

# JAPAN PERSPECTIVES



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Tokyo Foundation Website

MARCH 2012

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*Japan Perspectives* is a compilation of articles from the Tokyo Foundation website, some of which were written specifically for overseas readers. The March 2012 issue takes a look back at the Great East Japan Earthquake and the Fukushima nuclear accident of a year ago that not only devastated vast areas along the northern Pacific coast but also disrupted the life of the rest of the nation, including through energy shortages. The global supply chain was interrupted, and serious questions were raised about the future of nuclear power.

The articles here and others on the website outline priorities for the nation, deliver timely policy proposals, and identify potential pitfalls. In addition, the Foundation has also reached out to people directly affected, asking them to share their insights and perspectives in the hope that they will help us identify the most important lessons—not only for Japan but also for humankind in the twenty-first century.

Other topics covered in this issue include politics in Japan—a topic that is often opaque to foreigners—economic and fiscal trends, Japan’s perspectives on international and security affairs, and challenges confronting society.

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Publisher: Hideki Kato (President)  
Editor-in-Chief: Akiko Imai (Director, Public Communications)  
Senior Editor: Nozomu Kawamoto (Public Communications)  
Associate Editor: Kaoru Matsushita (Public Communications)  
Production Manager: Asako Uemura (Public Communications)

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February 16, 2012

## Waves of Despair, Tides of Hope

### *Rebuilding Tohoku's Aquaculture Industry after March 11*

Shigeatsu Hatakeyama

*On September 9, 2011, a group of leading scholars from China, Japan, and the United States toured areas devastated by the March 11 earthquake and tsunami. One stop along the bus tour was a meeting with Shigeatsu Hatakeyama, an oyster fisherman in Kesennuma, Miyagi Prefecture, who is leading an effort to revive oyster farming.*

*Organized by the Tokyo Foundation, the tour was part of the Tokyo Program of a trilateral symposium on "New Patterns in East Asia and China-Japan-US Relations," held in Beijing on September 6 in commemoration of the thirtieth anniversary of the Institute of Japan Studies, Chinese Academy of Social Sciences.*

*Participants in the Tohoku tour included Harvard University Professor Emeritus Ezra Vogel; Li Wei, director of the Institute of Japanese Studies, CASS; Tokyo Foundation Senior Fellow and University of Tokyo Professor Shin'ichi Kitaoka; and Patricia G. Steinhoff, professor of sociology at the University of Hawaii.*

*The following is the gist of Hatakeyama's comments.*

**T**hank you for coming today. I've been cultivating oysters here in Kesennuma for about 60 years. Here along the Sanriku coast, people say that two big tsunamis come along during one's lifetime. So I knew we were due for another one sooner or later.

But I never dreamed it would be this big.

We had a big tsunami fifty years ago after the Chile earthquake. At that time, the waves came up to about here. The rafts offshore were damaged. But there were some we could still use.

This time, everything was washed away. The processing facilities up along the shore, including water tanks, were destroyed. The tsunami swallowed the

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*Shigeatsu Hatakeyama* Oyster farmer; inaugural recipient, UN Forest Heroes Award; founder, NPO "Mori wa Umi no Koibito" ((Forests Are Lovers of the Sea); professor of field studies and practical learning, Kyoto University.

## EARTHQUAKE AND TSUNAMI

refrigerators, trucks, and boats. The small boats you see here are donations. This one comes from Mie Prefecture.



Being scholars, you may wonder why we chose to live in such a dangerous place. There used to be 52 houses in this cove, and 44 were washed away. For about two months after the tsunami, everyone said this was too dangerous a place to live. But from around the third month, people again wanted to see the ocean from where they lived—but this time from

a little higher up the hill.

The tsunami took everything away, but nobody here—myself included—bears any grudges. Anthropologists have come to study this phenomenon. Virtually no one has any bitter feelings against the sea or the tsunami. That's because the sea has been such a generous provider until now.

For about two months, the cove was devoid of life. There was not a single fish in the sea. But one day my grandchild said, "Look grandpa, there are tiny fish in there." Gradually, the waters started filling with life. After the Chile earthquake 50 years ago, the oysters grew much larger. So I knew that the sea becomes richer after a tsunami.

This time, though, because everything disappeared from the waters, I was afraid that the sea had died. You can see that some of the cedars over there have wilted. They were covered by waves, which reached 37 meters above sea level. Even here, water levels rose by around 20 meters. Can you imagine that? Where we're standing now was like the bottom of the sea. What would happen if such huge waves flooded Tokyo or Osaka?

Seeing the small fish return after about two months, I knew that the sea hadn't died.

What I'm holding in my hands are "oyster seeds" (pronounced *kaki no tane*). They're not rice snacks (also pronounced *kaki no tane*). [laughter] What you see on these scallop shell are baby oysters. Since life has returned to the waters, I knew that if we could get hold of seed oysters, we'd be able to start the farm all over again.

I searched around and found that seed oyster farms near the mouth of the Kitakami River in the city of Ishinomaki had largely survived the tsunami. Virtually all cultured oysters around the world, in fact, originally come from Ishi-

## EARTHQUAKE AND TSUNAMI

nomaki. This is the variety used by cultivators in Seattle, on the West Coast of the United States, France, New Zealand, South Korea, China . . .

There's a hatchery in a bay called Mangoku-ura, which, miraculously, survived the tsunami. My sons and I decided to give it another try. But to do this required rafts, like those you now see offshore. They're made of cedar, which grow all around here. So we cut some down and built new rafts.

The spat are tied to a rope and lowered in the water from the rafts. We began this around June. The seeds we placed in June are already this big. They're really fast growers!

The tsunami was a massive disaster, but I knew that if we could just restart our operations, we'd be okay. Even now we're building new rafts and sinking more spat.

Besides rafts, we needed boats. Fortunately, many people provided assistance. That boat came from Amami Oshima, an island near Okinawa, and it was donated by a man whose business in Shanghai was very successful. He read about me in a book, I think. He visited me about a month after the tsunami and presented me with a boat as a gift.

That other boat belonged to a classmate of mine from middle school who was an oyster farmer near here. His house was washed away by the tsunami, and he lost members of his family. He, too, nearly died and felt that he couldn't go on. He asked me if I would buy the boat from him, and it was just then that the businessman from Amami Oshima came to visit, and he offered to buy the boat for me.

The classmate's son wanted to continue farming, though, so I asked him to help me out. He now works for me, and he's a very hard worker.

This row boat was donated by the association of fishing cooperatives in Mie Prefecture.

We had a carpenter here from Kobe, which also experienced a big quake. He was a volunteer, working during the day as a carpenter and using his wages to buy supplies for the victims in Tohoku. He did this for about two months before he came to my house. I asked him to help and he's been living with us for about two months.

One of the most important things for a fisherman is a pier. Without it, ships can't dock. So I asked the carpenter to build the pier you're standing on now. It's as if he knew you were coming. I wish I could offer you some beer!

Thanks to such generosity, this part of the Sanriku coast is probably ahead of others in terms reconstruction. And no one here is bitter or angry with what happened.

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We had a group of researchers from Kyoto University to investigate plankton levels and water quality. If there are heavy metals or other pollutants in the water, the oysters won't be suitable for eating. They found nothing harmful in the waters. They also discovered that there was an abundance of plankton, on which the oysters and other creatures feed. When the waves die down, you can see so many tiny fish swimming around.

The tsunami took 20,000 lives and was a horrible tragedy. But if we put that aside, it also churned the waters, and that's not necessarily a bad thing. It can breathe new life into the sea.

We have to brace ourselves against big tsunamis, which we know will come sooner or later, and take steps to survive them. Otherwise we can't live in a place like this. For my sons, this was their first big tsunami. I've been told it was the biggest in a thousand years, so they went through a truly massive one. It was a shock for them.

I'm a second-generation oyster farmer, so my sons are third-generation. I have four grandsons, and if they follow in their dads' footsteps, they'll be fourth-generation. My grandsons also experienced the tsunami, so they'll have an idea of what to do to save their lives. I've also been teaching them what they'll have to do.

