Japan-China Row

Tokyo Foundation Hosts Dialogue among Japan-US-China Experts

The Tokyo Foundation

With official Japan-China dialogue at a standstill, an important Track 2 meeting of foreign policy experts from Japan, China, and the United States was held on January 14 and 15 at the Tokyo Foundation. The meeting highlighted the importance of gaining a better understanding of each other's real concerns and shed new insights on what the two countries must do to prevent an escalation of tensions under their respective new leaders.



The Tokyo Foundation Forum featured panelists (from left to right) Alexandra Harney, Kay Shimizu, Wu Huaizhong, Li Wei, Akio Takahara, and Kenji Someno and moderator Tsuneo Watanabe. ©Yoshiaki Miura, Japan Times.

At a time when official Japan-China dialogue has come to a standstill over conflicting territorial claims, the Tokyo Foundation hosted an important Track 2 meeting of foreign policy experts from Japan, China, and the U.S.

Held at the Tokyo Foundation on Jan. 14 and 15, 2013, the meeting highlighted the importance of gaining a better understanding of each other's real concerns—which tend to be overlooked in sensational media reports—and

shed new insights on what the two countries must do to prevent an escalation of tensions under their respective new leaders: Shinzo Abe in Japan and Xi Jinping in China.

The gathering also noted the hurdles that President Barack Obama could face in his second term as he seeks to “rebalance” U.S. foreign policy away from conflicts in the Middle East and the role Washington can play in the relationship among the three biggest powers in the Asia-Pacific, which has a big influence on regional and global geopolitics.

The Tokyo Foundation, a not-for-profit, independent think tank, hosted the two-day meeting in collaboration with the Institute of Japanese Studies of the Chinese Academy of Social Sciences, a leading Chinese think tank. The conference was part of a series of forums for trilateral dialogue co-organized with CASS. The first round of meetings was held in Beijing and Tokyo in September 2011.

Two closed-door sessions were held on Jan. 14, and a public symposium with six experts moderated by Tsuneo Watanabe, a Tokyo Foundation senior fellow and director for foreign and security policy research, was held on Jan. 15. The following is a summary of the discussions at the public Tokyo Foundation Forum.

Dealing with Domestic Issues First

Li Wei, director of CASS’s Institute of Japanese Studies, opened the Jan. 15 forum with remarks on the directions likely to be taken by China’s new leader, Xi Jinping.

Diplomacy, including the territorial dispute over the Senkaku Islands, is high on the agenda for Xi, who replaced Hu Jintao as head of the Communist Party in December. But Xi will need to first deal with domestic issues, Li said, such as the growing wealth gap between urban and rural areas and the problem of rural poverty.

Xi was born in 1953 and was heavily influenced by the policy of reform and opening up that was launched in 1978 by Deng Xiaoping. Xi, therefore, has a good understanding of the world, Li noted. He will no doubt continue to open China’s doors and learn from other countries, although he will also need to address pressing domestic issues, she said.

China has announced a plan for growth through 2020 calling for achievements similar to what Japan accomplished during its high-growth years: lifetime employment for workers and an egalitarian society of “100 million mid-

dle-class people.” Under this plan, China aims to double both the country’s gross domestic product and per capita income within a decade.

Most Chinese people, she added, feel that the country is still weak and that domestic issues need to be resolved first before responding to other countries’ demands for greater international contributions. Xi realizes that other countries expect China to take on a bigger global burden and is hoping to (1) consolidate China’s ties with the United States as fellow Asia-Pacific powers and (2) improve relations with Japan and stabilize ties with other regional countries.

The Senkaku Dispute

The Senkaku issue is a major obstacle to stronger bilateral relations with Japan. The announcement by Tokyo Governor Shintaro Ishihara last April that the Tokyo metropolitan government would purchase the islands from a Japanese civilian owner sparked the decision by the Yoshihiko Noda administration to buy three of the islands from the owner for a price of 2 billion yen. Ensuing protests from Beijing marred the fortieth anniversary of the normalization of diplomatic ties in 2012, and China has since been making almost daily incursions into waters near the islands—and more recently into Senkaku’s airspace—prompting Washington to express concern about the potential for and consequences of an accident.

Akio Takahara, a Tokyo Foundation senior fellow and professor at the University of Tokyo, strongly emphasized the need for China to stop these incursions, which could lead to accidental collisions and are in violation of the Japan-China Treaty of Peace and Friendship stipulating that bilateral conflicts are to be resolved peacefully, without resorting to the use of force. There is a need to communicate this to a Chinese public that is always told that their government is in the right when it comes to foreign relations and to raise the question of whether this is what Xi means by his pledge to pursue “peaceful development.”

Takahara also pointed out that the Ishihara announcement was not without provocation, as Chinese ships have increasingly been entering into waters around Senkaku in recent years. Ishihara, he pointed out, in fact once advocated Deng’s proposal to “shelve” the territorial dispute and to advance joint exploration of undersea resources.

One factor behind the increasing incursions, Takahara said, was China’s growing economic clout. With the rise in fiscal revenues, Beijing could afford to make bigger budgetary allocations for maritime law-enforcement activities,

which led Beijing to reinforce patrols of territories that it believed was its own.

Over the long term, there is little choice but to continue talking, not only bilaterally but also with United States—which continues to maintain a strong regional presence—to nurture trust and achieve strategic coexistence.

“Arguing over sovereignty will lead nowhere because both countries believe 120 percent that the islands belong to them,” said Takahara. In the short term, therefore, there is no other option than to “agree to disagree.”

The first step towards reconciliation, Takahara contends, is to have a better understanding of each other. This should be achieved not just through the exchange of information but also at the emotional level.

Secondly, efforts must be made to correct the misperceptions of each other’s positions. The highly provocative media reports about Japan’s “militaristic” intentions must be countered with the truth about Japan’s wholehearted repentance over World War II and its peaceful, postwar policies and achievements.

Japan, for its part, must have a greater understanding of China’s victim mentality. Ishihara’s announcement badly rubbed China in the wrong way and backfired, Takahara said, and it is absolutely crucial for Japan to maintain its pacifist course. Should Japan overturn its position that it regrets its wartime aggressions, it would immediately find its moral standing crumbling and be left without a friend in the international community.

At the same time, Takahara cautioned, Japan must not cave in when China tries to throw its weight around. Giving the impression that Japan can be pushed around will only undermine the position of the moderates in the Chinese government and society and hamper the country’s transformation into a more responsible member of the global community.

Senkaku will continue to be a very important issue for China, he noted. “How it deals with Senkaku will determine China’s place in the international community. If it can’t work with Japan, then how can it be expected to deal with any other country?” Rather than dwelling on the weakest links in the bilateral relationship, he added, both countries should focus more attention on the areas of strength.

China’s “Restrained” Response

There is a need to recognize that China’s response to Senkaku has actually been quite “restrained,” countered Wu Huaizhong, director of the Department of Foreign Affairs in the Institute of Japanese Studies at CASS.

Compared with responses to territorial disputes involving the Falklands, along the India-Pakistan border, and in the Middle East, China is behaving very rationally, he noted.

"Unlike Russia and South Korea," he said, "China has no intention of forcibly taking control of the islands." He urged Japan to recognize that a territorial dispute actually exists and to discuss the matter with China.

There have been a number of hardliners in China making provocative statements in the media, he admitted, "but they don't represent the Chinese view," Wu said, adding that in China, the provocations are believed to come from Japan, while the Japanese side thinks they emanate from China."

China and Japan must learn from each other's history, added Kenji Someno, a Tokyo Foundation research fellow. Echoing Takahara's remarks, he said that China needs to take a closer look at Japan following 1945 and realize that the country will not return to militarism. Japan, on its part, needs to look squarely at its activities in China before 1945.

Putting Senkaku Aside?

Someno also introduced a question raised in the closed-door sessions held a day earlier on what Deng really meant by his proposal to "shelve" the issue so that it can be addressed by wiser men in future generations. "What can the two sides do and what can they not do while the issue is being put aside," Someno asked. "A clarification on this point would probably reduce much of the misunderstanding on both sides."

A good place to relaunch the stalled bilateral dialogue would be to delink political and other issues, advancing cooperation in the private sector through not only business activities but also through environmental and academic cooperation.

"Deng Xiaoping's idea for the Senkaku issue to be left untouched was wonderful," Li commented. "The issue is like a land mine, and it is important to avoid setting it off." She also referred to an idea endorsed by Joseph Nye for disputed territories to be turned into environmental protection zones extending for 12 nautical miles that are off limits to all countries.

The United States has taken a balanced position on the Senkaku question, as it does not want to become a party to the dispute, said Kay Shimizu, a Tokyo Foundation research fellow and assistant professor in the Department of Political Science at Columbia University and the Weatherhead East Asian Institute.

“Given that Washington is standing on a precarious fiscal cliff and is still engaged in military operations in the Middle East, it wants to avoid a conflict in Asia,” Shimizu said. Asia will remain important in Obama’s second term, but Europe and the Middle East may keep him occupied, she said. Japan is one of Washington’s most reliable partners in Asia, but she also noted that Japan’s visibility is dwindling, as U.S. think tanks and the media focus their attention on China. This, she said, is a “destabilizing factor in Washington’s Asia policy.”

Chinese, U.S. Views of Abe

Both China and the United States harbor expectations of the new administration in Japan. Abe’s election has been widely reported in China as an opportunity to mend relations, and his policies are being followed closely, Wu noted. Some have expressed concern, though, about Abe’s reference to a “security diamond” that appears to be a policy aimed at encircling China.

Many in Washington, noted Shimizu, have been surprised by the market’s positive reaction to Abe’s announced policy to fight deflation and revitalize the Japanese economy, and hoped this would contribute to the growth of the regional and global economy.

Journalist and Hitachi International Affairs Fellow of the Council on Foreign Relations Alexandra Harney cautioned, though, that there could be disappointments if Abe does not announce Japan’s participation in the negotiations for the Trans-Pacific Partnership when he meets Obama in February.

Washington is closely watching how Japan’s intervention with the Bank of Japan goes. “If it succeeds,” it was noted, “it could give the United States broader options in dealing with its own economic woes.”

Reprinted with permission from the Davos special supplement, Japan Times, January 24, 2013.

November 22, 2012

Between Okinawa and the Senkakus

Charting a Third Way on Japanese Security

Tsuneo Watanabe

The deployment of the controversial Osprey hybrid aircraft at Marine Corps Air Station Futenma has triggered new protests against the US military presence in Okinawa, even as mounting tensions with China make that presence more essential than ever. Tsuneo Watanabe argues that the long-term answer is a new "hard/soft" strategy that combines a stronger military with more sophisticated diplomacy.

In late September, I had the opportunity to ride aboard an MV-22 Osprey, the tilt-rotor hybrid aircraft whose deployment at US Marine Corps Air Station Futenma has triggered a storm of protest in Okinawa and around Japan. Unfortunately, my limited expertise in the field of military aircraft prevents me from using that experience as raw material for any substantive report on the Osprey itself. But the demonstration flight did provide me with an opportunity to ponder the Osprey controversy in the context of the other high-



profile security issue with which Japan is grappling at the moment, namely, our dispute with China over the Senkaku Islands.

On a gut level, I had to agree with those who argue that

Tsuneo Watanabe
Tokyo Foundation.

Senior Fellow and Director of Foreign and Security Policy Research, Tokyo Foundation.

Tokyo is in no position to say no to its American allies, now that tensions with China over the Senkaku Islands are threatening to boil over. Under these circumstances, we have little choice but to affirm the status quo vis-à-vis the US military's bases in Okinawa, including the deployment of the Ospreys.

This answer may suffice for the moment. But without some viable plan for resolving the underlying issue farther down the road, we run a serious risk of finding ourselves without recourse should the situation in Okinawa take a turn for the worse. After taking a closer look at these issues, I began to discern the outlines of a solution to both in a new long-term approach to foreign policy and security – a hybrid strategy for international relations synthesizing the best elements of realism and liberalism.

The Gist of the Osprey Flap

The first step toward resolving Japan's dilemma is to clarify the real cause of the Osprey controversy by untangling the various issues involved.

One issue is whether the Osprey is, as some have charged, a defective aircraft, too dangerous for deployment under ordinary circumstances. The available data suggest that it is not. The accident rate of the MV-22B Osprey – the specific model deployed by the US Marine Corps in Japan – is 1.92 per 100,000 flight hours, as compared with 1.11 for the CH-46E Sea Knight, the transport helicopter that the Osprey is replacing.

It might be argued that 1.92 is considerably higher than 1.11, but it is still substantially lower than the rate of 2.45 recorded for all Marine Corps aircraft. Furthermore, because the CH-46E Sea Knight is aging – the model first came into use during the Vietnam War – its accident rate is certain to rise. For this reason, replacing it with the Osprey makes sense, even from a safety standpoint.

Not being an expert on aircraft, I do not claim that the foregoing answers all questions about the Osprey's safety and reliability. But I do think it suggests that the crux of the matter is not so much safety flaws inherent in the Osprey's design as the dangers of leaving Marine Corps Futenma Air Station at its present location, in the midst of a densely populated residential area.

Even if the US military agreed to defer deployment of the Osprey and continued operations at their present location using the older choppers, local residents would still be exposed to the risk of accidents, and Futenma would still be a powder keg threatening the Japan-US security arrangements.

Even more fundamental than the Futenma problem per se is the underlying

political controversy surrounding the US military bases in Okinawa, which have long been the targets of local protests. The people of Okinawa resent the high concentration of US military bases in their prefecture and the continued failure of the Japanese and US government to take their concerns seriously.

Attempts to placate residents with logical arguments regarding the safety of the Osprey are futile because the roots of their opposition run much deeper. An article in the October 1 *New York Times* online edition ("US Sends Aircraft to Okinawa, Despite Fierce Opposition") summed up the situation neatly, noting that while the ostensible focus of local protests was the Osprey's safety record, "Okinawan political leaders and analysts said the issue had become a lightning rod for deeper grievances over how Washington and Tokyo have imposed what islanders see as an excessive base burden on this tropical island."

From the standpoint of international security, further delays in the deployment of the Osprey was not a realistic option for either government, especially in view of mounting tensions between Japan and China over the Senkaku Islands. With a maximum speed of 509 kilometers per hour, the Osprey can fly almost twice as fast as the CH-46E. Its 3,334 km flying range is almost eight times that of its predecessor, and it has four to five times the mission radius.

This means that the Ospreys at Futenma would enable rapid deployment of Marine combat forces to the Senkaku Islands. This capability constitutes a major psychological deterrent for the Chinese, now that American officials have made it clear that the disputed islands are under Japanese jurisdiction and are covered by the Japan-US Security Treaty.

But while government claims about the Osprey's relative safety and its importance as a deterrent may be correct, these are not valid arguments for ignoring the larger problem posed by Futenma. With each incident involving US military personnel or installations in Okinawa (such as the alleged rape of a Japanese woman by American sailors in October), the political environment surrounding the US bases becomes more hostile.

To say that Japan depends on the Ospreys as a deterrent is to say that the security of Japan as a whole would be in jeopardy if the United States were forced to abandon its bases in Okinawa out of political considerations.

The Crux of the Senkaku Dispute

Let us take a moment now to consider the Senkaku problem and its broader significance.

In September this year, the Japanese government signed a contract to purchase the three islands that were still in the hands of a private owner. Although the government insisted that the move was necessary to preempt a purchase being contemplated by Tokyo Governor Shintaro Ishihara, the Chinese saw it as a deliberate change in the status quo, aimed at strengthening Japanese control over the islands. The purchase triggered anti-Japanese demonstrations in China and threatening behavior by Chinese fishing and patrol vessels in Japanese waters near the Senkakus.

The growing tensions over these uninhabited islands are symptomatic of larger developments in the region. One is the rise of China as an economic, political, and military power and Japan's relative loss of influence. Another is Beijing's genuine sense of alarm over Tokyo's efforts to strengthen the Japan-US alliance and step up security cooperation with Southeast Asian nations in response to China's growing power.

But another important factor is the situation within China, where political and social strains are threatening the stability of the Communist regime. The Communist Party of China, which derives its legitimacy from its war of resistance against the Japanese invaders, sees anti-Japanese propaganda and a hard line toward the Japanese government as a way of stirring up nationalist sentiment and redirecting the dissatisfaction of its own people outward.

The highest priority for Japan over the short term is to prevent any needless escalation of the conflict by keeping the channels of communication open. Fortunately, the US government and the Pentagon are maintaining fairly close contact with their counterparts in China. Military exchanges between the United States and China have continued uninterrupted even as relations between China and its neighbors have deteriorated over the Senkakus and territorial disputes in the South China Sea.

For example, last May Beijing hosted the second US-China Strategic Security Dialogue, jointly chaired by US Deputy Secretary of State William Burns and Chinese Vice Minister of Foreign Affairs Zhang Zhijun and attended by Acting Under-Secretary of Defense James Miller, Commander-in-Chief Samuel J. Locklear of the US Pacific Command, and Ma Xiaotian, deputy chief of the General Staff of the Chinese People's Liberation Army.

During the same month, Chinese Minister of Defense Liang Guanglie visited the United States and met with a number of top US defense officials, including Chairman of the Joint Chiefs of Staff Michael Mullen, Secretary of Defense Leon Panetta, and National Security Advisor Thomas Donilon. Accompanied by personnel from the Chinese army, navy, and air force, Liang toured military

installations nationwide. PLA Deputy Chief of Staff Cai Yingting also visited the United States in late August, even as tensions ran high in the South China Sea and around the Senkaku Islands.

Washington's approach to the dispute between Japan and China has involved a kind of balancing act. The United States has moved to deter any aggressive action on China's part by giving notice that the Senkakus are covered by the Japan-US alliance. But it has also refrained from any blatant interference so as to keep open the channels of communication with China that enable it to act as a mediator. At the same time, Washington has called on Japan to refrain from any provocative actions. This policy, aimed above all at averting an armed conflict, dovetails exactly with Japan's top priority, and its success demands closer coordination than ever between our two countries.

Other short-term priorities for Japan are to beef up the number and capability of its Coast Guard's patrol vessels, enhance the ability of the Japanese Self-Defense Forces to engage in a joint response with the US military, and maintain a strong enough deterrent capability to deny China any opening for aggressive action.

A New Long-Term Approach

But while these steps are clearly necessary in the short term, they do not offer a long-term solution.

Given the essential role of the United States in averting an outbreak of hostilities over the Senkakus, doing anything that would weaken the Japan-US alliance is not an option. But protecting the alliance also requires that we defuse the ticking time bomb that is Marine Corps Air Station Futenma. Chinese suspicion and hostility toward Japan is another time bomb that needs to be defused to ensure our long-term security.

To be sure, these are difficult problems, neither of which can be resolved overnight. But we can begin to solve both by addressing two major strategic challenges.

Over the long term, Japan must incrementally boost its own defense capabilities to preserve a relationship of mutual trust with the United States. For Washington, which needs to make sharp cuts in military spending over the next decade, there could scarcely be a better time for Japan to begin shouldering more responsibility for its own defense and for the security of the region.

At the same time, Japan needs to sharpen its own diplomatic and public relations skills and put those skills to prevent China, South Korea, and other

countries in the region from overreacting to its defense buildup. In the territorial disputes over the Senkakus and Takeshima (claimed by South Korea), Beijing and Seoul have both attempted to cast doubt on the legitimacy of Japan's claim by linking it to the "imperial aggression" of an earlier time.

These efforts have had a measure of success, moreover, thanks to the growing clout of the Chinese and Korean economies and a skillful public relations campaign. Under these circumstances, Japan needs to be very circumspect in its speech and behavior. For example, if the Japanese government were to cave in to nationalist sentiment here in Japan by retracting or amending the 1993 Kono statement apologizing for aggressions during World War II, it would merely strengthen the hand of its overseas critics. More than ever before, Japan needs to convince its neighbors and the international community of its ironclad commitment to the universal principles of democracy and human rights and to the resolution of conflicts in accordance with the rules of international society.

For Japan, tackling the two tasks outlined above will be a major challenge. Traditionally, Japan's left has focused much of its energy on opposing remilitarization and the Japan-US alliance, while the right has resisted efforts to take stock of Japan's past transgressions.

What we need now is a hybrid approach that combines a new realism backed by hard power with a new liberalism focusing on the use of soft power. In terms of the Okinawa base issue, this means maintaining the status quo over the short term while recognizing the need to get to work quickly on a medium-to-long-range strategy for addressing the dissatisfaction of local residents without compromising Japan's overall defense capability.

As it happens, a new generation of politician is emerging, offering hope for such a synthesis, even in this era of political dysfunction. In this context it is significant that Osaka Mayor Toru Hashimoto, whose new political party has made such a splash in the media, once resisted forging alliances with old-school right-wingers like Tokyo Governor Shintaro Ishihara and Takeo Hiranuma, with whom he has subsequently joined forces. As a member of Hashimoto's generation, I can understand his reluctance. In the end, I believe it makes more sense for rising politicians in their forties and fifties to stay aloof from the left-right struggle of an earlier generation and lay out their own synthesis of liberalism and realism for a new hybrid strategy merging hard and soft power.

December 7, 2012

A Theoretical Study of Security Exchange

Toward a New Era in Japan-China Relations

Masahiro Akiyama

While political tensions between Japan and China invariably receive front-page media treatment in both countries, the public has heard little about the progress our two nations have made in building mutual trust through bilateral exchange in the sensitive realm of security and defense. In a recently published book¹ on Japan-China security exchange, funded by the Sasakawa Japan-China Friendship Fund, co-editor Masahiro Akiyama (then chairman of the Ocean Policy Research Foundation; now president of the Tokyo Foundation) discusses, in the book's lead chapter, the theory and significance of security exchange as a form of cooperative security and suggests ways to make such interaction more meaningful and productive.

Introduction

In the two decades since the end of the Cold War, great effort has been made to enhance security dialogue, defense exchange, and confidence-building measures in East Asia. The ASEAN Regional Forum, or ARF, has been the main focus of multilateral security dialogue in the region, but bilateral security exchange among East Asian nations has also been active. Japan, for its part, has pursued and carried out security exchange with a number of neighboring countries, including South Korea, Russia, and several Southeast Asian nations. But the biggest challenge for Japan has been how to develop defense exchange with China.

In the following, I will begin by examining the nature and purpose of security and defense exchange in general. Are the aims being adequately met? How does such exchange relate to existing international security frameworks? What

Masahiro Akiyama *President, Tokyo Foundation; former Chairman, Ocean Policy Research Foundation and former Administrative Vice-Minister, Defense Agency.*

¹ Masahiro Akiyama and Zhu Feng, eds., *Nitchu anzen hoshō-boei koryū no rekishi, genjō, tenbo* (Past, Present, and Future of Japan-China Security Exchange), (Tokyo: Aki Shobo, 2011).



security functions is it expected to perform, and is it performing them?

Next, I will discuss bilateral security and defense exchange from a theoretical perspective, focusing on the role of such exchange between Japan and China. Finally, on the basis of my conclusions, I will offer my

own recommendations for enhancing the value of Japan-China security exchange.

Defining Security Exchange

In order to examine security and defense exchange from a theoretical perspective, we must begin by defining the term. The broadest definition would be “interaction of any type between nations in the security or defense sphere.” As used in Japan, however, the term is generally limited to interaction between countries that are not already allies or strategic partners. “Security and defense exchange” (or simply “security exchange”) as used here does not apply to interaction between Japan and the United States, since the two nations are allies.

Security exchange can take place within a bilateral or multilateral framework, but the vast majority of analyses to date have focused on multilateral exchange, and theoretical discussions of bilateral exchange are almost nonexistent. Later I will attempt to remedy that situation by focusing on bilateral security exchange—specifically, that between Japan and China.

Security exchange typically takes the form of security dialogue, staff talks, unit-level military exchanges, reciprocal visits by military officers, and interaction in the area of research and training. Unit-level military exchanges can include reciprocal ship visits, joint exercises, reciprocal troop visits, or interaction between units in the context of peace-keeping operations. The majority of such activities are regarded as confidence building measures or are undertaken with a similar impact in mind.

The Japanese word for defense exchange (*boei koryu*) has no equivalent in Chinese, the closest being *fangwu jiaoliu*, which refers not only to security exchange with nonallied countries but also to that with key strategic partners,

such as Russia, and military diplomacy, including military aid. Indeed, military diplomacy with the developing nations of Africa figures prominently in China's *fangwu jiaoliu* policy. This difference in terminology complicates any comparison of the two countries' security exchange policies.

For the purposes of this analysis, however, I will focus on the type of interaction that corresponds to security exchange as defined above. This definition excludes exchange with the United States, with which Japan has an alliance, and also excludes the Chinese notion of "military diplomacy," since Japan currently has no such program. A deeper examination of the difference between the Japanese and Chinese concepts must await another occasion.

The Purpose of Security Exchange

The foregoing definition describes security exchange as a phenomenon, but how should we understand it in terms of objectives and functions?

The basic unit in the global system remains the nation-state, and the peace and prosperity of humankind is profoundly affected by how these nations relate and interact with one another. It goes without saying, therefore, that cultivating and maintaining good relations between nations is a matter of the utmost importance.

Cultivating and maintaining good relations among nations naturally requires sound foreign policies on the part of each government, but another key component is various types of exchange between nations, at both the official and the nongovernmental levels. This may entail cooperation in the pursuit of shared goals, as when the police of different countries collaborate in crime prevention or law enforcement. However, in this analysis, we focus more on the type of dialogue and people-to-people exchange that is aimed primarily at laying a groundwork of mutual trust and understanding on which to build good relations. This is much the same function pursued by governmental and nongovernmental international exchange initiatives in other fields, including culture.

It goes without saying that exchange in the arena of defense and security also contributes to building mutual trust and understanding, so, in that sense, it can be likened to other types of international exchange.

But it also has other dimensions, for it involves organizations and personnel—both in the governmental and nongovernmental sectors—that are directly or indirectly engaged in combating external threats through the use of military force. Building mutual trust and understanding in the defense sector, whose

very existence is predicated on the possibility of armed conflict, has a special significance for the cultivation of good relations, but it also poses special challenges. Between nations that are neither allies nor *de facto* strategic partners – and may even become potential enemies – interaction and exchange in the military sector can be critical to the development of friendly ties. But such interaction and exchange cannot occur between such nations unless they are vigorously pursued.

In this sense, security exchange is more than just another form of international exchange. In addition to the general objectives of confidence building and mutual trust, security exchange has a more specific goal, that is, the achievement of common goals for national security. That said, it can be quite difficult for countries that are neither allies nor strategic partners to agree on common security goals. This is a topic that must be discussed with reference to the “security framework” theory.

In April 2007 the Japanese Ministry of Defense issued its Basic Policy for Defense Exchange.² Under the heading of “Significance and Purpose,” the document notes that, “while the overriding role assigned to defense exchange was initially that of confidence building with neighboring countries so as to prevent accidental military clashes, expectations have changed. Today it is widely understood that the main significance of defense exchange lies not only in confidence building but also in the building and strengthening of cooperative ties with the international community.” It goes on to say that the “general significance and purpose” of defense exchange are to cultivate mutual understanding, build confidence, and promote friendly relations, while the “concrete significance and purpose” are to deal with specific security issues.

The Defense Ministry is to be commended for acknowledging that security exchange has more concrete objectives than the general goal of confidence building, but the document devotes only a few lines to the importance of “resolving security concerns (preventing the emergence of destabilizing factors)” with unfriendly states while dwelling at length on the general purpose of “strengthening cooperation with friendly countries.”

My aim in analyzing security exchange from the standpoint of security framework theory is to highlight precisely the concrete objectives that the Basic Policy for Defense Exchange neglects, and in so doing, shed light on the role of security exchange between nations that pose a potential security threat to one another.

² <http://www.mod.go.jp/j/defense/exchange/01.html>

Types of Security Frameworks

Security frameworks are generally divided into four categories: conventional, collective, common, and cooperative. While some also speak of “comprehensive security” and “human security” as separate categories, these four types of security framework will be sufficient for our purposes here.

Conventional security refers to the national defense systems that rely on military resistance and/or deterrence to protect a nation’s territory and independence, as well the lives, physical well-being, and assets of its people from the threat of external aggression, whether by means of resistance or deterrence or both. Military alliances, which are an extension of this type of defense, are the basic international framework for conventional security. Because international society consists of sovereign states that are not subordinate to any higher governing power, a nation has no choice but to exercise its own right to self-defense in the event of an armed conflict. Until some other security model becomes fully functional, conventional security systems will remain the final resort.

Collective security is the aim of the United Nations (and the League of Nations that it replaced). In the event that any one member state commits an act of aggression against another, the other members respond as a group to counter it, first with sanctions and ultimately, if necessary, with collective military force. The United Nations, however, does not yet have the standing army that was envisioned in the UN Charter. Furthermore, the Security Council, the UN’s supreme decision-making body for security issues, has an extremely poor record when it comes to making and enforcing meaningful security decisions, owing to the fact that each of the permanent members has veto power. On the other hand, some have argued that the UN is in effect performing its collective security function when member states voluntarily cooperate in military action in response to a Security Council resolution, or when the General Assembly passes a resolution establishing peacekeeping operations or other frameworks for collective security. It should also be noted that the UN Charter recognizes the right of members to engage in individual or collective self-defense and assumes the eventual emergence of regional security institutions.