With proper effort, we'll be able to cultivate oysters for generations to come. If my grandsons do become oyster farmers, our family will have been involved in this trade for over a century.

The tiny oysters on this shell will be big enough for eating by around this time next year. I'm thinking of building a stand here where visitors can enjoy freshly caught oysters. So I hope you'll come again. And please be sure to bring good wine!

The young oysters are lowered in the sea like this. Anywhere from 30 to 50 larvae are attached to each shell, which grows to the size of a bunch of bananas, weighing around 10 kilograms. Each rope has about 30 such clusters.

All you need is just one rope to get 30 clusters of oysters. The seeds themselves aren't expensive. On top of that, you don't need any feed or fertilizer. With only one rope, you can grow enough oysters to feed yourself for a year. Growing oysters is a great job!

The problem, though, is that the tide doesn't provide all the necessary nutrients. The nutrients come from the forest, which the rivers carry with them as they flow into the sea. Without such nutrients, there'll be no increase in the planktons. That's one reason I've been advocating the planting of new trees in the forest. I've been involved in this movement for 23 years.



## EARTHQUAKE AND TSUNAMI

**Question:** Do all the baby oysters make their own shells?

Of course! They grow their own shells. There's almost an unlimited supply of calcium in the sea.

**Question:** Is there enough higher ground for everyone to move to?



The tops of some of these hills will probably have to be shaved to make room for everyone. We're asking the government to provide subsidies for this.

**Question:** Is that really necessary? Aren't there natural highlands where people can move to?

I'm afraid not. After about three generations—about 90 years—people tend to forget even the most painful of lessons. So they gradually start moving back down along the shore, because it's more convenient.

Of course, efforts are made to pass the lessons on to future generations. For example, signposts have been erected to warn people not to build houses below a certain point. This time, I think people have really learned their lesson! After all, 20,000 people lost their lives.

We live about 20 meters up the hill from here, so we were safe. My grandfather had the foresight to build a house on high ground. If he had chosen to build closer to the water, I probably wouldn't be here with you today.

September 28, 2011

## A Community-Based Model of Rural Recovery

Shin'ichi Shogenji

*Options for post-disaster recovery have provided a rich source of material for media commentary since the March earthquake and tsunami. Shin'ichi Shogenji argues that what devastated farms and rural communities need to turn their despair into hope is not a hail of disconnected—and often facile—proposals from outside pundits but integrated, forward-looking plans crafted at the local level.*

In recent months, media coverage of the Great East Japan Earthquake and its aftermath has featured a potpourri of ideas and opinions on the rehabilitation of farms and rural communities devastated by the quake and tsunami. Those suggested by local residents and others on the scene, needless to say, have been motivated by a sincere desire to resurrect their lives, and the majority of views contributed by agricultural experts and government administrators have similarly been very serious.

But there have been a few pundits who seem bent primarily on promoting their own views over competing ideas, giving a deplorable air of profiteering to some of the media discourse. Moreover, when communicated out of context through the medium of television—or even, in some cases, the newspapers—ideas that may originally have been presented in a systematic and coherent manner sometimes come across as a hail of competing, fragmented, and disjointed sound bites.

The media has a huge influence on public opinion. This makes it all the more essential to adopt a comprehensive and systematic approach to the subject of rebuilding affected communities. If problems are addressed in a piecemeal fashion, reconstruction measures are likely to come into conflict with one another, and easily overlooked issues can emerge as major impediments to progress.

No doubt these principles apply to all post-disaster recovery and reconstruction efforts. But a structural grasp of the whole is particularly important when it comes to agriculture and rural communities because of the many layers of inter-

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*Shin'ichi Shogenji* Senior Fellow, Tokyo Foundation; Professor, Graduate School of Bioagricultural Sciences, Nagoya University.

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connected issues and decision-making organizations involved. With this in mind, I will attempt to elucidate the challenges ahead and propose a framework and road-map for reconstruction planning, in hopes that my ideas may provide some useful fodder in the ongoing discussion.

My focus here will be on recovery and reconstruction from the direct impact of the earthquake and tsunami. Unquestionably, farming and rural communities in the region have been profoundly affected by the release of radioactive material from the Fukushima Daiichi Nuclear Power Station. But with the evacuation process still under way, the full duration and scale of this secondary disaster is still impossible to gauge.

Furthermore, the loss of international confidence in Japanese food exports raises larger problems of national significance. For this reason I believe the Fukushima nuclear disaster needs to be examined from other angles as an issue in its own right, which I plan to address at a later date. That said, I am confident that many of the points I make below are pertinent to recovery from the nuclear crisis as well, and I hope they will be considered in that context.

### **Basic Reconstruction Needs**

The amount of farmland seriously damaged by erosion or flooding from the March earthquake and tsunami has been estimated at 24,000 hectares. Since rice fields account for 20,000 hectares—85% of the total—I will concentrate here on the rice-farming industry.

The basic infrastructure needs for wet rice cultivation are (1) a water distribution system, including a water source, intake facilities, and main and branch irrigation canals; (2) floodable land suitable for use as paddy fields; and (3) a drainage system, consisting of branch channels, main channels, and canals, to drain the water from the paddies.

In addition, the low-lying coastal farms, where most of the recent damage occurred, are dependent on dykes to keep out seawater, as well as pumping stations to aid drainage, and most of the pumping stations were destroyed or incapacitated by the tsunami. Further inland, in the areas that escaped the tsunami, some farms are without irrigation owing to earthquake damage to reservoirs and other irrigation facilities.

Farm machinery and equipment are also essential if farmers are to complete their tasks on schedule. In the case of rice cultivation, most farmers rely on seedling transplanters and combines, often kept in a machinery shed adjoining the farmhouse.

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Full-time farmers and corporate farms sometimes also have their own equipment for drying and milling rice. The March disaster resulted in massive damage to such farm equipment and facilities as well as to farmers' homes. In an area known for not only rice but also greenhouse strawberry cultivation, the damage to greenhouses—common on rice farms throughout Japan—was particularly serious.

In fact, in many of the affected areas, the bulk of the infrastructure and equipment described above was destroyed. In those cases, reviving the local farm industry will essentially mean rebuilding it from the ground up. With such circumstances in mind, I believe a suitable framework for recovery is the approach outlined below.

### Dividing Responsibilities

First, the national and prefectural governments must take responsibility for restoring essential infrastructure serving large areas, including pumping stations and major irrigation and drainage canals. The state and prefectures have always been in charge of construction and improvement of such essential infrastructure, so the restoration of such systems and facilities is best carried out under government leadership.

By contrast, the revival of the local farm economy and community life should be driven by bottom-up decision making. Indeed, whether in the agricultural realm or elsewhere, I believe that the revival of local industry and community life must be powered by the initiative and drive of the area's individual business owners and citizens.

This is not a simplistic call for self-reliance. There is no question that the victims of a major disaster need material and emotional support from the public sector. But all public assistance should be provided in such a way as to encourage personal initiative and drive and to leverage it for the revival of the community. How to proceed so as to foster such initiative and drive in the context of farming and rural communities is the subject of the following section. The point I wish to stress here is that top-down planning is poorly suited to the revival of economic and social life at the community level. Final decisions should be in the hands of those who are in a position to take responsibility for them.

In the preceding I have argued for government-led infrastructure restoration and private, bottom-up rebuilding of the community's economic and social life. But in the farm sector there are many activities that straddle or fall midway be-

tween the two realms, being handled jointly or by any of a number of quasi-public organizations.

The branch canals of a local irrigation system are maintained and used collectively by the farmers in that area. The places where rural communities hold meetings of various sorts are community facilities. In many instances cultivation itself is a collective undertaking; when a whole community is involved, this is called community farming. Even in activities like greenhouse cultivation—where most steps in the production process are handled at the level of the individual farm—collection and shipping is generally managed by local agricultural cooperatives, which have storage and transport facilities in their respective regions.

A major issue that falls outside the categories of government leadership and bottom-up decision making is land adjustment. Rural land-use adjustment can be divided into two basic types. The first involves altering the use of farmland without converting it to nonagricultural uses. The process of rehabilitating damaged farmland is sure to involve adjustment of rights pertaining to usage, since some farmers will undoubtedly elect not to resume their trade. Adjustment of ownership rights may also be necessary if redevelopment plans necessitate changes in property boundaries.