Common security, developed in Europe during the Cold War, was a product of that particular era in history. As the United States and the Soviet Union built up their nuclear arsenals, their respective allies in Western and Eastern Europe grew increasingly alarmed that a military conflagration could reduce the region to ashes. These common concerns gave rise to the Conference on Se-

curity and Co-operation in Europe—the predecessor of today’s Organization for Security and Co-operation in Europe—in which fundamentally hostile nations joined together to develop confidence-building measures aimed at averting war. Among these confidence-building measures were advance notification of large-scale military exercises and troop movements, reciprocal observation of military exercises, a pledge to refrain from provocatively aggressive armament or arms deployment, and the establishment of a security hotline.

The development of a security framework after the end of the Cold War was no longer pursued in common security terms. As tensions between East and West dissipated, the CSCE was reconstituted as the OSCE, which embodies the kind of cooperative security arrangement that emerged in the post-Cold War era.

Cooperative security uses security dialogue, military exchange, and confidence building among multiple countries, including potential adversaries, to prevent armed conflicts and clashes in an international environment in which security threats—including “enemies”—are ill-defined. Following the Cold War, many countries of Eastern and Western Europe, which were not allied with one another, came together under the cooperative framework of the OSCE with the purpose of averting armed clashes among the member states. In Asia, a cooperative security system is being pursued by the ASEAN Regional Forum, another product of the post-Cold War era.

The “security exchange” discussed in this and other chapters of the book clearly falls into the cooperative security category. However, there may be some question as to whether bilateral exchange qualifies as a “cooperative security” arrangement, since most such systems are multilateral. This is a question that will be dealt with later; I will first look more closely at the functions and characteristics of cooperative security.

Cooperative Security Systems

How should we characterize cooperative security in terms of its functions, conditions, constituents, and so forth? In the 1990s, Yoshinobu Yamamoto proposed a classification of security systems based on three sets of criteria: whether the threat is specific or nonspecific, whether it comes from inside or outside of the system, and whether the means used to counter it are predominantly military (noncomprehensive) or include political, diplomatic, and other measures (comprehensive). Since Yamamoto devised his classification for the purpose of comparing and contrasting cooperative security with conventional,

collective, and common security systems, let us begin by examining cooperative security from his perspective.³

Yamamoto used a chart similar to Table 1 to summarize his classification of international security systems.

Table 1. Classification of International Security Frameworks

	External threats		Internal threats	
	Specific	Nonspecific	Specific	Nonspecific
Noncomprehensive means	Deterrence/resistance (alliances)	Alliances against extra-regional threats	Crisis management	Collective security
Comprehensive means	COCOM model	MTCR model	Common security	Cooperative security

Under this classification, conventional security systems are characterized by specific, external threats and a reliance on military means to address those threats. At the other end of the spectrum is cooperative security, defined by nonspecific, internal threats addressed through comprehensive approaches. Common security uses comprehensive means to counter specific, internal threats, while collective security (theoretically) would use military means to counter nonspecific internal threats. By “specific threats,” Yamamoto is referring to the type of situation that existed during the Cold War, when the nations of the Eastern bloc were aligned against those of the West and vice versa. “Nonspecific threats” describes the amorphous security situation that arose after the East-West conflict came to an end.

Under Yamamoto’s classification, then, cooperative security is a system adapted to a situation in which the enemy is indeterminate. It is a system in which participating countries might be either friends or potential enemies. In this sense, it differs decisively from the Cold War common security system under which the East-West divide was clear cut.

The question Yamamoto’s chart fails to answer, though, is how to deal with

³ Yoshinobu Yamamoto, “Kyochoteki anzen hoshō no kanosei: Kisoteki na kosatsu” (The Potential of Cooperative Security: Fundamental Considerations), *Kokusai Mondai* 425 (August 1995): 3–10.

nontraditional threats, such as terrorism, proliferation of weapons of mass destruction, piracy, and so forth. These are not threats that one nation poses to another, and would therefore not ordinarily lead to war.⁴ Nonetheless, they often call for a military response. The fact is that Yamamoto devised his classification in 1995, before there emerged a strong consciousness of nontraditional threats. Because his key criteria focus on the presence or absence of a clearly identifiable conflict between nations, it is difficult to accommodate nontraditional threats in this system. In the following, however, I discuss them as non-specific threats, since I believe they are particularly important in relation to internal threats, which I discuss next.

Neither the OSCE nor ARF were conceived to counter external threats; they were designed to head off the threat of conflict among members through frequent dialogue, exchange, and other confidence-building measures. Some of Europe's biggest external security threats today are not actively directed at Europe but are developments that have the potential of affecting the region—civil war, transnational terrorism, piracy, and so forth. Countering such threats is the task of NATO and the European Union. The OSCE, on the other hand, is a cooperative security framework dealing with potential conflicts among its members.

Moreover, in case nontraditional threats materialize internally, it seems perfectly reasonable to deal with them using cooperative security arrangements, even if they are transnational in nature. When one realizes that nontraditional threats encompass not only terrorism and piracy but also the displacement of persons for political and economic reasons, smuggling of workers and goods, outbreaks of infectious diseases like avian influenza, and large-scale natural or environmental disasters, one can see how a cooperative security system could be an effective framework to deal with such threats. In fact, the ARF is currently deliberating measures to counter piracy and other new threats to maritime security.

Both the OSCE and ARF are made up primarily of countries lying within a certain geographical region, but regionalism in a narrow sense is not their ruling principle; after all, the ARF's current participants include the European Union and the United States. "Regional" security frameworks need not be defined geographically; Sugio Takahashi prefers the term "local level" to signify a unit

⁴ A notable exception was the terrorist attacks of September 11, 2001. The 9/11 attacks led to the US-led invasion of Afghanistan, whose government had harbored the al-Qaeda terrorist organization.

that exists between the national and the global levels but that is unconstrained by physical proximity.⁵ This understanding will come into play later in this paper, as we explore possibilities for security exchange between Japan and China.

Cooperative security systems are built around nonmilitary responses, such as regular security dialogues, defense exchanges, and other confidence-building measures—none of which rely on military force. For this reason, cooperative security systems are limited in their ability to deal with outbreaks of military aggression or armed conflict. In such cases, countries need to resort to individual self-defense, collective self-defense, a collective security arrangement, or some combination of the above. Proponents of cooperative security, it should be noted, do not exclude these other approaches. In fact, some maintain that cooperative security systems and coercive systems based on military force should be approached as two sides of a coin.⁶ Indeed, even if these systems can be isolated conceptually, any pragmatic policy must be predicated on their co-existence. This suggests that, for a cooperative security grouping to function effectively, it must include among its members at least one major military power. The fundamental purpose of cooperative security is, in a nutshell, to build confidence among member states through nonmilitary measures and head off armed conflicts before they occur.

A Theoretical Approach to Security Exchange

With this theoretical framework in mind, let us now return to our main topic: security exchange. If one places such exchange into one of the four frameworks discussed above, it would clearly be in the category of cooperative security. But we must probe more deeply to establish whether bilateral security exchange between Japan and China—our ultimate focus here—can truly be considered part of a cooperative security system.

The first question to address is whether bilateral arrangements in general can be considered a type of cooperative security. Technically speaking, a bilateral arrangement *is* multilateral. However, in actual discourse bilateral and multilateral approaches are typically treated separately. In the context of inter-

⁵ Sugio Takahashi, "Kyochoteki anzen hoshō gainen no saiteigi to Ajia-Taiheiyo 'chiiki' no anzen hoshō," (Redefinition of Cooperative Security and Security in the Asia-Pacific "Region"), Boei Kenkyūjo Kiyo (NIDS Security Studies) vol. 2, no. 2 (September 1999): 30–31.

⁶ Takahashi, "Kyochoteki anzen hoshō gainen no saiteigi," 39.

national relations, bilateral and multilateral frameworks are understood to differ in their purpose and function. And the fact is that theoretical discussions of security frameworks almost never focus on bilateral cooperation and exchange. How can we account for this?

In the security field, bilateral exchange is generally conducted for the purpose of building mutual trust and understanding. This aspect of bilateral security exchange pertains whether the countries involved are friends or potential enemies. In the case of potential enemies, however, bilateral exchange can also function to facilitate crisis management.⁷ The idea here is to lay the groundwork for prompt information sharing to avert misunderstandings and ensure that, should a dispute or emergency arise between the two countries, they will be able to resolve it peacefully and avert any military clash. Concluding an agreement on maritime accidents is a good example of this sort of structure.⁸

Multilateral exchange, on the other hand, tends to focus on building institutional mechanisms and frameworks that are typically associated with cooperative security systems: councils and other bodies dedicated to averting conflict, multinational review of national defense policies and programs, procedures for conflict resolution, and so forth. But such frameworks are difficult to achieve precisely because of their multinational character. In the real world, accordingly, interaction geared to crisis management and policy dialogue is apt to be carried out on the bilateral level. When it comes to cooperative security, therefore, there is no sharp conceptual distinction between bilateral and multilateral approaches.

Bilateral exchange, in fact, has certain advantages over multilateral exchange. Reaching an agreement between two countries is easier, and the two countries can launch an exchange program immediately after an agreement is concluded. Where security dialogue is concerned, it is quite possible to carry out a substantive discussion on issues of bilateral concern; indeed, such dialogue is likely to be more effective and productive than a multilateral discussion. It follows from this that the pursuit of cooperative security at the bilateral level could serve as an important first step toward the goal of a multilateral cooperative security system. From this perspective, it seems reasonable to place both bilateral and multilateral exchange in the category of cooperative security, even while acknowledging differences in the way they function.

The next question to explore in discussing bilateral security exchange pro-

⁷ Yamamoto, "Kyochoteki anzen hoshō no kanosei," 4–5.

⁸ Japan and Russia signed such an agreement on October 13, 1993.

grams as a cooperative security system is the specificity of the threats encountered. Even in the case of two countries that are latently hostile, the potential security threats are obviously not concrete and identifiable in the same sense that they were during the Cold War.

In some instances, in fact, countries conduct bilateral security exchange programs even though they have no issues to speak of with one another. Japan, for example, has defense exchange programs with Australia, New Zealand, Canada, and various European nations. This is not to say that Japan has no issues whatsoever with these countries, but there are not even nonspecific security threats to speak of with these countries. Security exchange with such countries should be considered not so much in a security framework as a category of diplomacy, a way of promoting international cooperation to deal with more general global or regional threats. I have stipulated that Japan has no program of military diplomacy at present, but this kind of exchange can be thought of as a form of intergovernmental diplomacy that involves both countries' defense establishments. The Basic Policy for Defense Exchange actually treats such interaction as an important component of Japan's defense exchange program, but such bilateral exchanges, as noted earlier, do not fit neatly into existing security frameworks.

Regarding Japan and China, neither nation poses a specific, identifiable security threat to the other. But neither are they strategic partners or "friends," in the sense of countries with broadly overlapping national interests. Any potential threats here are nonspecific and nontraditional.

As Japan explored the possibilities for security exchange in the post-Cold War years, initiatives aimed at building confidence and fostering mutual understanding with China made conspicuously slow progress. Relations between Japan and China are fraught with political tension, which raise formidable hurdles to bilateral exchange in the security sphere. Given the politically fraught nature of this bilateral relationship, it seems reasonable to assume that crisis management is one of the purposes of Japan-China bilateral exchange. It is worth noting that the two countries have yet to conclude an agreement on maritime accidents.

In fact, one can envision a number of scenarios capable of triggering a security crisis between China and Japan, including situations relating to the Korean Peninsula, Taiwan, development of energy resources on the continental shelf, and military activity in the exclusive economic zone, as well as various nontraditional threats. These are exactly the kinds of crises that bilateral security exchange can avert or defuse. In other words, bilateral security exchange be-

tween Japan and China is (or should be) concerned with more than general efforts to build mutual trust and understanding. Only in a relationship such as that between Japan and China—in which both countries are conscious of non-specific bilateral security threats—can bilateral security exchange be understood as a kind of cooperative security framework.

Now we come to the question of whether the potential threats in a bilateral security relationship should be treated as external or internal to the security framework. While the immediate impulse is to call them external, from a theoretical standpoint, they are internal, as they are addressed by either multilateral or bilateral cooperative security frameworks. In the case of Japan and China, the purpose is to prevent crises from emerging or escalating through dialogue, exchange, confidence-building mechanisms, and other joint action. It is not to resolve full-fledged conflicts after they have broken out. Were hostilities to break out between Japan and China, we could not expect the two countries to resolve the conflict by means of a joint response under a bilateral cooperative security arrangement. In such an event, an effective response would have to occur in conjunction with a traditional or collective security framework.

Bilateral security exchange does not involve the use of military power. Instead, it uses nonmilitary means like dialogue, exchange, and confidence-building measures in the security sector. Under Yamamoto's framework, cooperative security systems rely also on exchange in other sectors, particularly the diplomatic, economic, and social spheres. While such interaction certainly plays an important role in security, including them in our discussion here can interfere with our attempts to identify the function and character of bilateral security exchange. Here, I would like to focus on exchange in the security and defense domains.

Assessing Japan-China Security Exchange

At present, security exchange between Japan and China appears to be limited to interaction aimed at the general goals of international exchange, namely, building mutual trust and understanding. Owing to historical factors, differences in national character, conflicting political systems, and both countries' positions as major Asian powers, the bilateral relationship between Japan and China is a difficult one, and for this reason it is understandable that the initial focus should be on building mutual trust.

But building trust is particularly challenging when the actors involved are military or defense-related personnel—including researchers in the private sec-

tor—whose roles are predicated on the possibility of war as a last resort for protecting national interests. We must scrutinize Japan-China security exchange closely to determine whether it is achieving its general purpose when viewed from this perspective. To keep the discussion manageable, I will focus on the more specific aim of building confidence between our two nations' defense establishments.

The security exchanges initiated between Japan and China after the end of the Cold War—however belatedly—have certainly contributed something to the general goal of international exchange, building mutual trust and understanding. In terms of “track 2” (nongovernmental) interaction, the periodic security dialogues and exchanges between defense personnel carried out under the auspices of the Sasakawa Japan-China Friendship Fund have played a particularly important since it was inaugurated in 2000. With just one exception, exchange activities have continued as scheduled, even amid mounting political tension. In terms of fulfilling the aim of enhancing mutual understanding, it has been far and away the most effective undertaking of its kind.

Taking this program as a case in point, I would like to suggest certain ways in which we could enhance the confidence-building efficacy of Japan-China security exchange. One way would be to shift the emphasis from field trips at present to the exchange of opinions on national defense strategy. Other options include improving military transparency through mutual disclosures of weapons and military equipment, promoting exchanges of units, bringing together senior officials to share views, and, if possible, conducting joint operations of some sort.

I would also suggest that exchange is more effective when there is a follow-up program. After an event or activity, the participants should continue to network and strive to meet again periodically, even if only at intervals of several years. International exchange is only meaningful if we continue to nurture the seeds of mutual trust that have been planted. Keeping detailed records of the proceedings and publicizing events through the media would also enhance the effectiveness of such security exchange.

Upgrading the Security Framework

Now let us consider how bilateral security exchange in general, and Japan-China exchange in particular, can achieve the more concrete aims of a cooperative security system. My focus will be on the nature of threats and their internalization within the security framework.

We have seen that cooperative security deals with nonspecific threats. Where China and Japan are concerned, though, various issues do exist between the two countries that pose a latent threat: the situation on the Korean Peninsula, the Taiwan problem, and territorial disputes in the South China and East China seas, not to mention nontraditional threats relating to the environment, fisheries, illegal immigration, smuggling, trafficking, and so forth. That said, the situation is certainly a far cry from that which persisted during the Cold War, when much of the world could be clearly identified as either friend or foe, and an armed conflict had the potential to escalate into a world war.

When addressing latent threats of this sort through international cooperation, crisis management is of the essence. Two countries working one on one through a bilateral security exchange program should find it easier than a large group of countries to build a joint crisis management system. They could begin by regularly scheduling exchanges and promote the establishment and use of a hotline and similar crisis-management mechanisms. Inviting the United States into the dialogue, as I will elaborate below, would also make a major contribution to enhancing crisis-management effectiveness.

The treatment of security threats as internal issues is unusual where Japan and China are concerned, but we should not avoid discussion of such a crucial matter. Unfortunately, Japan's Basic Policy for Defense Exchange devotes insufficient attention to the subject.

In the context of Japan-China security exchange, internalization would mean treating all the latent threats discussed above not as external to the relationship but within it, to be addressed jointly through the bilateral framework. Other nonspecific threats, such as terrorism, piracy, proliferation of WMD, and large-scale natural disasters, may be classified either as internal or external, depending on where and how they arose. If they are external, Japan and China can agree to act jointly within the framework of a UN peacekeeping or other international operation. This would mean joint participation in a multilateral collective or cooperative security system. However, such threats may also emerge within either country, in which case they would be addressed as internal issues.

There do not exist, though, any formal exchange mechanisms to deal with internal security threats. The only existing approaches are dialogue, military exchanges, and confidence-building measures. The key would be to recognize the internal nature of the threats and to share an awareness that heading off or resolving them peacefully is built into the system for bilateral security exchange. Of course, any full-blown contingency would necessitate the involve-

ment of other security frameworks, as explained above. But in any situation short of such a contingency, Japan-China security exchange would play a vital role when security threats are internalized.

This brings us back to a point I made previously – the importance of having a major power participating in any cooperative security arrangement. China, of course, is a major power. However, the major power for security in the Asia-Pacific region is the United States. The United States also happens to be an ally of Japan; indeed, the Japan-US alliance is the biggest security framework in the region. And since regional security frameworks need not be subject to rigid geographical constraints, as explained previously, there is nothing unnatural about US involvement in a security system focused on East Asia or in a framework for security exchange between Japan and China.

From a practical standpoint, moreover, any serious security threat confronting China and Japan will need to be addressed by China and the Japan-US alliance. And for a cooperative security system focused on Japan and China to function effectively, US participation would be a major factor. It might be argued that China would regard the involvement of Japan's ally as a threat in itself. But China and the United States have been pursuing their own military exchanges, a key purpose of which is to address internalized threats. Under these circumstances, there is no reason for China to regard US involvement as an additional threat. Bilateral exchange need not go any further if it is primarily aimed at promoting goodwill, but considering the nature of the threats the two countries confront and their internalization, perhaps it is time to expand the dialogue to include the United States as well.

This can be advanced as a trilateral framework among Japan, China, and the United States or a bilateral one, between China on the one hand and the Japan-US alliance on the other. In the past, China had been reluctant to enter into a trilateral dialogue on the grounds that it would invariably be outvoted. It also hoped to resolve issues relating to the US presence in East Asia bilaterally, between Beijing and Washington. But the United States would be hard-pressed to project its military power in the region without Japan's defense capability, the use of military bases in Japan, and the support of the Japanese government. The US naval fleet, in particular, relies heavily on antisubmarine patrols by Japan's Maritime Self-Defense Force. From a practical viewpoint, then, China's hypothetical adversary is the Japan-US alliance. If Beijing objects to a trilateral framework, then a bilateral arrangement—with the Japan-US alliance repre-

sented as a single party—might be the best solution.⁹ It is high time to begin building a cooperative security system involving Japan, the United States, and China.

The foregoing explored security and defense exchange from a theoretical perspective and offered proposals for how Japan-China security exchange can be advanced in the future. Full-scale exchange incorporating crisis-management elements at the government level will doubtless take time. Initiatives can begin, therefore, at the nongovernmental level—either track 1.5 or 2—and later evolve into government-to-government exchange. China admittedly may resist a trilateral dialogue that includes the United States, but it is nonetheless in Beijing's interests to craft a crisis-management system of some sort with both Tokyo and Washington. Insisting on bilateral talks—perhaps with a view to isolating the allies—will only accentuate the confrontational elements in the relationship with Beijing and result in strengthening the alliance. In fact, it could actually invite a security dilemma.

The Asia-Pacific region as a whole, moreover, would like nothing better than to see measures to enhance trust among Japan, China, and the United States. Such a framework for cooperative security exchange would also have the potential to go well beyond general confidence-building and address substantive security issues, namely, transparency in China's defense program and military deployments, arms control and arms reduction, and nontraditional security threats.

With regard to the transparency issue, if Beijing steadfastly refuses to lift the veil of secrecy surrounding its defense program, it will end up plunging the security players in the region into the "prisoner's dilemma." In other words, Japan and the United States will be dragged, against their will, into an East Asian arms race. The fact is that Japan and the United States are already moving to bolster their defense capabilities to deal with China's growing military power. But surely an arms race is the last thing Beijing wants. China's military establishment may believe it can leverage the supposed threat of the Japan-US alliance to expand the defense budget indefinitely, but at some point the spending spree must end—particularly given the labor and revenue shortages the nation will face after around 2030, when its population is expected to peak.

When assessing the prospects for arms control, we should recall that even

⁹ See Benjamin L. Self, "An Alliance for Engagement," in Benjamin Self and Jeffrey Thompson, ed., *An Alliance for Engagement: Building Cooperation in Security Relations with China* (Washington, DC: Henry L. Stimson Center, 2002), 145–64.

at the height of the Cold War, Washington and Moscow came together on the need to limit deployment of anti-ballistic missile systems that threatened to undermine the deterrent of “mutual assured destruction” and spur a renewed arms race. The deployment of increasingly sophisticated intercontinental missile defense systems in East Asia poses similar arms control challenges for China and the Japan-US alliance. China is reaching the stage at which single-minded military expansion must give way to efforts toward international arms control. Arms control negotiations require a certain level of mutual trust to succeed, but substantive arms-control talks can also serve to build mutual trust.

China also risks triggering an arms race with Taiwan, as Taipei responds to the ongoing buildup of Chinese attack missiles aimed across the strait by strengthening its missile defenses, and possibly by deploying offensive missiles of its own.

When it comes to dealing with nontraditional security threats, international cooperation is vital not only to reduce the cost burden on individual nations but also to ensure that countermeasures are implemented in an effective manner. Japan and the United States are already cooperating actively in this sphere. Since the turn of the current century, the United States has become far more actively involved in addressing these threats, including natural disasters—something it basically ignored as recently as the mid-1990s. Any concrete cooperation among Japan, China, and the United States in this area—particularly in the context of actual operations, as opposed to drills—would contribute immensely to nurturing mutual trust.

I am convinced that Japan, the United States, and China need to hold repeated dialogues on the issues outlined above, even if they are initially held at the nongovernmental level.

December 20, 2012

Outlook for Chinese Foreign Policy

A Realistic Prognosis

Takashi Sekiyama

The recent transfer of power in Beijing has given rise to much speculation as to how a new generation of leaders could redefine China's ties with Japan and the United States. But can individual personalities trump the external and internal exigencies facing the Chinese government in the coming years? Takashi Sekiyama offers a clear-eyed assessment.

In mid-November the Communist Party of China (CPC) elected a new Politburo Standing Committee headed by General Secretary Xi Jinping, effecting Beijing's first major leadership transition in a decade.

Japan has just seen a major transfer of power as well, with the Liberal Democratic Party reclaiming the lower house majority it lost in 2009 and forming a new government under Shintaro Abe. One of the key tasks awaiting Abe as prime minister will be repairing relations with China; under Prime Minister Yoshihiko Noda, bilateral ties have frayed badly over the escalating Senkaku Islands dispute, and the fallout has seriously hurt Japanese businesses in China.

Across the Pacific, the US presidential election handed a second term to President Barack Obama, whose administration has taken a circumspect approach to China's rise. During one of the presidential debates, Obama characterized China as "an adversary, but also a potential partner in the international community if it's following the rules,"¹ a message echoed by Secretary of State Hillary Clinton while in Australia on the eve of China's leadership transition.

"We welcome a strong and prosperous China that plans a constructive and greater role in world affairs," Clinton said, "but we also want to see China act in very transparent ways that respect international norms and standards."²

How will Beijing's new leadership deal with its two key rivals and potential partners in the coming years?

Takashi Sekiyama *Research Fellow, Tokyo Foundation; Associate Professor, Meiji University.*

¹ Third presidential debate, Boca Raton, Florida, October 22, 2012.

² "Hillary Clinton soothes China on alliance," *The Australian*, November 15, 2012.

A number of Japanese commentators have speculated on the likely shape of Beijing's foreign policy in the Xi Jinping era, most of them basing their assessments on the past record of Xi and other figures on the reconstituted Standing Committee. Since the committee as a whole has the final say over national policy, it is natural to assume that the personal views of its individual members will have an impact on China's foreign policy going forward.

Yet it seems to me that internal and external exigencies are likely to trump personal ideology in setting a course for China's foreign policy in the next few years. As I see it, these internal and external factors will force the new leadership to take a basically cooperative approach toward the United States while maintaining its hardline stance toward Japan. In the following, I explain the thinking that leads me to this conclusion.

Playing It Safe

The first thing the new leadership team needs to do is consolidate its control of the party, the national administrative apparatus, and the military. Power struggles are a constant of human society, and the CPC is no exception; the world caught a glimpse of such internecine tension in the period leading up to the recent Eighteenth National Congress. There are bound to be opposing forces



Xi Jinping, left, was named to head the Standing Committee as general secretary of CPC. © Bert van Dijk

in the party that would take any opportunity to undermine confidence in the new leadership to advance their own political fortunes.

Faced with such circumstances, a new government will avoid any course of action that runs counter to the policies established under the former administration. Even if the previous leader has retired in fact as well as in name (instead of continuing to wield influence from behind the scenes), the new regime will play it safe and rely on the protection precedent affords rather than open itself up to criticism through any abrupt policy reversal. Certainly such caution was in evidence during the early years of Hu Jintao's regime.

Still, some observers have stressed the policy differences that distinguished

Hu's regime from that of his predecessor Jiang Zemin. From the perspective of these analysts, the conspicuous presence of members of Jiang's faction on the newly elected Standing Committee might seem to augur imminent policy reversals, particularly given that Hu has relinquished his chairmanship of the Central Military Commission instead of holding onto that influential post for another few years. To my mind, however, Hu's decision to relinquish both offices speaks to his confidence that the "scientific development concept" and other core policies adopted during his regime are not in jeopardy under the new leadership.

In the area of foreign policy, the overall legacy of Hu Jintao has been an emphasis on cooperation. China and the United States built a remarkably close cooperative relationship over the course of Hu's 10-year regime. With a cooperative US foreign policy toward Asia under Barack Obama, these ties continued to progress, as seen in the success of the US-China Strategic and Economic Dialogue.

Given the aforementioned risks of early policy reversals, we can expect Beijing's new leadership to maintain Hu's policy of pursuing cooperative ties with the United States, at least for the next few years. Foreign Ministry spokesperson Hong Lei confirmed this assumption at his first press conference following the change in leadership. Asked about the future direction of China's foreign policy under the new leadership, he cited the report Hu Jintao submitted to the Eighteenth National Congress and declared unequivocally that China would continue along the path of "friendly cooperation."³

Domestic Tightrope

The truth is that the most urgent political challenges facing the new government are domestic in nature, not foreign. Xi Jinping's regime must address a laundry list of festering internal problems that threaten China's long-term stability.

Domestic discontent has escalated over such issues as corruption and abuse of power among provincial officials, joblessness among the vast numbers of people migrating to the city to find work, and limited employment opportunities for college graduates, issues that have fueled a series protests and riots

³ "Foreign Ministry Spokesperson Hong Lei's Regular Press Conference on November 15, 2012," Ministry of Foreign Affairs of the People's Republic of China, <http://www.fmprc.gov.cn/eng/xwfw/s2510/2511/t989886.htm>.

around the country. The biggest challenge facing Beijing's new leadership is grappling with these domestic issues. It is no accident that both Hu's aforementioned report and Xi's remarks at his first press conference as general secretary were devoted primarily to domestic affairs. And addressing such domestic issues requires a stable international environment for economic growth.

The CPC lists its top priorities as advancing modernization, achieving national reunification, and safeguarding world peace while promoting "common development." Of these three priorities, modernization—described in the preamble to the CPC constitution as the "basic task of the nation"—continues to head the list. When the CPC speaks of modernization, it means economic development. Economic development is considered the key to building a strong nation, a prerequisite both for national reunification and for peaceful development in cooperation with the international community.

Under this conceptual framework, the key goal of foreign and security policy is contributing to the goal of modernization by creating an international climate conducive to China's economic development—namely, a "harmonious world" in which countries can prosper together in peace. Cooperative relations with the United States, China's largest trading partner, are particularly important if the government is to promote continued economic development and focus its attention on domestic issues.

In short, from the perspective of promoting economic development and addressing domestic problems as well as that of avoiding internal criticism, the new regime has little choice but to adhere to Hu's basic policy of cooperation in foreign affairs.

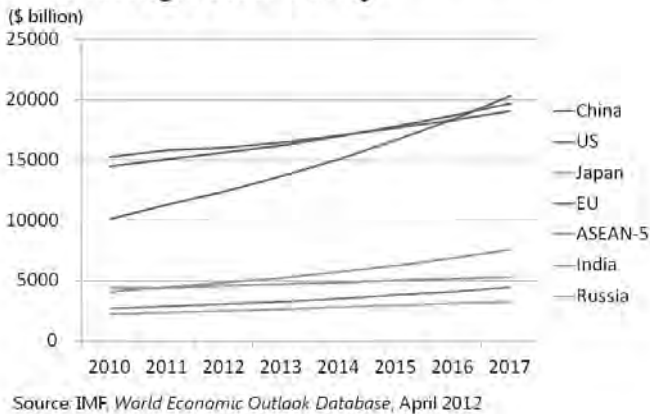
Ramifications of Economic Growth

Of course, no matter how much lip service China gives to the principle of international harmony, its rise as an economic power inevitably poses a challenge to the existing global order and the nations that are its core members, including the United States and Japan.