The second type of land-use adjustment involves conversion of land to nonagricultural uses. This is the kind of adjustment issue that most often arises in connection with municipal land-use planning. Some communities where the tsunami devastated fields and residential areas alike will doubtless elect to disregard previous land-use zoning in their redevelopment plans. In such cases, redevelopment planning will in essence mean formulating a new land-use plan.

We have seen that Japanese farming and rural communities have traditionally depended on organizations of various sorts to perform a wide range of functions. In many cases, those entities have taken the lead in reviving the services or functions they originally oversaw or performed. However, in areas that were hit particularly hard, it may be necessary to begin by rebuilding the organizations themselves. In any case, restoration of multiple functions and services will require integrated planning based on a “grand vision” for the farming and community life in the area, not merely a hodgepodge of unconnected projects. This is where the framework below comes in.

### **Basic Units of Action**

As mentioned previously, all public assistance to disaster-stricken areas must be conceived and administered with the goal of fostering personal initiative and

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drive at the local level. The vitality of local industry and the amenities of local community life are nothing but the aggregate of individual efforts and activities.

Yet the emotional state of disaster victims who have lost family and friends as well as homes and farms often precludes such initiative and drive. For this reason, the public sector must continue to provide material and emotional support as needed, while carefully monitoring the conditions of those receiving it and providing information and guidance to aid and encourage local reconstruction efforts.

I will examine the content of such information in more detail in the following section, but for now let us consider the best means of delivering it. Some intermediary organ will surely be needed to gather, compile, and convey information and recommendations from a wide range of sources. It seems to me that prefectural governments are best suited to this role, since they are knowledgeable about local conditions but also positioned to ensure that information is consistent with national plans for restoring infrastructure.

Needless to say, this assumes that the prefectures will coordinate with the central government and municipalities, in addition to cooperating with one another. The major cities of each prefecture could be expected to play a key role by putting forward qualified candidates for the tasks of planning, data compilation, and so forth.

Now let us consider the basic organizational unit for those receiving and acting on such information.

Japanese farming and rural communities have been shaped by a variety of geographical and historical forces and are thus quite diverse in scale and structure, and this is true even in the area hit by the March earthquake and tsunami. Moreover, the extent of the damage sustained by the disaster varies greatly from one community to the next.

For these reasons, local communities should be allowed considerable flexibility in organizing for reconstruction. In most cases, I believe the best choice for reconstruction units will be the *kyuson*, that is, the former villages that constituted the basic administrative units of rural Japan prior to the widespread municipal mergers of the mid-1950s, and that still exist as identifiable districts.

While the residential clusters known as *shuraku* may be considered the basic unit of community life in rural Japan today, the trend toward larger-scale farming on plots leased from multiple owners has given rise to more and more farms that straddle the boundaries of those smaller units. The *kyuson* often correspond to school districts and local branches of agricultural co-ops, and they are small enough for residents to feel a sense of community.

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Assuming that these *kyuson* become the basic unit of reconstruction, the next step is for each to establish a forum for the purpose of developing a blueprint through a process of free-ranging debate and discussion among the farmers themselves, as well as other members of the community. It is to this “rural reconstruction council,” as I shall tentatively name it, that the prefecture should furnish information and options for reconstruction.

The councils will need to tap the various rural organizations discussed above for their expert views on a range of issues, but the role of such organizations should be limited to providing advice. This is to ensure that the local councils give a fair hearing to bold ideas for undertakings outside of the traditional organizational framework, in the likely event that some of those involved in reconstruction planning perceive a need for such measures. Of course, to qualify for adoption, proposals must be not merely bold but also supported by meticulous study and deliberation.

Some may question whether one can expect bold ideas and meticulous study from a council made up of local farmers. Given the advanced age of Japan’s farming population, it would be overly optimistic to anticipate legions of imaginative, intrepid volunteers. But any unit the size of a *kyuson*, the pre-1950s village (as opposed to a smaller settlement of *shuraku*) is bound to have people with the combination of business acumen and concern needed to assume a leadership role in the local reconstruction process.

Needless to say, officers of established organizations should not be disqualified from assuming such a role, provided that they have the qualities needed to guide the development of such a plan, including a willingness not to insist on pushing ideas that would only serve the narrow interests of their organizations.

As previously noted, Japanese agriculture and rural society rely on an array of organizations and agencies. Each rural municipality has an agricultural committee to deal with property-rights issues relating to farmland, while the building and maintenance of physical farmland facilities, such as irrigation canals and reservoirs, are carried out by local land improvement districts.

Agricultural extension centers are established at the prefectural level to disseminate the latest technologies. The nationwide system of farm cooperatives, known as *nokyo*, plays an indispensable role in the distribution and sale of farm products. Agricultural mutual aid associations administer the crop and livestock insurance program, which performs a vital function in the aftermath of disasters. And of course, municipal governments play an important part in many aspects of farming and farm policy, including land-use zoning, title transfer, and the thorny task of rice production adjustment.

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The expertise within these organizations and agencies will doubtless provide valuable support for reconstruction planning at the community level, and the resulting blueprints will entail measures and activities that fall naturally under the jurisdiction of these organs.

In the establishment and operation of the reconstruction councils, we should look to municipal governments to play a particularly important role behind the scenes. Theirs will not be an easy task. Simply obtaining a local consensus for the formation of such a council will be difficult in situations where an area has been evacuated and the farmers are dispersed.

Moreover, the resources and capabilities of municipal administration are limited. In recent years many municipalities have found themselves hard-pressed to provide adequate support for agriculture owing to personnel and funding constraints, and now they must grapple with the loss of staff and property damage from the tsunami. The importance of providing assistance to municipal governments for all aspects of reconstruction cannot be emphasized too strongly.

### **The Prefecture's Role**

Let us bring these hypothetical reconstruction councils and their work into closer and sharper focus through a kind of informal simulation. It would not be useful to prescribe a standard blueprint, given the diversity of the region's farm industry and rural communities, as well as the wants and needs of its farmers. That said, to the extent that similar conditions pertain to agriculture and rural life throughout Japan, we can assume some commonality in the challenges facing these communities and in their hopes for the future. With those commonalities in mind, I would like to offer one possible road-map for reconstruction deliberation and planning.

The process can begin with the formation and launch of the rural reconstruction council under the guidance of prefectural authorities and with the support of the municipal government. Since the readiness of the communities affected will vary considerably, there is no need to impose a uniform launch date. That said, the establishment of reconstruction councils should not be limited to just those communities that are quick to embrace the idea. Taken as a whole, the councils should cover all farms and rural communities in the region hit by the disaster.

The first thing the prefectural government needs to communicate is the role of the reconstruction council as a means of pooling the resources and ingenuity of the community and as a forum for careful deliberation of a basic reconstruc-



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tion plan. This would also be the time to provide information on all national and prefectural aid and technical assistance available to support reconstruction planning.

In addition, the prefecture should provide the latest information on tax breaks and other special relief measures under consideration by the national government, since the availability and extent of such relief will be a premise of the council's deliberations. The important thing is to provide a full range of pertinent information as systematically as possible—from the practical usability of each idea to its relationship to larger systems and policy frameworks.

The prefecture and the council should communicate many times, supported by the municipal government, before the task is finished. Meanwhile, the prefectural authorities will need to maintain good lines of communication with the central government in order to seek approval for requests from the community that they deem reasonable. These discussions, too, need to be communicated to the council. With the central government involved as necessary, this ongoing dialogue should open the way to the relaxation of systemic constraints, opening up a wider range of options.

In terms of technical information, the prefecture should move quickly to provide communities with accurate assessments and forecasts pertaining to the agricultural conditions and restoration of infrastructure. For example, the possibility of frequent flooding may be a new concern in areas that have experienced ground subsidence.

Information on the all-important matter of field conditions should be provided as quickly as possible, since it can heavily influence farm management decisions. The prefecture will need to work closely with local agencies and organizations to carry out timely assessments and issue recovery and restoration timetables as quickly as possible.