Beijing's five-year plan for the period from 2012 to 2017 calls for economic growth averaging 7% per year. If sustained, a 7% annual growth rate would double the nation's gross domestic product in 10 years, and this seems to be what the Chinese have in mind. Hu Jintao's report to the Eighteenth National Congress calls for a goal of doubling both GDP and average per capita income in urban and rural areas over the decade extending from 2010 to 2020.

Many analysts outside of China have warned that the nation will be hard-

Figure 1. Projected GDP Growth Valued at Purchasing Power Parity



pressed to maintain such a high level of economic growth in the face of a dwindling labor force and a stagnant global economy. But in my estimation, domestic demand fueled by the migration of as many as 200 million more Chinese from the countryside to the cities has the po-

tential to power 7% growth for at least another decade.

The International Monetary Fund's *World Economic Outlook* also forecasts robust economic growth for China over the next few years, estimating that in 2017—the last year of Xi Jinping's first term in office—the GDPs of China, the European Union, and the United States will be roughly equal in terms of purchasing power parity (Figure 1).

The continued expansion of the Chinese economy will not merely facilitate a commensurate growth in China's military power but also necessitate changes in the international economic order. Most of the rules currently governing the international economic regime were developed under the leadership of the United States and the European Union. As the growth of the China's huge market increases Beijing's leverage in international economic negotiations, we are likely to see more situations in which the United States and other major economic powers are forced to compromise.

In his November 15 press conference, Xi Jinping hinted at China's growing clout when he noted that "just as China needs to learn more about the world, so does the world need to learn more about China." As a general principle, China will continue to pay homage to the ideals of harmony and cooperation, but when it comes to specifics, it will not submit meekly when its interests conflict with those of other major countries, such as Japan or the United States. This is the context for the warning implicit in President Obama's description of China as "a potential partner in the international community if it's following the rules."

Economic Vulnerability

That said, market size is not the only factor determining a country's clout in economic negotiations. Experts also stress the element of economic vulnerability, that is, the potential impact of external shocks and pressures on a nation's economy.⁴ The less vulnerable an economy is, the better it can stand up to external pressures, such as economic sanctions. The ability to withstand such pressures is assumed to give a country greater leverage in international economic negotiations.

Economic vulnerability is a relative concept assessed by a combination of indicators, especially foreign trade and industrial structure. While the Chinese economy is fast approaching the United States and the EU in terms of market

Table 1. Projected Trade Dependence as Percentage of GDP

	2011 2012 2013 2014 2015 2016 2017 (%)						
China	49.9	49.4	49.6	50.2	50.7	51.2	51.7
U.S.	24.8	24.8	25.0	25.2	25.4	25.6	25.7
Japan	28.6	28.7	30.2	31.5	33.0	34.5	35.9
EU	25.5	26.3	25.5	24.7	23.9	23.1	22.3
India	45.8	47.7	48.3	48.8	49.3	49.9	50.4
Russia	45.7	45.1	42.3	41.5	40.5	39.3	38.0

Source: Calculations based on IMF, *World Economic Outlook Database*, April 2012, and WTO, *World Trade Report 2012*.

scale, it remains substantially weaker than either when assessed by these key indicators of vulnerability.

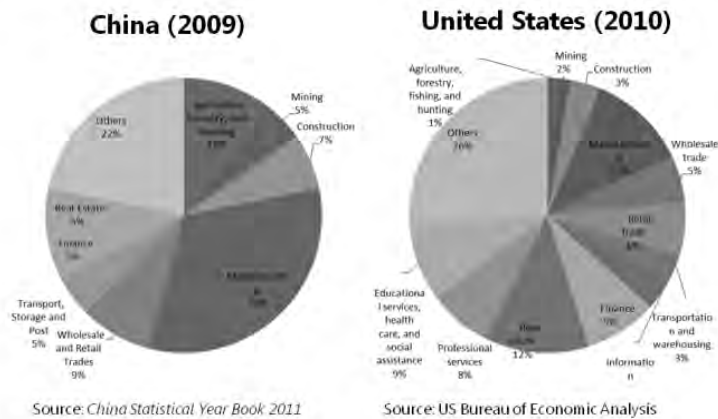
To begin with, the Chinese economy is extremely dependent on foreign trade. China's annual trade volume stands at about 50% of GDP—roughly

twice the trade dependence of the United States, the EU, or Japan (Table 1). This picture is unlikely to change significantly over the next five years.

China's industrial structure is another source of economic vulnerability. Manufacturing occupies a disproportionately large share of the total economy. Manufacturing and other sectors highly vulnerable to adverse global pressures, such as mining and finance, account for about half of China's GDP (Figure 2). The United States is considered more economically resilient because it has a diversified industrial structure centered on the service sector, which is relatively immune from direct external shocks.

⁴ Daniel W. Drezner, *All Politics Is Global* (Princeton, NJ: Princeton University Press, 2007), 33-39.

Figure 2. Contributions to GDP by Industry



Despite the size of China's market, this economic vulnerability will make it difficult for Beijing to insist on getting its own way whenever it comes into conflict with the United States or the EU over the rules of the in-

ternational regime. Instead, China will attempt to maximize its advantage within the existing framework and, when negotiating new rules, seek compromise solutions that accommodate the interests of the United States and the EU.

Antagonism toward Japan

As we have seen, the imperatives of avoiding internal criticism, promoting economic growth, and addressing domestic problems all militate against any major departure from Hu Jintao's basic policy of international cooperation over the next few years. I have also suggested that the new regime is likely to be particularly assiduous in maintaining and extending the cooperative ties established between China and the United States under Hu.

Unfortunately, the dynamic is quite different where relations with Japan are concerned. Given the need for the new leadership to navigate a politically safe course, we can expect little improvement in China's attitude toward Japan. Deep currents of anti-Japanese nationalism in China make the government's dealings with Japan a touchy political issue at home. Indeed, efforts to improve relations with Japan can leave Chinese leaders open to potent attacks by their political opponents. In the 1980s, such attacks contributed to the fall of General Secretary Hu Yaobang.

Hu Jintao's government started out with the aim of improving relations with Japan, but as the dispute over the Senkaku Islands escalated, his regime

shifted to an uncompromising hardline position. Not even Premier Wen Jiabao—a seasoned diplomat who has worked hard to thaw relations between China and Japan—could resist the tide of public indignation over the Japanese government’s purchase of the islands. “The Diaoyu [Senkaku] Islands are an inalienable part of China’s territory,” Wen declared last September, “and the Chinese government and its people will make absolutely no concession on issues concerning its sovereignty and territorial integrity.”⁵

Xi Jinping has come to power in the midst of this fierce wave of anti-Japanese sentiment triggered by the Senkaku controversy. The smallest move to accommodate Japan—on this issue, at least—could leave the new regime open to political attacks and a major backlash. Under these circumstances, there is scant cause to hope for improvements in diplomatic ties going forward.

Coercive Tactics

As suggested previously, China is expected to emerge as a market on a par with the United States and the EU within the next five years, and the government can be expected to use its growing economic leverage when negotiating the rules governing international commerce.

Given the high economic stakes involved, we can also expect Beijing to take a tough position on any territorial disputes or issues affecting its offshore rights in the region. The kind of behavior China has displayed in recent years as it maneuvers for broader control over the South and East China Seas is unlikely to subside.

Nor can we discount the possibility that Beijing will use economic coercion to influence the political behavior of countries heavily dependent on their economic ties with China. Indeed, in recent years Beijing has shown a disturbing inclination to use the growing economic “interdependence” between Japan and China as a political weapon.

In the fall of 2010, after the Japanese arrested the Chinese skipper who had rammed his trawler into several Japan Coast Guard vessels off the Senkaku Islands, the Chinese in effect halted exports of rare earth metals to Japan. During the more recent escalation of the Senkaku dispute, it was reported that Chinese customs officials were deliberately delaying Japanese imports.

Of course, apart from violating the rules of the World Trade Organization,

⁵ “‘Absolutely no concession’ on Diaoyu Islands, says Chinese premier,” SINA, September 10, 2012, <http://english.sina.com/china/2012/0910/505060.html>

INTERNATIONAL AFFAIRS

such punitive trade restrictions are a double-edged sword that stands to hurt the Chinese economy as well. For these reasons, it seems unlikely that China's new leadership will maintain blatant trade restrictions for any length of time. But we should not be unduly surprised if Beijing resorts to more subtle forms of economic coercion over its trading partners in the region, including Japan.

January 23, 2013

Previewing Park Geun-hye's Foreign Policy Agenda

Hiroyasu Akutsu

On February 25, Park Geun-hye will take office as South Korea's first woman president against a backdrop of rising tensions in Northeast Asia. Hiroyasu Akutsu assesses the outlook for foreign and defense policy under the new regime.

On December 19 last year, South Korean citizens elected Park Geun-hye of the conservative Saenuri (New Frontier) Party as the eleventh president of the Republic of Korea. On January 6, President-Elect Park officially launched her transition committee, which will aid her in selecting a cabinet and fleshing out policy in advance of her inauguration on February 25.

On January 15, the transition team announced a plan to consolidate presidential oversight of four strategic policy areas through the creation of "control towers," including one for foreign policy and national security. The following day, the team concluded a week of ministry briefings from the outgoing government.

For Japan, the biggest question remains the direction that Seoul's foreign and defense policy will take under the new administration. In the following, I hope to shed some light on this question by reviewing Park's election platform.

Balancing Act

Park's administration is widely expected to take a more flexible stance toward North Korea than outgoing President Lee Myung-bak, whose hard line had become extremely unpopular. In fact, moderation and balance may be the keynote of Park's foreign policy platform overall, as seen in her pledge to cultivate stronger ties with China even while strengthening the ROK-US alliance, as well as her views on North-South relations.

Hiroyasu Akutsu *Research Associate, Tokyo Foundation; Senior Fellow, Northeast Asia Division, Regional Studies Department, National Institute for Defense Studies.*



Under the heading of North Korea, Park's platform begins with pledges to "deter North Korean provocations by a comprehensive strengthening of defense capabilities, including the ROK-US alliance" and to "prepare fully for the 2015 OPCON transfer" — that is, the transfer of wartime opera-

tional control over ROK forces from the United States to South Korea. She also promises to "establish a comprehensive foreign, national security, and unification policy 'control tower' (e.g., a National Security Office)." This organ, referred to again in the aforementioned announcement of January 15, will most likely be set up within the president's National Security Council.

Under the topic of national defense, Park promises to "enhance our ability to substantively counter a variety of security threats," focusing on stronger deterrence capabilities vis-à-vis North Korean provocations near the maritime Northern Limit Line, construction of the Jeju Island naval base, and a buildup of forces in the region. She pledges to "build a positive defense capability based on an active preemptive deterrence strategy" (including swift development of long-range missile capability), to enlist the cooperation of local governments in strengthening the nation's defenses against psychological and cyber warfare, and to incrementally acquire such capabilities as military satellites and surveillance drones.

With respect to the ROK-US alliance, Park pledges to enhance security cooperation with the United States on national defense and conflict prevention and to utilize the alliance to seek closer multilateral and bilateral security cooperation with other regional countries. She calls specifically for efforts to build the alliance's combined "extended nuclear deterrence" capability.

With regard to the scheduled 2015 transfer of wartime operational control, she stresses the need to prepare for a smooth transition and develop a stronger independent strategic capability, calling for "establishment of a stable new ROK-US combined defense system predicated on South Korean leadership and support from US forces" and for steps to enhance "periodic mutual assessment and verification of the process" of transferring operational control.

However, Park's platform also stresses engagement and conciliation with North Korea. She promises steps to improve inter-Korean relations within the context of a larger framework for cooperation in Northeast Asia and pledges to "pursue tangible South-North consultations to resolve the North Korean nuclear problem."

She also outlines a "Vision Korea" initiative, predicated on "trust and progress in denuclearization," that would undertake a number of economic cooperation projects with the ultimate goal of building an economic community on the Korean Peninsula. The cooperation envisioned includes assistance with developing North Korea's power, transportation, and telecommunications infrastructure, helping it gain membership in international financial institutions, and fostering foreign investment (as by exploring possibilities for South Korean participation in North Korea's special economic zones), all with the aim of building North Korea's economic capacity.

Park also promises to bind the economic interests of the Korean Peninsula to those of Northeast Asia as a whole through trilateral cooperation projects with China as well as with Russia. In addition, she pledges to "upgrade reciprocal South-North economic cooperation and social-cultural exchanges" and work to "establish a South-North Exchange and Cooperation Office in Seoul and Pyongyang."

China figures prominently in Park's platform, and the emphasis—reflecting South Korea's unique geopolitical position—is on the need to strike a balance in relations with Washington on the one hand and Beijing on the other. Park proposes a "trilateral strategic dialogue among Korea, the United States, and China" and stresses the need to "maintain harmonious and cooperative ties with the United States and China." She also pledges simultaneously to "deepen and develop the ROK-US relationship into a comprehensive strategic alliance" and to "upgrade" South Korea's ties with China to reflect the two countries' "strategic cooperative relationship." Recently, Park announced that Beijing would be the first destination for the special envoys that she will be sending to Japan, Russia, and the United States, as well as China.

Korea and Japan: Common Values and Strategic Concerns

In terms of relations with Japan, Park's platform gives little cause for optimism regarding the resolution of territorial disputes. While calling on "the governments and civil societies of Korea, China, and Japan to sustain their efforts for reconciliation and cooperation in order to lay a firmer foundation for a correct

understanding of history in Northeast Asia," she begins with a pledge to "respond firmly on the basis of our core national interests," asserting that "under no circumstances can we allow infringements on our sovereignty."

Although Park previously positioned herself as an advocate for closer relations with Japan, stressing the need to "transcend the past" and approach relations from a "broader, forward-looking perspective," the government will continue to be constrained by public opinion, which favors a hard line toward Tokyo. For example, further progress on the bilateral military accord (including an Acquisition and Cross-Servicing Agreement and a General Security of Military Information Agreement) on which the governments of Lee Myung-bak and Yoshihiko Noda had reached a basic understanding seems unlikely in the near term, given the strength of the popular backlash against it.

Still, in view of North Korea's December 12 ballistic missile launch and the very real possibility of a third nuclear test in the not-too-distant future, the need for defense cooperation between Japan and South Korea is clearer than ever. And like it or not, Seoul must build its foreign and defense policy around its foremost security concern, namely, North Korea. We should be alert to any incipient shift in this direction as the transition team continues its work, including possible revisions to Park's public pledges.

Japan and South Korea are neighbors with common security concerns, as well as a shared commitment to democracy, a free-market economy, and human rights. In dealing with the new administration, Tokyo should sharpen the focus on common strategic goals while maintaining a pragmatic, step-by-step approach to improving bilateral relations.

January 23, 2013

Extended Deterrence and Security in East Asia

A US-Japan-South Korea Dialogue

Paul J. Saunders

The fourth meeting of the Contemporary American Studies project on extended deterrence and security in East Asia was held at the Tokyo Foundation in December 2012 in conjunction with the US-Korea Institute at Johns Hopkins University's School of Advanced International Studies and the Center for the National Interest.

The meeting was held in the midst of heightened tensions in Japan-China relations triggered by the Japanese government's purchase of the Senkaku Islands in September and discussed territorial and other issues among Japan, China, and South Korea, the impact of leadership change in the three countries, and the role the United States can play to ensure regional stability, including the freedom of navigation.

The project focusing on approaches to addressing the growing friction in East Asian ties in the context of China's rapid economic growth and the concomitant expansion of its military capacity was launched in February 2011 to promote trilateral dialogue on security issues among Japanese, US, and South Korean experts. The following is a summary of the project by Paul J. Saunders, executive director of the Center for the National Interest and member of the Tokyo Foundation's Contemporary American Studies project. (Shoichi Katayama, Research Fellow)

Economic Deterrence?

While China's rapid economic growth—and rising military power—increasingly prompt many observers to view Beijing as an emerging super-power rival to Washington, discussions during a recently completed two-year non-governmental US-Japan-South Korea dialogue on security in East Asia suggest that attempting to apply a Cold War-style framework of deterrence and containment may have limited value in developing policy toward China. While the past may hold some useful lessons, discussion in the expert meetings

Paul J. Saunders Research Associate, Contemporary American Studies Project, Tokyo Foundation; Executive Director, Center for the National Interest (Washington, DC).

demonstrates that dealing with Beijing will require a more sophisticated mix of policies. The dialogue program was co-sponsored by the Center for the National Interest, the Tokyo Foundation, and the US-Korea Institute at Johns Hopkins University's School of Advanced International Studies.

The fundamental difference between China and the former Soviet Union lies in China's deep integration into the international economy—and the resulting powerful shared interests it generates in China's relations with the United States, Japan, and South Korea. By contrast, the



USSR was largely isolated from the international economy. As a result, Washington and its allies could attempt to punish or isolate Moscow economically, an approach few are prepared to consider in dealing with Beijing because of its potentially high cost. In fact, America's and China's economies may be sufficiently vulnerable to one another to create a new form of economic deterrence through mutual assured destruction.

Still, the Cold War does provide some helpful context in thinking about allied policy and Chinese conduct, especially in strengthening deterrence and extended deterrence—a key topic of the dialogue meetings and in talks between US, Japanese, and Korean officials. One critical lesson of the US-Soviet competition is that deterrence and extended deterrence are in fact fairly limited as policy instruments. The United States and its Cold War allies successfully deterred a Soviet nuclear attack and a Soviet invasion of Western Europe, but did not deter military interventions in Hungary or Czechoslovakia, proxy wars in Africa, Latin America, and Southeast Asia, or significant support for terrorism in the Middle East. One problem was that the nuclear retaliation that created the foundation for deterrence and extended deterrence was credible only in responding to existential or near-existential threats. This suggests that mechanically repeating US security guarantees or increasing American or allied conventional capabilities is unlikely to succeed in deterring assertive Chinese conduct.

Avoiding Confrontation

China's ambiguous intentions add complexity to any effort to formulate policy.

Where the Soviet Union explicitly sought global revolution—promoting Communism worldwide with the ultimate aim of reshaping the international system—China’s stated aim is its own peaceful development. Moreover, its motives in asserting territorial claims in the South China Sea and East China Sea, and developing military capabilities to support an anti-access/area denial strategy are subject to interpretation. Where some see an effort to expel the United States from East Asia and to establish Beijing’s dominance there, others find a defensive effort to limit the vulnerability of China’s economy (and therefore the survival of its regime) to US Navy control of critical sea lanes.

Moving forward, the territorial disputes and associated provocative conduct in these regions will likely continue to require special attention. Japan’s new “dynamic defense” concept is an important step forward, but is not ideally suited to managing the challenge of China’s so-called “Five Dragons”—civilian law enforcement agencies with maritime capabilities that have been involved in many troubling incidents. By extension, the US Navy can offer little help in preventing or managing confrontations between the Five Dragons, Japan’s Coast Guard, and Chinese or Japanese fishing vessels. Creative new policies are needed, perhaps including exchanges between the US and Japanese Coast Guards to place American officers on Japanese ships, a symbolic demonstration of American support that could also subtly but distinctly increase the potential cost for Chinese harassment of Japanese ships and their crews. Steps like this are also relatively inexpensive, particularly set against the cost of additional ships or new deployments.

New ideas are also needed to improve Japan-South Korea relations. Approaching elections in Japan and Korea on December 16 and 19 highlight the complex and central role that domestic politics continues to play in relations between Tokyo and Seoul—notwithstanding American hopes that their ties could improve sharply and clear the way for closer trilateral cooperation in managing security challenges in East Asia. General Security of Military Information Agreement—abandoned by Seoul in June for domestic reasons—is the most visible casualty, but not the only one. While the dialogue meetings make clear the many obstacles remaining to closer cooperation between Japan and South Korea, especially their difficult shared history and the contested Dokdo/Takeshima Islands, they also demonstrated a strong sense of shared security and economic interests and a continuing desire for full reconciliation. Perhaps with new governments in place early next year, Tokyo and Seoul will have a second chance.

INTERNATIONAL AFFAIRS

A report of the first two meetings of the project issued by the Center for the National can be downloaded from the link below:

<http://www.cftni.org/2012-Extended-Deterence-In-East-Asia.pdf>

January 21, 2013

The Evolving Role of Think Tanks in Japan

Akiko Imai

For public policy think tanks to become key players in global intellectual discourse, they must have the ability to create independent arenas where discussions can be held with a free hand, possess the tools to have their proposals implemented, recognize the interconnected nature of different policies, and have an awareness of how the research results can contribute to the resolution of global issues. The Tokyo Foundation, notes Director for Public Communications Akiko Imai, is one such think tank in Japan.

Iron Triangle

The role of think tanks is inevitably affected by the political and administrative milieu of the country in which they operate. In the case of Japan, for the first four decades following the end of World War II, the “iron triangle” comprising the ruling Liberal Democratic Party, the business community, and the bureaucracy steadily charted the nation’s rise into the world’s second-largest economy.

By working closely with politicians and business leaders, the bureaucracy, in effect, constituted a mammoth “think tank” whose proposals were almost 100% implemented. This is not to say there was no competition among policy options, for various agencies vied with one another over issues under their jurisdiction. The intensity of such internal competition, though, precluded the need for—and consequently the development of—external institutions to offer recommendations from an independent perspective.

The once impregnable “iron triangle” began showing signs of fallibility, though, with end of the Cold War and the collapse of the bubble economy in the early 1990s, which ushered in an era of stagnation in Japanese society, politics, and economy. The two decades of stagnation, combined with the graying of the population and decline in the birthrate, caused the national debt to mushroom and has pushed up healthcare and other social security costs to unsustainable levels.

Akiko Imai Research Fellow and Director for Public Communications, Tokyo Foundation.

The changes that swept across Japan clearly indicated a need to overhaul the institutions that were once so entrenched. Japan groped in the dark for answers, but a consensus on new directions for the country could not be forged in the face of diversifying values and lifestyles.

The share of single-person households today is nearly 30%, and the percentage of the 65-and-over population has increased to 23%. Women increasingly entered the workforce after the Equal Employment Opportunity Law came into force in 1986; the low point in the M curve expressing the labor participation ratio of women during the childrearing years rose from 49% (for the 30–34 age group) in 1985 to 68% (35–39 age group) in 2010.

At the same time, the myth of lifetime employment has collapsed, and many more men have been forced to accept non-permanent positions, with 20% being employed on a contractual, part-time, or other non-regular formats. The “model” nuclear family on which public policies were based during the high-growth years consisted of a bread-winning father, home-making mother, and two kids, but this can hardly be said to be the norm today.

Inasmuch as any changes to the institutional status quo, such as child allowances, tax deductions for spouses, and pension benefits, inevitably mean that some members of the public wind up getting the short end of the stick, gaining public endorsement for sweeping reforms is no easy matter. As a result, the policies and institutions that supported Japan’s postwar expansion are no longer in touch with the current reality.

The immediate challenge confronting Japan is to implement policies that more effectively address the country’s urgent needs in the face of a slower-growing economy and a dwindling population. Since the bureaucracy was an integral component of the “triangle” that has failed to halt the stagnation, its erstwhile status as an almighty “think tank” has likewise dissipated. It is in this context that private, independent research institutions have stepped up to fill the void.

Key Players in the Knowledge Economy

The Tokyo Foundation is an independent, not-for-profit public policy think tank that brings together the minds and skills of outstanding human resources through policy research and global leadership development projects to offer fresh perspectives and create insights that lead to positive social change. Legally mandated to pursue the public interest, the Tokyo Foundation is unique in financing some 30 projects simultaneously just with income earned through



Assistant US Secretary of State Kurt Campbell and former Japanese Foreign Minister Takeaki Matsumoto made a guest appearance at the Trilateral Forum Tokyo.

endowment investment, without recourse to outside grants or subsidies.

The Tokyo Foundation is thus not bound to the interests or agendas of affiliated companies or government agencies. It is free to conduct research and analysis from a truly objective position and to offer realistic options for the directions the country should head.

For private public policy think tanks to become key players in intellectual discourse, they need to be possessed of five features. First, they must have the ability to create independent arenas for free and in-depth discussions among a broad spectrum of stakeholders — academics and other specialists; bureaucrats, whose job is to actually implement policies; businesspeople acutely aware of problems with the status quo; policymakers involved in drafting legislation; and journalists who have broad influence over public opinion. Such arenas should be fundamentally different from government councils, which are established with concrete policy objectives in mind. In order to create forums where diverse—even opposing—viewpoints are represented, think tanks must have the perspicacity to identify and attract specialists who can make truly valuable contributions, regardless of their affiliation or nationality.

Second, they must be independent of political or economic stakeholders so that projects can be undertaken with a free hand.

Third, they must possess the tools to actually have their proposals implemented. They need to take their recommendations to lawmakers, bureaucrats, businesses, and civic groups, working with them where necessary to achieve needed changes. This is perhaps one of the biggest differences with academic institutions; scholars are wont to accumulate volumes of data to postulate and prove a hypothesis. Think tanks must take a more proactive approach to cope with ongoing issues and take firm steps toward real-life reforms.

Fourth, think tanks need to explore how policies affect an individual's ties to the community, the community's ties to the country, and the country's ties to international society, particularly in the face of the growing interconnected-

ness of people around the world. Ordinarily, think tanks focus their research on a narrowly defined field, and little thought is given to the potentially vast “sphere of influence” each policy measure has. But to formulate truly workable policies, the impact of those policies not only on the field intended but also in related areas needs to be taken into account.

And fifth, they need an international mindset capable of identifying how the research results can contribute to the resolution of issues confronting countries around the world.

Healthcare Reform

Our recently issued policy proposal on healthcare reform offers a good illustration of how the Tokyo Foundation incorporates the above points in coming up with and disseminating its recommendations. Japan is considered a success story for promptly putting in place a system of universal healthcare coverage. Today, however, anxiety over the country’s medical and nursing care system has reached new heights in the light of the increasingly rapid aging of the population and the ballooning of the nation’s public debt to unsustainable levels. As a result of the many minor revisions made over the years, moreover, the existing system has become extremely complex.

To date, no effective solution has been found to rein in ballooning medical costs and remedy the excessively intricate system. Both physicians and pharmaceutical companies take the healthcare insurance system as a given, so there are no incentives to keep costs down. Users, meanwhile, are unlikely to endorse cost-cutting measures if they mean a downgrading of medical services.

Sweeping reforms are urgently needed, and for this a bold new healthcare vision is required. As an example of the first feature that think tanks must possess, the Tokyo Foundation’s project on “Crafting the Medical, Nursing-Care, and Social Security Systems of the Future” served as an arena for debate among members with widely divergent backgrounds and viewpoints—practicing physicians, former health officials, civil society representatives, and medical consultants. They explored the sustainability of the current system, built around industry-based health-insurance schemes intended for full-time, permanent employees, using a neutral, free-handed approach different from those used either by lobbyists hired by pharmaceutical companies or by civic groups that petition the government to undertake changes; such an approach may produce short-term results but will not offer a fundamental solution for a system that is on the verge of financial collapse.

INTELLECTUAL DISCOURSE

Believing that the uniformity of medical costs throughout the country is a major factor behind the spiraling of these costs as well as confusion among patients regarding where best to receive medical attention, the Tokyo Foundation proposed a set of reforms to promote community-based primary care that assigns greater responsibilities to local authorities so that medical services can be “tailor-made” for each locality.

Proposals that even temporarily or partially deprive voters of vested interests are not likely to be issued by political parties. Corporate research institutes, likewise, are reluctant to recommend measures that ask consumers to shoulder a bigger burden. But there are times when someone needs to point out that the “emperor has no clothes”. Such a role is probably best fulfilled by a public-interest organization like the Tokyo Foundation. This conforms to the second feature that think tanks must have.

To actually get its reform proposals implemented—the third feature think tanks should have—the Tokyo Foundation distributed its healthcare recommendations to legislators, physicians and other medical professionals, bureaucrats, care-givers, NPOs, and health insurance companies. We hosted a briefing for members of the media, met individually with Diet members, and conducted debates with medical groups. Ordinarily, lobbyists are hired to promote such recommendations, but this is a task we choose to do on our own because we strongly believe our proposals will promote the public interest. These efforts have elicited many comments—both pro and con—on the Internet and through social media, and we are accordingly refining our recommendations to incorporate some of the most pertinent remarks.

Cross-cutting Issues

Our policy recommendations, of course, have much broader real-world implications for people’s ties to the community and the state than just for the medical and nursing care industry (Chart). This ties in with the fourth feature cited earlier.

For example, one rec-



Note: Tokyo Foundation policy proposals have broad repercussions that can contribute to advancing global dialogue on key challenges.