### **The Council's Role**

The reconstruction council, for its part, will conduct independent deliberations and develop a vision for local agriculture based on the resources available to the community.

The most basic agricultural resource is farmland. Throughout Japan, elderly farmers have been retiring in rapidly increasing numbers in recent years, and this trend could accelerate in areas hit by the disaster. With fewer farmers to cultivate the available land, land-use adjustment is sure to be one of the issues requiring attention.

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The size and form of the farms that emerge from the recovery process is a matter of considerable import when mapping the future of the local farm industry. But people should avoid the simplistic assumption that bigger is better. In agriculture, the ideal plot size and shape size vary according to the crop and the method of farming.

In low-lying areas prone to flooding, communities might want to consider regrading farmland to make it suitable for nursery and greenhouse cultivation, taking their cue from the highly successful development of such operations on the Atsumi Peninsula.

There are also new developments in technology to be considered, including recent advances in energy-efficient, environmentally friendly “vegetable factories.” Meanwhile, the expansion of the farming sector into the food-processing and restaurant businesses has allowed more and more farms to reinvent themselves as businesses that can set their own prices. Such cutting-edge technologies and business models should be taken into account when developing a reconstruction plan.

The impetus for innovation may originate in the information and options provided by the prefecture, or a council may begin exploring such possibilities on its own initiative. The reconstruction councils should also consider leveraging any existing relationships with consumer co-ops, food-processing operations, and researchers at universities or regional experimental stations.

### **The Right to a New Beginning**

Prior to the March earthquake and tsunami, the farmers of each community grappled with challenges and cherished dreams for the future. In each area there were doubtless hopeful developments as well as intractable problems and dead ends. By destroying so much of the agricultural infrastructure of these communities, the tsunami pushed the reset button in these communities, through no wish of their own. It swept away not only homes and farms but also washed away many of the obsolete structures and practices that have stood in the way of change.

I mentioned available resources as the basis for local planning, but utilization patterns are another key factor. As the reconstruction of farming villages proceeds, these communities will have an opportunity to apply the available resources in ways that are dramatically different from traditional uses.

Land-use zoning offers the most obvious potential for positive change. Rather than merely shift the boundaries between residential and agricultural zones,

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communities should consider establishing brand-new zones dedicated to things like community gardening and hands-on agricultural education. Demand for community gardening plots is growing even in rural areas as farmers retire and move into town alongside non-farming households. Hands-on educational facilities could provide an impetus for young people to become farmers of tomorrow, while giving older farmers an opportunity to serve as veteran instructors.

Now is the time for residents to mull over ideas that they would previously have dismissed as impossible or to revive an abandoned or neglected dream. In the fluidity of its present circumstances, each community has the opportunity to make the most of the blank slate facing it and develop these ideas and dreams into a new blueprint for the future.

There is no doubt that existing systems will raise obstacles to the implementation of such plans. But if communities study and debate the issues thoroughly, and farmers and residents unite in their pursuit of a new vision, a persuasive, pragmatic case for regulatory change is bound to take shape. A key consideration when revising regulations is how effectively the revised regulations can be used in practice. In areas hit by the March disaster, such deliberations are bound to have a highly practical slant.

The tsunami swept away entire farms and communities, leaving nothing in some areas but a bleak and ravaged landscape. Those of us blessed with homes where we can live and jobs that we can pursue in safety can only stand silent in the face of such devastation. All of us should think long and hard before spouting statements that exploit the tragedy for profit or self-promotion, or to advance some sweeping deregulatory agenda.

But this does not mean that people from the affected areas should shrink from turning misfortune into an opportunity for renewal. To the contrary, the victims have a right to seize this moment to craft a new vision for regional agriculture and rural life. Moreover, the rest of us stand to learn important lessons from the process by which they do so. For my part, I intend to do all I can to support their efforts.

July 15, 2011

## Beyond Reconstruction: Political Priorities in the Wake of 3/11

Gerald Curtis, Sota Kato, and Tsuneo Watanabe

*Three Tokyo Foundation senior fellows discuss the political challenges raised by the March earthquake and tsunami, the many positive developments that have emerged in the wake of the national crisis, and the shortcomings of single-seat electoral districts.*

**TSUNEO WATANABE:** Dr. Curtis, you're just back from Fukushima, where the [Fukushima Daiichi] nuclear power plant was badly damaged in the March 11 Great East Japan Earthquake. What are your impressions of the crisis there and of the general situation following the earthquake and tsunami?

**GERALD CURTIS:** I have several impressions, not just of Fukushima but of the disaster area as a whole. The first is the enormous scale of the tsunami disaster, which wiped out whole towns and cities, and of the nuclear accident, which has forced hundreds of thousands of people to relocate. Three months after the earthquake and tsunami, there are still over 90,000 people living in emergency evacuation centers.

I know that the [Naoto] Kan government is criticized a lot for its slowness in responding to the crisis. There are reasons for criticism, but there is so much to do. There is so much debris to clean up, so many temporary homes to



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build, and so much to do to create job opportunities and help small- and medium-sized business get back on their feet. Even the greatest political leader would have trouble dealing with it all.

But what is really upsetting when visiting people in the evacuation centers is how hopeless so many of them feel. A lot of old people have seen their houses washed away, their rice fields inundated with salt water, and their machines destroyed. They still have loans on equipment and houses that no longer exist, and they can't afford to get another loan. So, the government's job is to give them a sense of hope, and I don't think the government has been doing a good job in that sense.

My second impression is that while the tsunami and earthquake were natural disasters, the nuclear accident was man-made, particularly the nearly criminal way in which TEPCO [Tokyo Electric Power Co.] has failed to deal with the emergency.

**WATANABE:** There's no question that we're facing a terrible challenge. What's to blame for the current paralysis in government? Is it simply lack of political leadership? Is it a lack of coordination between politicians and bureaucrats? Or is it the result of the bureaucratic bashing that has been spearheaded by the DPJ [Democratic Party of Japan?]?



**SOTA KATO:** I would say all three. Prime Minister Kan and other members of the DPJ are not taking proper leadership, or rather, they misunderstand what leadership is. I've heard that Kan has been trying to decide everything on his own. After the 3/11 earthquake, he stayed in his office for about a week without any sleep; he was trying to make all the decisions by him

self. It's impossible for just one person to run a government. He has not been doing a good job of delegating tasks to other cabinet members and to the bureaucracy. I think he's been trying to show leadership by staying on top of everything, but because he's not delegating effectively, from the public's perspective it seems that the government is not doing anything, and I think that's the real problem.

**CURTIS:** I think it's quite clear that one of Kan's biggest failures is that he hasn't communicated enough with the public. When I was up in the disaster area in the Tohoku district, a lot of people said they're not getting any clear message from government leaders about how they're going to help people recover.

A businessman in Ofunato in Iwate Prefecture, whose fisheries business was

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destroyed, said he realizes it takes time to come up with concrete policies. But he said that even just words from the prime minister would make a difference. When [Barack] Obama visited Joplin, Missouri, after the huge tornado there, he gave a very inspiring speech in which he said, “Your government is with you. We will make sure that this recovery will happen and happen quickly.” And people believed him.

Another of Kan’s failures is that he doesn’t delegate authority, which is the point that Kato-san just made. But if that were the only problem, the outlook would be very positive because Kan’s going to be gone relatively soon. I think there are two more problems. One is that the DPJ is not unified; regardless of who becomes prime minister, there is going to be some group in the party that’s going to try to undermine him. The second is that the bureaucrats don’t like the DPJ, and so many are not cooperating with this government. I’ve heard from people around Kan that when the government makes a decision, the bureaucrats just sit on it and sabotage it. There are a lot of bureaucrats hoping for the return of the LDP [Liberal Democratic Party], who are thought to be easier to manipulate, and so they’re making it very difficult for the DPJ to govern. So there is a structural, systemic problem, not just a leadership problem.

**WATANABE:** The LDP, which is now in the opposition, just recently submitted a no-confidence motion against Kan, but it was rejected. I think many people, especially in the disaster area, are frustrated with this kind of political bickering in the midst of a crisis. I’ve heard criticisms of both the LDP and DPJ. What should politicians do to break the political impasse?

**CURTIS:** The LDP, in submitting that motion—and a lot of people like [Yukio] Hatoyama, [Ichiro] Ozawa, and others in the DPJ who suggested they would support it—never said why. They just said they don’t like Kan, Kan is no good, let’s get rid of Kan. But if you get rid of Kan, what would you change in policy? I doubt that Mr. [Sadakazu] Tanigaki, who heads the LDP, would change anything. It’s all about personality and trying to create enough political mayhem so that you can force an election. They all talk about helping the tsunami victims, but they’re only using those people for their own small-minded political struggle. The majority of the Japanese people are absolutely disgusted not just with Mr. Kan or with the DPJ but with the whole way in which politics is being conducted in Tokyo.

**WATANABE:** In that sense, all Japanese leaders appear to be committing political suicide in



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turning the disaster into a political issue and thus losing the trust of the people. Whatever the ruling and opposition politicians do, whether they choose to form a grand coalition or opt for partial cooperation on an issue-by-issue basis, people's trust does not appear to be coming back, and neither is the trust of the bureaucrats. So, there's clearly a deadlock.

**KATO:** I've wondered why people have so little trust in their government. Japan is democratic country, after all, and so those in power were chosen by the people. Why do people turn their backs on those whom they helped to elect?

**CURTIS:** This is a big topic. The political situation is very bad. But sometimes bad situations can lead to positive outcomes, and I think we're seeing things in Japan that are very encouraging. One is that there are a lot of impressive politicians emerging at the local level, especially in the Tohoku area, because crisis tends to produce leaders.

Prominent examples include Miyagi Governor [Yoshihiro] Murai, Minami-Sanriku Mayor [Jin] Sato, Minami Soma Mayor [Katsunobu] Sakurai, and Soma Mayor [Hidekiyo] Tachiya. These politicians are working on the ground in very difficult situations, and they're making tough decisions. Not only in Tohoku but around the country, a new wave of politics is emerging from the local level. It's clear that there is too much centralization in Japan. It's as if in the United States, Washington made all the decisions. We do have problems with state and local governments, but I think it's much better to have a diffusion of power. There are a lot of interesting—and increasingly powerful—local politicians here.

A second positive sign is how active Japanese businesses and individual business leaders have been in trying to help with the situation in Tohoku and lead the country toward a new energy policy. [Softbank CEO] Masayoshi Son has developed a grand vision for solar energy, and Mitsubishi Corp. has established a 10 billion yen fund to support the reconstruction effort and is encouraging its employees to visit the disaster areas as volunteers. The business world is engaged in public service like never before. That's a very impressive and important development. A lot of younger entrepreneurs are trying to help. I've also received e-mails from foreign people working at financial and other companies who want to create a fund or a microfinance program for Tohoku. So, the business community is rising to the challenge.

The third development is that during the three months since the quake, over half a million people have gone to Tohoku as volunteers. Every weekend, young people who work Monday to Friday in Tokyo get on a bus at 10:00 or 11:00 Friday night and arrive in Ishinomaki at 6:00 in the morning. They clean up the mud all day, sleep in a tent, do the same thing the next day, then get on the bus again,

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and are back at work Monday morning. This is wonderful. So, I think there is a lot happening that people should feel very proud about and that, I think, opens up new possibilities for Japanese politics.

Even though politics is a mess, this is a transition period, a period of what I call “creative destruction.” A new generation of politicians is emerging, and within three to five years, they’re going to be in charge. [Finance Minister Yoshihiko] Noda, [former Foreign Minister Seiji Maehara], [Policy Minister Koichiro] Genba, and [Goshi] Hosono are the names of people who are going to be running this country. They come from a different background; they’re more cosmopolitan and have a better sense of how the world is operating. I’m very critical of the current situation, but I’m not pessimistic about where the country is going once the immediate set of problems is overcome.

**WATANABE:** I think there have been several other positive developments besides those that Dr. Curtis just pointed that. First of all, the US government provided very generous support through Operation Tomodachi for humanitarian assistance and disaster relief. This was a great showing not only of US friendship but also of military interoperability between the US military and the Japanese Self-Defense Forces.

When I visited Ishinomaki, the father-in-law of a friend of mine told me that people had probably underestimated the role of the military after seeing how effective the troops were in helping removing debris and recovering airport functions. This, too, I think, had a positive impact on the Japanese people’s minds.

As for the younger generation of politicians, 39-year-old Goshi Hosono, who is now state minister for consumer affairs and food safety and who was appointed minister in charge of the nuclear accident in June, played a crucial role in enabling the sharing of information between the Japanese government and TEPCO, on the one hand, and the US Nuclear Regulatory Commission and the US military, on the other. Immediately following the crisis, there was no mechanism for the systematic sharing of information between the Japanese and US governments, and the US side was clearly frustrated. Hosono worked with Akihiro Nagashima, who used to be the vice-minister of defense, and they created a forum for information sharing a week after the crisis. I don’t think he can be the prime minister yet, but Hosono is likely to become one of Japan’s prominent leaders in the near future.

**WATANABE:** How Japan can nurture or educate good political leaders. This is a pressing topic, since Japan needs strong leadership right now, but how can this be done? Japan doesn’t appear to have invested much on leadership education. Are there any positive signs for the future?



**KATO:** I think there used to be a training system for junior politicians in the LDP in the past, but that's something that is lacking in the DPJ, and it will be critical for the DPJ to develop a training system to enable junior politicians to develop their skills and gain experience.

**CURTIS:** There is no quick fix for this problem. We now can see that the one-party dominance of the LDP went on for too long. Half a century or so of having just one party in power has had negative consequences for political leadership. For one thing, it has led to too many politicians who are children of politicians. They may not have had the necessary passion for politics or a vision for the country but entered the profession out of family obligations. Their fathers may have been very impressive as politicians, but many of the children are not.

For another, it didn't allow opposition politicians, especially those who are now in the DPJ, to gain experience in running a government. So it's not entirely surprising that they're running into difficulties now. All the ministers and vice-ministers are currently going through on-the-job training. The younger politicians—the Hosono and Genba—are getting a lot of training and some of them will emerge as very impressive leaders within a few years. But I don't think there is any quick fix.

There is a leadership vacuum in Japan now, and the question is not how to find a powerful leader within the next month or two but to get politicians in Tokyo to understand that this country faces a very difficult and dangerous emergency situation in Tohoku. Japan is still a rich and powerful country, and if you can get the mindset to change, a lot can be done even without a strong political leader.

A big part of the problem is the deplorable political reporting by the media. It's too narrowly focused on political struggles, and there is little questioning of what politicians stand for or what they hope to accomplish. Reporters are asking major DPJ figures whether they're planning to run to succeed Kan. The right question to ask is, if you became prime minister, what would you do that's different from Kan? What would you do about nuclear energy? They don't ask substantive questions, and they're doing a big disservice to the Japanese people.

**WATANABE:** Perhaps this style of reporting is another by-product of the LDP's long reign. Policy was developed chiefly among the bureaucrats, so the job of the political correspondent was to get a scoop on the latest political power play. This may be changing with the emergence of new media, but it's a chicken-and-egg question of which should change first, politics or the media?

**KATO:** I've been a critic of the media for long time. I think it focuses too narrowly on minute details; it should instead be asking politicians more fundamental

questions. Because of this orientation, politicians, especially young ones, tend to devote too much time on matters they should be delegating to bureaucrats. That's one reason the DPJ government has had its hands tied.

**WATANABE:** Politicians appearing on TV to discuss really minute points is, I believe, a relatively new phenomena. Before the [Jun'ichiro] Koizumi administration, not so many politicians appeared on TV news shows. At critical moments, of course, senior politicians would appear on TV to explain key policy decisions, like the introduction of the consumption tax in 1980s. But recently, younger politicians are appearing on TV programs and talking about their own personal, often ill-thought-out views, rather than party policies or the consensus opinion.