Source: Tokyo Foundation

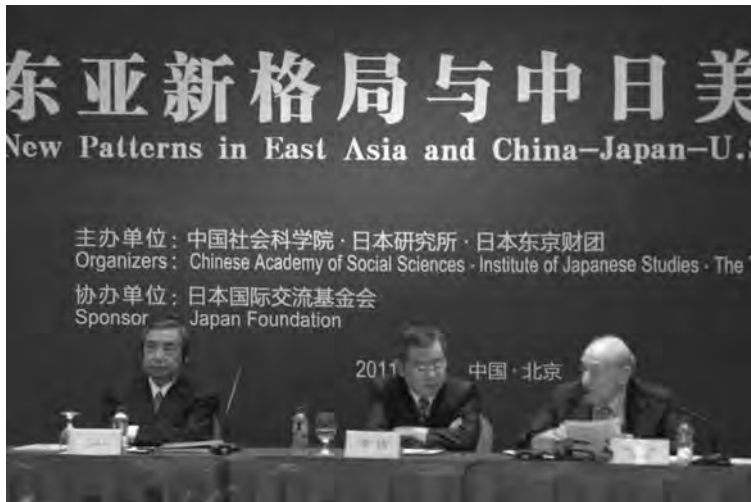
ommendation calls for ending the centralized, uniform control of the health market by the Ministry of Health, Labor, and Welfare and giving local governments fuller responsibility for tailor-making the system for each community, as noted above. This represents an attempt to fundamentally alter the existing relationship between national and local authorities.

From this it is clear that healthcare reform is closely linked to the issue of decentralization and local government reform. At the Tokyo Foundation, the healthcare project is thus organically linked to such other projects as that for local assembly reform and a leadership development program called the “Weekend School for Municipal Officers”.

The healthcare issue also raises questions about the financial sustainability of Japan’s social security system as a whole. The country’s public debt has risen to levels that preclude any consideration of additional outlays to expand benefits. A more efficient and effective system must be put into place that is in keeping with today’s fiscal realities. Working with fiscal and tax experts on a three-year research project on integrated reforms of the tax and social security systems, in March 2012 the Tokyo Foundation issued a vision ahead of the enactment of a reform bill calling for incentives toward greater self-help efforts in the country’s social security policy.

Domestic Issues with Global Implications Sweeping changes to the healthcare market will also have broad implications for the nation’s pursuit of free-trade agreements, particularly the Trans-Pacific Partnership (TPP), whose negotiations the government of Prime Minister Yoshihiko Noda hoped to join. Because the TPP, in principle, calls for the full liberalization of all markets, though, it has elicited vehement protests from the medical, nursing care, agriculture, and labor sectors of the economy. Export industries like autos, on the other hand, strongly advocate Japan’s participation, and the issue has sharply divided the nation. It is also one that has both foreign policy and domestic dimensions and is thus addressed by the Tokyo Foundation from both of these angles.

The TPP will have a large bearing on trade relations with China; in fact, as soon as Japan announced its interest in joining the negotiation process, Beijing made an overture on a trilateral agreement that also includes South Korea. Inasmuch as Japan is currently embroiled in territorial disputes with these neighbors, the TPP can also be said to have strategic and diplomatic implications.



Participants at the China-Japan-US symposium included former House of Representatives Speaker Yohei Kono (left) and Harvard University Professor Emeritus Ezra Vogel (right).

Relations with China have recently become quite tense, and popular opinion in the two countries can become quite emotional. This is a concern also for the United States, with which Japan has a security alliance. An unbiased survey of the situation is all the more important in this

context, and so the Tokyo Foundation carries out projects in Contemporary Chinese Studies and Contemporary American Studies to fulfill this role. We also take a broader look at trends throughout Asia and Europe through our Eurasian Information Network and have issued policy proposals on Japan's foreign and security policies.

We believe it is not enough to simply issue recommendations, however, and have actively taken diplomatic initiatives at the Track 1.5 and 2 levels to strengthen and deepen Japan's ties with other countries. One example is the Tokyo Foundation's participation in security dialogue with think tanks in India and South Korea starting this year. This was the fruit of several years of research on national security issues in Asia, focusing on the implications of China's rise over the next two decades.

Since 2011, moreover, the Tokyo Foundation and the Chinese Academy of Social Sciences have been jointly organizing a trilateral dialogue among Japanese, Chinese, and US experts. Despite the fact that China canceled many official bilateral events in the wake of the Senkaku row this year, a second trilateral dialogue was held in Beijing in August, which offered a precious window through which to view China's real and deeply-held concerns. Keeping open a channel of level-headed communication at a time when media reports are increasingly adopting a nationalist tone can be said to be one of the most important roles that an independent think tank can play.

Aftershocks of the Lehman Crisis

Japan is not the only country groping for ways to strike a balance between the conflicting needs for fiscal responsibility and income redistribution through a stronger emphasis on mutual assistance frameworks at the community level.

In his book *Aftershock: The Next Economy and America's Future* (Random House, 2010), former US Secretary of Labor Robert Reich wrote, "Our history swings much like a pendulum between periods during which the benefits of economic change are concentrated in fewer hands, and periods during which the middle class shares broadly in the nation's prosperity and grows to include many of the poor."

With the world still reeling from the once-in-a-century financial crisis, the US and the countries of the European Union, too, are confronted with the need to enhance social safety nets, even as public debt climbs to dangerously high levels. Such concerns are reflected in President Barack Obama's reelection speech: "What makes America exceptional are the bonds that hold together the most diverse nation on Earth—the belief that our destiny is shared."

In Britain, Prime Minister David Cameron has called for stronger community ties through the fuller engagement of not only social entrepreneurs and community activists but also common citizens.

The common challenge facing many developed nations is how to make the most of limited fiscal and material resources and revive economic growth. These difficult times have prompted many in these countries to ponder the real meaning of happiness. These are themes that are now being widely discussed by the public policy community around the world, including the Salzburg Global Seminar, the Aspen Institute, and even the World Economic Forum. Topics like "faith" and "values" are being openly discussed among business and political leaders who assemble at the Brussels Forum, hosted by the German Marshall Fund of the United States (GMF).

Sharing Knowledge

Many political issues deal with core, fundamental human concerns that affect people in not only national capitals but also suburban neighborhoods and rural communities. Increasingly, they also have implications transcending national boundaries, so addressing them effectively requires an international outlook—the fifth feature that think tanks need.

Getting to the heart of the issue, moreover, requires venturing into the

“field” to gain a firsthand understanding of the problem. The March 2011 earthquake and tsunami seriously disrupted the life of the nation, but the disaster also highlighted some of the strengths of Japanese society, as seen in the spirit of mutual assistance among the survivors and the strong leadership demonstrated at the grassroots level.

To document the lives and experiences of the survivors of this unprecedented disaster, the Tokyo Foundation launched the “101 Voices from Tohoku” interview project. These accounts, told entirely in the first person in their own words, present a unique window into the minds and hearts of those who lived through the disaster, enabling readers to share their revelations and insights and pointing to the directions that the reconstruction effort should take. The 101 accounts have been uploaded on a special website, been published as a book, and were also provided to the digital archives of Harvard University.

The Tokyo Foundation also actively pursues wide-ranging intellectual dialogue with think tanks around the world. In April 2012, we co-organized Trilateral Forum Tokyo with the GMF, inviting leading opinion makers from Japan, the US, and Europe. The two-day forum explored a broad range of cross-cutting challenges confronting the three regions, including the crisis of democratic governance, disaster relief, global financial instability, security dynamics, energy sustainability, and world trade.

Becoming an important player in international discourse is what the world now expects of Japan. The days when Japan’s contributions were largely in the form of a checkbook—as during the Gulf War—are over. Japan confronts many of the most pressing issues faced by the global community, such as stagnant growth, the rapid aging of the population, and climate change, including natural disasters, and it has a responsibility to share its experience and approaches with the world and to work together to formulate solutions.

Japan’s position in the world cannot be enhanced simply by increasing the volume of English-language



The “101 Voices from Tohoku” project documented the lives and experiences of the survivors of the March 2011 disaster.

INTELLECTUAL DISCOURSE

communications; there needs to be a pooling of ideas and knowledge with global partners based on a recognition of a common destiny. As one of Japan's leading public policy think tanks, the Tokyo Foundation seeks to play its part in consolidating Japan's status as a valued member of the international intellectual community.

Reprinted with permission from Economy, Culture & History JAPAN SPOTLIGHT Bimonthly (published by the Japan Economic Foundation), January/February 2013 issue, pp. 8–11.

January 8, 2013

Expanding Academic Advancement Opportunities

Tokyo Foundation Policy Proposal on Higher Education for Individuals with Disabilities

The Tokyo Foundation

While people with disabilities are regarded as disadvantaged members of society, their share in the general population is thought to be as high as 15%, and the line between “healthy” and “disabled” is becoming increasingly blurred. Individuals should not be deprived of opportunities for participation in society, including access to higher education, simply because of a disability; measures to ensure fuller participation of skilled and motivated individuals with disabilities would result in greater benefits for society as a whole, leading to an expansion of consumption, income, and tax revenues and reductions in welfare expenditures.

Encouraging Social Participation of Individuals with Disabilities

People with disabilities are frequently regarded as disadvantaged members of society requiring special assistance. The share of disabled people (including elderly persons requiring nursing care and those with dementia) in the general population, though, is thought to be as high as between 10% and 15%. The line between “healthy” and “disabled” is becoming an increasingly blurred one; general perceptions of a “disabled person” in Japan, though, continue to be defined in terms of whether or not a person holds a disability certificate issued by a local government.

Individuals should not be deprived of opportunities for participation in society simply because of a disability; measures are needed to ensure that skilled and motivated individuals with disabilities can participate just as ful-



ly as people free of disabilities. This would result in greater benefits for society as a whole, leading to an expansion of consumption, income, and tax revenues and reductions in welfare expenditures.

Challenges to Be Overcome

Government policy regarding people with disabilities has been undergoing a review since the Democratic Party of Japan came to power in 2009, as Japan's Basic Act for Persons with Disabilities was amended in 2011 to include provisions for "reasonable accommodations." While support measures have been upgraded to provide equal opportunities during mandatory education and in employment, they remain woefully inadequate in the domain of tertiary education. Support for students with disabilities is currently provided largely through the private initiative of a limited number of faculty members and student volunteers.

At institutions of higher learning, students with disabilities make up a mere 0.3% of the total student body. While the percentage has been inching upward over the past few years, the small share represents a major barrier to the expansion of opportunities for social participation.

There are three main factors discouraging advancement to university-level education. The first is the lack of information on the kind of assistance available following enrollment. The second is the lack of coordination between universities on the one hand and high schools and potential employers on the other. And the third is the reluctance to shoulder the anticipated higher costs of accommodating students with disabilities. Policy measures to remove these three barriers would encourage more people with disabilities to opt for a university education.

Summary of Recommendations

1. Promote fuller information disclosure and establish standards by which to assess and compare initiatives undertaken by each university

Amend the School Education Law and the Incorporated National Universities Law so schools are obligated to disclose their initiatives in support of students with disabilities. Such disclosures, moreover, should be made in a manner that facilitates comparisons by third parties; the format used for the disclosure of local government budgets might be a good reference.

POLICY PROPOSALS

2. Obligate the establishment of an organization at each school to assist students with disabilities

Amend the School Education Law and the Incorporated National Universities Law so schools are obligated to establish an organization—such as an office—to offer advice, assistance, and other “one-stop” disability student services.

3. Add “disability friendliness” to the list of items by which universities are evaluated

The number of students and alumni with disabilities should be considered as an item in university evaluation surveys.

4. Prioritize budgetary allocations for “Centers of Inclusive Higher Education”

Such centers would help other universities lacking know-how in coping with students with disabilities; offer staff training or dispatch personnel; organize orientation programs for faculty members; and enhance coordination among schools, welfare groups, and employers. They would also develop and offer placement services for human resources with specialist knowledge and skills in assisting students with disabilities.

5. Improve working conditions for assistance personnel and clarify basic principles and guidelines on accommodating students with disabilities

Improve working conditions and enhance employment security for personnel of organizations providing assistance. Create basic principles and guidelines on accommodating students with disabilities, outlining the reasons for such assistance and how it may be advanced.

6. Offer certification to outstanding disability service faculty members

Assistance for students with disabilities can be enhanced by nurturing faculty members with specialized knowledge and skills.

7. Offer incentives to expand the number of student assistants

Incentives should be introduced to encourage more students to offer disability assistance. Those volunteering more than a certain number of hours, for instance, may have a portion of their teaching license exam waived, be entitled to

POLICY PROPOSALS

preferential scholarship treatment, and have hours served credited toward their degrees.

8. Increase the number of teachers with disabilities

In adhering to legally mandated standards for the percentage of employees with disabilities, universities should be made to distinguish between employees who are faculty members and those in other positions. New curricula should be established to encourage more students with disabilities to pursue a teaching career.

9. Smoothen the transition from high school to college and then to employment

Make acquisition of a special school teaching license mandatory for all instructors at schools for students with special needs. Also, phase in an obligation for companies to disclose data regarding the employment of workers with disabilities and the number who leave the workforce within three years of employment.

10. Create an institution for consolidated management of textbooks and other teaching materials

To ensure the right to education for those who cannot access text data, an institution should be established for consolidated management and distribution (for a fee) of textbooks and other teaching materials for students with disabilities. Copyright laws should be amended to clarify such an institution's powers and responsibilities.

The full policy proposal (Japanese only) can be downloaded (PDF 1.3MB) from <http://www.tkfd.or.jp/files/doc/2012-04.pdf>

November 19, 2012

Promoting Community-Based Primary Care

Tokyo Foundation Policy Proposal on Healthcare Reform

The Tokyo Foundation

Based on two years of research, the Tokyo Foundation's project on Crafting the Medical, Nursing-Care, and Social Security Systems of the Future issued policy recommendations calling for sweeping healthcare reforms from the perspective of individual users.

Encouraging National Dialogue on Needed Reforms

Anxiety over Japan's medical and nursing care system has reached new heights in the light of the increasingly rapid aging of the population and the ballooning of the nation's public debt to unsustainable levels. As a result of the many minor revisions made over the years, the existing system has become extremely complex. Sweeping reforms are needed, and for this a bold new healthcare vision is required.



Over the past two years, the Tokyo Foundation's project on Crafting the Medical, Nursing-Care, and Social Security Systems of the Future explored the sustainability of the current system, built around industry-based health-insurance schemes and various other programs—including nursing care—broken down by age group. The project's policy recommendations are centered on areas requiring reform from the perspective of individual users.

Summary of Recommendations

1. A Healthcare Vision: Achieve Closer Synergy between Medical and Nursing Care and Decentralize Policy Decisions

The existing healthcare system is premised on being “connected.” Given the weakened sense of social unity, caused by the falling birthrate and aging of the

POLICY PROPOSALS

population, along with the expansion of nonregular employment formats and the depersonalization of society, a new foundation for social connectivity is needed. In addition, the overreliance on a treatment-based system of medical reimbursement and an overly complex healthcare policy must be overhauled and replaced with a decentralized, community-based approach.