**CURTIS:** A lot of the so-called news programs on TV tend to ask very trivial questions: When is Kan going to quit? Are you going to run? This is not what people are interested in. Too many political reporters are "inside Nagatacho." In America we have an expression, "inside the beltway." People who live in Washington, DC, think differently from other Americans, and in Japan it's the same thing, where politics proceed according to "Nagatacho logic." The problem is that it's not only the politicians who rely on Nagatacho logic, it's the reporters as well. So they're always asking about things of interest only to an insider, rather than looking at things from the public's perspective.

The younger politicians who frequently appear on TV need to learn that people will lose respect for you if it appears that all you want to do is be on TV. And since they are talking about trivial issues, they look like egotistical lightweights. If they would understand that, they should say no when asked to appear on TV.

**WATANABE:** My father [senior DPJ member Kozo Watanabe] is a politician and still appears on TV, but he picks the program. He has refused to appear on some programs because they obviously don't respect politicians. So perhaps it's important to change the politicians' mindset first in order to change the media.

**KATO:** Well, the hard truth seems to be that appearing on TV raises one's chances of winning an election. That's why many young politicians don't refuse a chance to appear on TV.

**WATANABE:** Japan introduced single-seat electoral districts in 1990s, and there's clearly greater competition than before.

**CURTIS:** The single-member district system is very unfortunate for Japan because to win an election now, you need a majority of votes. Under the old, multi-seat system, you could to win with 20 percent to 25 percent of the votes cast, so candidates spent a lot of time cultivating support from one particular part of the constituency. Now you have to reach out to everybody. You go after 100 percent

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of the voters and hope you get half. How do you reach 100 percent of the voters? You have to have a lot of name recognition. You want your face to be recognized. And the way to do that is to appear on TV. So, I think the system has had a lot of negative effects, and one of them is that it has encouraged politicians to seek exposure not by talking substance to groups of constituents but by simply becoming a well-known face.

**WATANABE:** Turning to the Fukushima nuclear accident, Italy recently voted not to restart its nuclear program. This could have a bearing on Japan's future energy policy. I was born and raised in Fukushima, and I know that for people who have been forced to evacuate—even though there was no damage from the earthquake or tsunami—the sentiment is clearly no more nuclear. Building a new plant in Fukushima—and perhaps in Japan—is now out of the question.

The issue, then, is how to reduce our reliance on nuclear power, eventually perhaps going completely nuclear-free, without slowing down economic activity. This is a big challenge. I can't imagine people one day changing their minds and deciding to reembrace nuclear energy.

The Fukushima accident has also highlighted the unevenness of economic and urban development in Japan. While people in Tokyo enjoy a rich and convenient lifestyle thanks to electricity generated at nuclear plants outside of the Tokyo metropolitan area, many rural communities, such as those in Fukushima, are very poor. The town of Okuma, where the Fukushima Daiichi plant is located, had been left behind in industrialization and urbanization, and chose to host the power plant to qualify for generous subsidies. But now, the residents who have evacuated don't know when they'll be able to go back home because their farms and fishing grounds have been contaminated. This is quite unfair. The question this raises is how we can continue enjoying the benefits of a prosperous economy without forcing some people to suffer hardships as a result.

**CURTIS:** I don't think there is any chance that Japan is going to build a new nuclear power plant anywhere in this country for many years to come, if ever again. I think the public pressure to reduce dependence on nuclear and find other sources of energy, renewable energy, will continue to grow stronger, and so there is obviously a major energy problem. If you're relying on nuclear power to meet 28 percent of your energy needs, you can't go to zero right away. But the reality is that there were 36 or 38 nuclear power plants that were operating in Japan at the time of the accident, and now more than 20 of them are offline for maintenance. Local governments are refusing to let them come back on, and if that continues, within about a year all the nuclear power plants will be offline and there'll be nothing being produced in the way of nuclear energy. This may be

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very bad for the Japanese economy, but I think many people would prefer it to living with the fear that they might suffer from radiation poisoning.

But the other thing that's important about the Fukushima accident is that it reveals a real structural problem in the relationship between the utilities industry, the regulating Ministry of Economy, Trade, and Industry, and the politicians who either were dependent on or have received financial support from companies in the industry. This system of cooperation among the bureaucrats, politicians, and industry was not something created by Mr. Kan or the DPJ; this is a legacy of the many years of LDP rule.

Kan has confronted TEPCO and has been fighting with them, but he has been pushed back by defenders of the utilities industry. But after Kan is gone, you have to hope that politicians understand they have to come up with a new structure. This is not a uniquely Japanese problem.

After all, the Lehman shock showed us a similar system of collusion among banks, financial institutions, the regulators, and politicians in the United States, and all so modern democracies face this kind of problem to an extent. But for Japan, the consequence has been particularly tragic because it has affected people's health.

Iidate is a beautiful village some 80 kilometers away from the nuclear power plant that wasn't affected much by the earthquake or tsunami, but now it's a ghost town. People had to leave because the wind carried the radiation from the plant to that village. The conflict between ensuring personal wellbeing and concern about the economy is going to be big issue for whoever becomes Japan's leader.

**WATANABE:** How does this situation look to you, Mr. Kato, inasmuch as you once worked for METI?

**KATO:** Professor Curtis talked about the close relationship between the utilities, METI, and politicians. I think you can include the media as being part of the close-knit group. Because the utility companies have been major political donors, they have very close relationships with politicians. Their relative power declined following the long-term economic downturn in the 1990s, but when I entered METI in 1990, the utilities were a very powerful industry. Interestingly, almost all the governors of the prefectures where the utility companies are headquartered are former METI officials. Tokyo is an exception, but it's true in Hokkaido, Niigata, Hiroshima, Fukuoka, and Okinawa. While the Osaka governor is now [Toru] Hashimoto, his predecessor was an ex-METI bureaucrat. This is the power of the utility companies.

The advantage of the DPJ is that it's free of such an LDP legacy. This is the

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area where they should exert their energies to destroy this collusive political and economic structure.

**WATANABE:** I used to live “inside the beltway” myself, and I did notice the kind of problems that both of you have just alluded to. This is a topic that all democracies will probably need to address.

I think we covered a lot of territory, so I’d like to wrap up. Thank you very much for your time.



*From left to right, Sota Kato, Gerald Curtis, and Tsuneo Watanabe.*

June 15, 2011

## Protecting Our Land from a Post-Quake Fire Sale

Hideki Hirano and Shoko Yoshihara

*In the wake of the March 11 disaster, Japan's precious land resources are more vulnerable than ever as policymakers seek to encourage investment through deregulation, and immediate economic needs trump long-term national interests. Now is the time to begin building a sensible regulatory framework to preserve our land for future generations.*

As Japanese policymakers deliberate the best way to go about rebuilding northeastern Japan in the wake of the March 11 earthquake and tsunami, land use and land rights have emerged as important issues. Members of the prime minister's Reconstruction Design Council have called for changes to land-use policy and deregulation of land use in the regions affected by the disaster.

Council Chairman Makoto Iokibe, speaking at a May 10 press conference, suggested that one focus of deliberation should be the rules governing conflicts between public needs and individual property rights.<sup>1</sup> And several newspapers, reporting on Tokyo Electric Power Company's need to pay damages for the Fukushima nuclear accident, have mentioned the possibility of TEPCO's selling off company-owned land in Oze National Park.<sup>2</sup>

Land is not just individual property but also national territory, and land-use policy is one of the most basic tools of national development. Because land is by nature a public asset, there is a need to ensure that it is bought, sold, and used in a manner consistent with the good of society and the interests of the nation, regardless of whether it is privately or publicly owned.

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<sup>1</sup> *Nihon Keizai Shimbun*, May 15, morning edition.

<sup>2</sup> *Yomiuri Shimbun*, April 30, evening edition; *Mainichi Shimbun*, regional edition, May 12, morning edition; *Nihon Keizai Shimbun*, May 24, evening edition, and May 26, morning edition.

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The Tokyo Foundation's Conservation of Land Resources in Japan project has been pointing out for some time the inadequacy of Japan's regulation of land use and sales, specifically in connection with the accelerating sell-off of Japanese forestland to foreign investors. Here we would like to revisit the topic in the context of post-quake reconstruction, making the case that now is the time for fundamental reform to ensure that the long-term public interest is not sacrificed to immediate economic needs and short-term profits.

### **A Laissez-Faire Approach to Land**

The following points sum up the problematic character of Japan's land system:

- The national cadastral survey (to determine and register the area, boundaries, and ownership of all the nation's land) is still only 49% complete.
- Japanese law provides for inadequate control of land transactions and land use even in areas essential to national security, such as the land around airports, harbors, and defense installations; land containing important water resources; and remote islands.
- The property rights of private landowners are strong enough to block the government's right of eminent domain in many situations.
- The Civil Code guarantees adverse possession of land (title based on continuous use).<sup>3</sup>

In all of the above, Japan sets itself apart from most of the advanced industrial world, where land is generally accepted as a public good.

Apart from agricultural land, Japan imposes virtually no regulations on land sales, and land-use regulations are quite loose in practice. In the ease with which land changes hands in Japan—as well as in the strength of owners' property

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<sup>3</sup> Article 162 of the Civil Code states that a person can claim ownership of any property that he or she has possessed peacefully and openly for 20 years (or for 10 years providing he or she took possession of the property in good faith) with an intention to own. This principle goes back to the Goseibai Shikimoku, the legal code promulgated by the Kamakura shogunate in 1232, which grants persons the legal right to control land on the basis of long-term de facto control, whether legitimate or not. In principle this means that in one of the many areas of Japan that has yet to be officially surveyed, if a person arbitrarily encircled a tract of land and claimed ownership under this adverse possession rule, neighbors would have no legal basis for complaint. As depopulation trends continue in the Japanese countryside, including areas affected by the recent disaster, the percentage of sparsely populated and unutilized lands is bound to increase, raising the possibility of an outbreak of land disputes.

rights—the status of land is scarcely different from that of a financial product. Despite its importance as a public good, any given tract of land (or national territory) may change hands and undergo commercial development at any time without so much as a legal determination of its boundaries, as long as the seller and buyer agree on the terms.

Such a system may have passed muster in an age when economic transactions were localized and concluded between people who knew one another by sight, but in our day, when the global economy is expanding and local communities are shrinking (owing to migration and an aging population), it is hardly adequate to protect the public interest.

### **Don't Sell Off National Parkland**

TEPCO is currently considering selling off some of its assets to cover compensation and other costs stemming from the nuclear accident at the Fukushima Daiichi Nuclear Power Station, and according to several newspaper reports, one of the assets that could go is company-owned land located in Oze National Park.<sup>4</sup> The fact is that TEPCO owns a full 16,000 hectares of Oze, 43% of a park that covers 37,200 hectares spanning Fukushima, Gunma, Niigata, and Tochigi prefectures.

Since land use inside national parks like Oze is regulated under the Natural Parks Act, commercial interests would not be at complete liberty to develop or build there, and for this reason some have maintained that private investors would be unlikely to buy up the land even if TEPCO put it on the market. One could argue, though, that even undeveloped parkland would have great commercial value, given the 300,000-plus tourists who visit Oze every year. The average market price of Japanese forestland—having fallen for 20 consecutive years owing to the long decline of the country's timber industry—stands at about 200,000 yen per hectare, according to a major home builder. At this price, TEPCO's Oze holdings could be had for about 3.2 billion yen, not a bad investment when one considers Oze's natural beauty and tourism value. At present anyone can hike over the Oze moors free of charge, but by charging an entrance fee of 500 yen per person, the owners could expect annual earnings of 150 million yen. And since neither the Natural Parks Act nor the Forest Act regulates the extraction of groundwater, the owners might also find a way to exploit the land's water resources.

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<sup>4</sup> *Sunday Mainichi*, May 8 & May 15 combined edition.



If TEPCO decided to sell off its holdings in Oze, the property would surely pique the interest of investors inside and outside of Japan, including funds from the emerging economies. And once part of Oze changed ownership, that part could be parceled up and sold off to others. In that case, land on which TEPCO currently spends 200 million yen annually for natural conservation (according to the company's public relations materials) would be left to the fragmented whims of various unrelated owners. Under such circumstances, could we be certain that Oze's natural environment, a crucial part of the Tonegawa watershed, would be carefully preserved as a national land resource?

Key watershed forests, outlying islands, and other territory of importance to the well-being and security of the nation or one of its regions should not be treated like a financial product, capable of being traded at will. It should be protected by basic rules required to prevent uncontrolled sale and development. Yet under current land laws, the government would have no firm legal basis for timely intervention in the event that the Oze parklands are sold and used in a manner no one had anticipated. When we consider the possible repercussions, we can see that great care must be taken to prevent the hasty, ill-considered sell-off of land assets for short-term economic gain.

### **Preserving Land for the Public Good**

The town of Niseko, a well-known Hokkaido ski resort, was prompted last year to take action in response to the accelerating sales of undeveloped land to foreign-owned businesses. In a town where residents get almost all their tap water from underground sources, the township began negotiating last autumn to buy up five privately owned tracts inside its limits—two of them owned by a Malaysian company—located above water sources.<sup>5</sup> In addition, in April this year the local government enacted a groundwater conservation ordinance banning bulk extraction of groundwater without prior authorization and regulating the development of land above water sources. These steps represent an effort on the town's part to establish its own mechanism for conserving important resources while also encouraging investment by foreign developers and tourism companies. It is owing to the lack of a unified national framework for the regulation of land sales and land use that local govern-

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<sup>5</sup> Two of the wells were originally owned by the Seibu (or Kokudo) real estate empire. After the collapse of the bubble economy of the 1980s, the land was sold to a US firm, which subsequently transferred it to a major Malaysian tourist enterprise.

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ments are obliged to devise their own stopgap measures to counter threats after they emerge.

Similar situations could easily arise in the post-quake reconstruction process. In order to rebuild, the stricken areas will need outside investment, and the government is expected to relax regulations in order to facilitate such spending. The government, meanwhile, is hard pressed under the current system to acquire land for public use without the consent of the owner, even if the public good or the nation's interests demand it.<sup>6</sup> In today's global economy, hasty sales of land assets to shore up the bottom line could result in a massive sell-off of national territory, one parcel at a time. While the central government must continue transferring power to the local governments, it must not leave them to deal individually with such a threat. Where land is concerned, deregulation has to be carried out within the context of a national legal framework to protect lands from the standpoint of their long-term benefit to the public, with a far-sighted, objective perspective on national and regional security, as distinct from economic efficiency.

If we neglect to build such a legal infrastructure, trusting to providence or to the goodwill of individual landowners, we could once again find ourselves vulnerably exposed in the face of an "unanticipated" crisis—this time, the loss of our land. It is vital, therefore, that we begin the process of revamping the land management system by initiating a national debate on what should not be sold and what new land-use rules should be instated.

Who owns the harbors and fishing ports (many of which were devastated by the recent tsunami), outlying islands, the land around airports and defense facilities, forests, and arable land could have profound repercussions for public order and safety, the smooth functioning of the economy, and national security. In other words, it is inextricably bound up with the public good and the national interest. However difficult it may be, we must replace the current inadequate system with a new framework that balances the property rights of individuals against the need for rational and reasonable regulation governing the sale and use of such land.

Fortunately, the government has at least begun taking measures to protect forestland from the threat of uncontrolled investment. Opposition parties have

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<sup>6</sup> There have been quite a few cases in which major public projects deemed necessary by the government (including the construction of new runways at Narita Airport and the Tokyo Gaikan Expressway) have remained unfinished because a few landowners refused to sell their property.

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submitted two pertinent pieces of legislation to the Diet, including amendments to the Forest Act that were incorporated virtually verbatim in the government's bill to revise the same act. This bill has already become law, passed in April along with disaster-related legislation on which the Diet took swift action. Key changes include mandatory registration by any entity acquiring title to forestland,<sup>7</sup> shared management of information on forest ownership by the agencies within each prefectural government, allocation of additional resources for on-site forestland surveys, reform of procedures for establishing land-use rights in forest tracts of unknown ownership, and financial assistance to support the purchase and management of forestland by local governments.