2. Medical Fee Reform: Shift Basis of Compensation from Treatment to Care

Overreliance on payment rules based on the medical treatments applied (measured as “insurance points”) invites the temptation to accumulate points through an emphasis on quantity over quality. By introducing a system of “primary care” focused on providing integrated medical and nursing care for the community, new remuneration incentives can be introduced that encourage quality over quantity.

3. Establish Comprehensive Community Care Groups to Bolster Primary Care

Small hospitals, clinics, and other healthcare establishments within a community should be grouped together to enable the provision of comprehensive, continuous care. Contracts may be signed between patients (users) and medical facilities (care providers) to clarify overall responsibility for the health of individual residents and to establish a seamless healthcare system integrating medical and nursing care.

The full policy proposal (Japanese only) can be downloaded (PDF 1.1 MB) from <http://www.tkfd.or.jp/files/pdf/lib/60.pdf>

Nov. 14, 2012

Japanese Language Education at Chinese Universities

Yusuke Tanaka

Of the approximately 3.65 million students of the Japanese language outside Japan, the highest numbers are in South Korea (960,000) and China (830,000). China, though, claims more students at the tertiary level, at 530,000. How are Chinese university students learning the Japanese language and gaining an understanding of the country's culture?

Yusuke Tanaka, a 2009 recipient of a Sylff fellowship as a student at the Waseda University Graduate School of Japanese Applied Linguistics and a research fellow at the Japan Society for the Promotion of Science, conducted a detailed study and analysis of Japanese language education at Chinese universities. He examined textbooks and curricula and interviewed both teachers and students. His research revealed features quite distinct from those seen in South Korea and Taiwan.

The following are excerpts from his report:

* * *

Of the 1,170 universities in China, there are 466 that offer majors in the Japanese language. The figure is a threefold jump from 1999, when the Chinese government introduced a policy to expand the number of university students in the country.

The aim of this report is to examine how students of the Japanese language at Chinese institutions of higher learning—which today enjoy a growing global presence—are learning the language. Specifically, the analysis focuses on classes in *jingdu* (Comprehensive Japanese), the chief course taken by Japanese majors at universities in Beijing, Shanghai, and Dalian, examining and analyzing the Japanese text found in course textbooks.

The examination revealed three major characteristics. (1) The *jingdu* text-

Yusuke Tanaka Sylff fellow, 2009, Waseda University. Currently enrolled in a doctoral program at Waseda University.

books widely used today frequently quote the same passages and authors as those appearing in *kokugo* (Japanese language) textbooks used at schools in Japan. An extremely high percentage of Chinese students are thus exposed to the same materials as Japanese schoolchildren. (2) When creating Japanese language textbooks in China, *kokugo* textbooks are considered one of most reliable

Japanese Language Students at Institutions of Higher Education in Each Country as a Percentage of the Total



sources for quoting passages. (3) Inasmuch as teachers, students, textbook publishers, and researchers, as well as the instruction guidelines all concur that the aim of Japanese language instruction is to gain an “accurate understanding of the Japanese language, Japanese culture, and the Japanese mind,” many believe it is only natural and logical for materials appearing in Japanese high school *kokugo* textbooks to overlap with textbooks for Chinese learners of the Japanese language.

The study revealed that the teaching materials and methods used in Japan had a definite influence on the way Japanese was taught to Chinese university students, suggesting that domestic teaching methods have a role in Japanese language education abroad. Both learners and instructors pointed to biases and deficiencies in Japanese textbooks, however; one researcher noted that the grammatical system adopted in the textbooks was designed for native speakers of Japanese, making it unsuitable for Chinese students of the language. Others voiced the need to make a clear distinction between native and foreign learners, adjusting the content and methods of Japanese language instruction accordingly to meet fundamentally contrasting needs and aims.

There was also a perceived need to be vigilant for normative elements and assumptions about universality that, by nature, are part of language instruction for native speakers. And there may be a danger in referencing textbooks that are designed for domestic use and contain—as some claim—biased content as sources for the “accurate understanding of the Japanese language, Japanese culture, and the Japanese mind.”

Nevertheless, making a mechanical distinction between Japanese language instruction for native and foreign speakers and simplistically assuming them to be isolated concerns will only hinder efforts to gain a true grasp of Japanese language teaching in China. Rather, there is a need to broaden our perspective and fully acknowledge the intertwining of the two approaches to language teaching that now exist in China. This, I believe, is an extremely important con-

sideration in understanding the diverse and fluid nature of foreign languages and cultures and in reexamining what Japanese language education in China should seek to achieve and how it should be structured. I thus hope to conduct further research and analysis into this topic.

This study focused on an analysis of textbooks used in Japanese language instruction at Chinese universities. I would be most happy if the findings of this report—that the methods used to teach Japanese to native speakers deeply influence how the language is learned by nonnatives—would become more broadly known to Japanese language educators both in Japan and other countries.

Read the full Japanese report at: www.tkfd.or.jp/fellowship/program/news.php?id=130

October 23, 2012

Music and Hope for Tohoku

My Week with the Michinoku Wind Orchestra

Simon Hutchinson

Music offers a means of expression beyond words, allowing us to share ideas that transcend the limits of linguistic communication. Outstanding musicians from three Sylff music schools visited Japan to coach young students in Miyagi and to join them onstage at Suntory Hall as members of the Michinoku Wind Orchestra. Simon Hutchinson, a composer and a Sylff fellow himself, volunteered to serve as an interpreter and coordinator for the week-long project, helping in the communication between the students and the Sylff Chamber Ensemble.

There's no temple as great as Matsushima's Suigan Temple.
In front of it is the sea, and behind it a mountain called Komatsubara.
In Ishinomaki is the famous Mount Hiyori.

– “*Tairyo Utaikomi*” (Fisherman’s Song)
Folk Song of Miyagi Prefecture

Asked about the value of the arts, it can be hard to come up with an immediate or concrete answer. We cite studies that show that students engaged in art demonstrate improved linguistic or math skills or that it improves creativity, but these points only define the value of art as it influences other fields. Is there a value to art other than more commercial success in the future?

I think most people would say “yes,” but perhaps the difficulty of verbalizing art’s intrinsic benefits stems from its tendency to speak to the intangible or nonverbal elements of the human experience. The arts offer us a means of expression beyond words, and they can allow us to share ideas that transcend the

Simon Hutchinson Sylff fellow, 2011–12, University of Oregon. Currently a PhD candidate in composition at the University of Oregon. <http://simonhutchinson.com>

limits of linguistic communication. As a composer and scholar, I am personally fascinated by the potential of art to communicate and explore these elements of life and humanity, and from 2011-2012 I received a Sylff (Sasakawa Young Leader's Fellowship Fund) Fellowship—a program administered by the Tokyo Foundation—in order to pursue my research in cross-cultural communication through music.

Music is uniquely situated as one of the most fundamentally abstract of the arts. There is no reason that a series of vibrations in the air at different rates and magnitudes should hold any meaning. Yet, humans have used music throughout recorded history to convey ideas for which words were insufficient, from the earliest songs praising our heroes and deities to symphonies glorifying individual triumph and Japanese folk songs expressing the beauty of a local area and the pride of the people.

It is no wonder, then, that Steven Verhelst's "Song for Japan" has become so popular as a means for people all over the world to express their condolences to the victims of the Tohoku earthquake. This piece allows musicians a chance to share their overwhelming emotions where the words, "I'm so sorry for your loss," seem to fall short. The piece expresses the sadness of loss and hope for the future that those of us living abroad wished to share with the people of Japan.

"Together in Tohoku" Project

Similarly, when I saw a notification in the Sylff Newsletter about the "Together in Tohoku" program, a series of music workshops for students who were vic-



Sylff Chamber Ensemble in Ishinomaki city, Miyagi prefecture

tims of the disaster, I emailed the Tokyo Foundation to see if there was any way that I could be of assistance. The program involved outstanding young musicians from three Sylff music schools spending a week in Japan, coaching students in Miyagi (aged 12 to 18) and joining them on-stage in Tokyo's Suntory Hall as the Michinoku

Wind Orchestra. I was thrilled when I heard that I could lend my skills to these events as an amateur interpreter, helping in the communication between the students and the Sylff Chamber Ensemble.

The musicians in this Sylff Chamber Ensemble included Merideth Hite (oboe), Moran Katz (clarinet), and Dean Bärli Nugent (flute) from the Julliard School in New York; Carl-Emmanuel Fisbach (saxophone), Dylan Corlay (bassoon), and Marie Collemare (horn) from the Conservatoire de Paris; and Panju Kim (trumpet), Dietmar Nigsch (trombone), and David Panzl (percussion) from the University of Music and Performing Arts in Vienna.

Perhaps the tangible benefits of the Sylff Chamber Ensemble's visit might seem insignificant compared to the needs of people who lost friends and family members or all of their material possessions, but this international musical collaboration will hopefully provide lessons, models, and memories that will support these students as they continue into adulthood.

How Do You Get to Suntory Hall? Practice!

Before the concert at Suntory Hall, the Sylff fellows worked closely with some 130 students from schools all over Miyagi Prefecture, offering private and group lessons and rehearsing together with them at the Izumi campus of Tohoku High School. For many students, these lessons were the first private instruction that they had ever received and were a unique opportunity for them to engage directly with masters of their instruments. These workshops ran from 9:30 am to 4 pm (with only a short break for lunch) for three consecutive days from August 13 to 15. These students, despite the demands of this rigorous schedule, their commute, and oppressive heat rose to the occasion through the kindness and support of the Sylff Fellows and Japanese faculty.

As with any international exchange, there were cultural and linguistic miscommunications, but they were easily navigated as everyone shared the same fundamental goal of providing these students with the best possible experience. The Sylff Chamber Ensemble's clear dedication to the students quickly broke down the barriers of language and shyness. Several of the fellows too, commented on how impressed they were by the students' efforts and willingness to perfect their performance.

By Wednesday, August 15, many of the students seemed genuinely heart-broken that their grueling rehearsal schedule had already come to an end, and I was inundated with students asking how to say, "I will never forget you" in English.

Performing in Ishinomaki

On Thursday, the Sylff Chamber Ensemble traveled to the coastal city of Ishinomaki to perform a mini-concert at a community salon. Ishinomaki has one of the most tragic stories of last year's tsunami, with thousands of lives lost and several entire neighborhoods leveled. Now, a year and a half after the disaster, the town is rebuilding slowly but surely.

Thursday afternoon's mini-concert was an intimate affair, attended by between 50 and 70 local residents, many of whom were senior members of the Ishinomaki community, and the Sylff Chamber Ensemble's performance of "Song for Japan" drew tears from many members of the crowd.



Teruo Inoue, the owner of musical instrument shop in Ishinomaki, and Sylff Chamber Ensemble members.

Before their performance, the Sylff fellows visited Sarukoya, a musical instrument shop in downtown Ishinomaki. Teruo Inoue, the owner, didn't have enough time to close the shutters before he fled on the day of the earthquake, and all 30 pianos on display were submerged in the tsunami. Inoue decided to keep the pianos, though, and works to restore them to concert-ready condition.

Through a variety of ingenious techniques, he has already finished repairing one grand piano, which now travels across Japan for professional performances. The piano has become so popular that there were several bouquets of flowers in the store sent by various patrons. Inoue is currently restoring a second piano for a new middle school being built in Ishinomaki. He admitted that it would actually be much cheaper to buy a new piano than to repair those that were damaged, but he is working to restore them as symbols of renewal in ways that will be meaningful to the community.

Collaborative and Unified Expression

On Friday, the Sylff Chamber Ensemble joined the rest of the Michinoku Wind Orchestra in Tokyo for the concert that was the culmination of the week's program. The audience consisted of over 1,300 people, many of whom had assisted with the success of this project by donating instruments to replace those that

VOICES FROM THE SYLFF COMMUNITY

were lost in the tsunami or working behind the scenes for the international exchange. This crowd made the concert a tremendously meaningful event not just for the performers but for everyone in attendance.

One significant aspect of this concert was the integration of the Sylff fellows into the Michinoku Wind Orchestra, creating an ensemble of Miyagi students and young musicians from the world's top conservatories. One of music's most powerful aspects lies in its potential for bringing individuals together in collaborative and unified expression, with groups ranging from duos to hundred-person orchestras. In the case of the Tohoku project, the combination of stu-



Sylff Chamber Ensemble joined the rest of the Michinoku Wind Orchestra at Suntory Hall, Tokyo.

dents from different schools with members of the international musical community clearly demonstrated the ongoing international support for those affected by the tsunami.

The concert at Suntory Hall on August 17 contained many significant and meaningful works, including "Song for

Japan" and Philip Sparke's "The Sun Will Rise Again," from which all royalties are donated to the Japanese Red Cross. Personally, I was especially in-

terested in the piece "Elegy for Tohoku" by Dutch composer Alexander Comitas. In composing this work, Comitas took folk songs from three of the prefectures worst hit by the tsunami, arranging the melodies of Iwate's "Nanbu Ushi Oi Uta" (Nanbu Cow-Herding Song), Fukushima's "Aizubandaisan" (Mount Aizubandai), and Miyagi's "Tairyo Utaikomi" (Fisherman's Song) into a requiem for the people of Tohoku.

One of the other wonderful things about great art is that it lends itself to multiple interpretations. Heard from a Western musical perspective, these folk melodies have a decidedly "minor" flavor, and this feel, combined with their relaxed tempo, could lead one to hear these songs as a dirge. Perhaps this is what Comitas intended in his recomposition of these melodies. Knowing these songs, though, and their original lyrics of local pride and seeing the Sylff Chamber Ensemble onstage with the children of Miyagi Prefecture, I heard the "Elegy for Tohoku" as a triumphant declaration of local pride, joined together with the voices of people from all over the world.

Hope for the Future

For me, sitting in the audience, one of the most moving things about the concert—and one of the most important lessons—was that, through their efforts in practicing and rehearsing, these students shared the stage with master performers as equals. Working together and performing in solidarity with top performers from around the globe, it is my wish that the students feel the rewards of their own hard work and realize that, regardless of the past, the efforts that they and their communities are making now will build their future.

I hope that this week of rehearsals and the concert at Suntory Hall were an experience that the students will look back on and remember fondly; I hope that the Sylff Chamber Ensemble was able to express their grief and support to the students; and I hope that, as an artistic project, even if they did not understand every aspect of the experience, the students felt the meaningfulness of the week's events.

I would deem this project a success if any one of these hopes was met, and, from my observation of the joy on the students and Sylff fellows' faces at the party after the concert, I believe that "Together in Tohoku" succeeded in all of these dimensions.

Bravo to all, on the stage and off, who worked together to make this concert a success.

The Tokyo
Foundation

Developing Policy • Investing in People • Transforming Society