By allowing intragovernmental sharing of information on landowners and limiting private property rights to preserve the public benefits of forests, this legislation takes an important step toward reforming Japan's land management system

Japan's land, water, and forests are the essential foundations on which the nation will build its future, whether rehabilitating disaster-stricken areas or reviving farm and forest industries and revitalizing rural communities. With large areas of land rendered dangerous or uninhabitable by the tsunami and nuclear accident, and with the severe slowdown in economic activity, the temptation is strong to sell off large tracts of unused land. Such temptations, though, must not be allowed to thwart the efforts required to protect the long-term welfare and security of this nation.

*Postscript: In late May a TEPCO official visited the Gunma prefectural government office in charge of conservation of Oze parklands, where he stated for the record that TEPCO's Oze property was "an important business asset" and that the company was not considering selling it (Nihon Keizai Shimbun, May 28, morning edition).*

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<sup>7</sup> The National Land Use Planning Act, which requires that land transactions be reported to the prefectural or municipal government, exempts transactions of land measuring less than 1 hectare. The revised Forest Act does away with this exemption and calls for anyone coming into possession of forestland to report the acquisition after the fact.

January 19, 2012

## Breaking the Political Deadlock with Bold Reforms

Shin'ichi Kitaoka

*The National Diet has become chronically dysfunctional as Japanese voters lurch back and forth between parties in a desperate search for answers to the nation's mounting problems. Examining the causes and consequences of such legislative paralysis in a historical context, Shin'ichi Kitaoka urges bold political and electoral reforms to save Japan from a self-inflicted "second defeat."*

**T**he breakdown of Japan's political system can no longer be ignored. The economy has been stagnating for more than two decades now. Our colossal national debt continues to swell. Japan's power and influence continue to wane.

Two years after the Democratic Party of Japan toppled the long-ruling Liberal Democratic Party, Japanese government and politics are more dysfunctional than ever. The ineptitude of the DPJ government has been mind-boggling; its handling of the March 2011 earthquake, tsunami, and nuclear crisis has in itself been disastrous.

Some critics of the current government are saying that the 2009 change in government was a mistake and that a two-party system is unlikely to take root in Japan. But the LDP is in shambles as well.

In the midst of this leadership vacuum, it has become common to hold up as a model the reformers and revolutionaries who toppled the Tokugawa shogunate and ushered in the age of modernization in Japan. But we live in a democracy today; a handful of powerful leaders can no longer singlehandedly chart our future.

It seems to me that one of the most important things we can do now is to analyze Japan's two-party system in a historical context in an effort to identify the factors responsible for the current breakdown.

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## A Constitutional Oversight?

From an institutional standpoint, the biggest factor underlying to our recent legislative paralysis has been the ability of the House of Councillors to block legislation. Few if any other bicameral parliamentary democracies today have an upper house with such powers. Under the Constitution of Japan, any legislation passed by the House of Representatives—with the exception of the budget bill—can be blocked by the upper house, unless the House of Representatives passes the bill again by a two-thirds majority. (Another option is to convene the Conference Committee of Both Houses, which I discuss below.) This means that for a party to govern effectively, it must either control both chambers of the Diet or control a two-thirds majority in the lower house.

The process by which the current Constitution was drafted and adopted helps explain how this came about. The constitutional draft prepared by the Allied Occupation's General Headquarters (GHQ) in February 1946 at the orders of General Douglas MacArthur had called for a unicameral legislature. GHQ's argument was that the House of Peers (the upper chamber of the prewar Imperial Diet) was obsolete now that the peerage had been abolished. However, Joji Matsumoto, the minister of state in charge of revising the Constitution, was adamant that an upper house was needed to ensure mature and thoughtful legislative deliberation, and GHQ acquiesced.

Matsumoto prided himself on winning this concession, but in actuality the GHQ had called for a unicameral legislature in full knowledge that it would be opposed. For MacArthur, this was no more than a bargaining chip, to be sacrificed in exchange for concessions on the really important issues—namely, the status of the emperor and Article 9 (renunciation of war). In insisting on a bicameral legislature, Matsumoto simply played into GHQ's hands.

A curious inconsistency in the text of the 1947 Constitution testifies to this process. Among the functions of the emperor listed in Article 7 is that of proclaiming a “general election of members of the Diet.” But given that the stipulated term for upper house members is six years, with elections for half of the members held every three years, a “general election” for all members of the Diet is out of the question. The drafters simply neglected to revise this section after hurriedly inserting a provision for the upper house elsewhere. Constitutions are, after all, the work of human beings, not divine scripture (as some Japanese are wont to believe), and sometimes they contain mistakes.

The basic problem is that the Constitution of Japan was the work of American experts familiar with the presidential system and Japanese experts familiar

with the government established by the Meiji Constitution. It never underwent careful scrutiny by experts more broadly versed in parliamentary democracy. As a result, the bicameral system it established contained a fundamental flaw.

### Evils of One-Party Rule

It was only in recent years that this weakness has become apparent, however. The reason is that prior to that, the Liberal Democratic Party held control of both houses.

With respect to the House of Representatives, the LDP secured a majority of seats in 1955, the year the party was formed, and maintained that majority for close to four decades. Throughout that time, its biggest rival, the Japan Socialist Party—now known as the Social Democratic Party—ran a distant second. Indeed, with the exception of one occasion (in 1958), the JSP never went into a general election with enough candidates to secure a lower house majority. It was not until 1996, when a group of opposition parties merged to form the New Frontier Party, that the LDP's position as the nation's top political party was seriously challenged.

Until then, however, the LDP remained securely at the helm, running the country in partnership with the powerful bureaucracy. Under the old system of multiseat electoral constituencies, the JSP generally managed to secure one seat out of three or more, and before long it had grown content with this slice of the pie and abandoned any idea of seizing the reins of government.

In the absence of any serious competition between opposing political parties, the media focused instead on the power struggles within the LDP among competing factions. Election coverage did not focus so much on whether the LDP gained or lost a majority but on changes in the strength of its majority; media reports painted any loss of seats as a "defeat" for which the cabinet was called upon to take responsibility by resigning en masse.

In fact, almost any negative development became an occasion for demanding the government's resignation, from the results of prefectural and by-elections to a drop in the stock market—not to mention corruption scandals. From the standpoint of the rival LDP factions waiting in the wings for their chance to head the government, these periodic political crises were by no means unwelcome. Each time the LDP lost seats in a Diet election, the media and the opposition would clamor for the prime minister's resignation and then cheer when a new LDP leader was chosen. But nothing fundamental ever changed. In this way, the media helped prolong the LDP's rule by promoting cosmetic changes in leader-

ship that satisfied the public without ever addressing the basic systemic issues.

### **The Road to a Two-Party System**

The first serious challenge to the LDP's monopoly on power came in June 1993, when LDP reformers Tsutomu Hata and Ichiro Ozawa bolted the ruling party and founded the Japan Renewal Party. By teaming up with other centrist and progressive opposition parties, including the Social Democratic Party (formerly the JSP) and Komeito, they were able to form an anti-LDP coalition government under Morihiro Hosokawa. Under the Hosokawa cabinet, the Diet passed major electoral reform legislation that replaced the old multiseat districts with a combination of single-seat constituencies and proportional-representation block districts. But the LDP worked hard to divide and discredit the new government, and in April 1994 Hosokawa resigned, and the SDP defected. The remaining coalition members formed a government with Hata as prime minister, but without a lower house majority, the cabinet was forced to resign the following June.

Next, to muster the numbers needed to regain control of the government, the LDP forged an unlikely coalition with the SDP, with Social Democratic leader Tomiichi Murayama as prime minister. On paper, LDP and SDP policies were poles apart, and the idea of a coalition between these longtime antagonists struck many observers as bizarre. But in fact the LDP and the SDP had maintained a strategic arrangement for decades, and on a pragmatic level, their policy aims were not as different as they appeared. As for the LDP, the most important consideration was returning to power. Under the coalition agreement, the SDP yielded on policy by formally endorsing the Japan-US Security Treaty, while the LDP yielded the position of prime minister to the SDP.

In the winter of 1994 the Japan Renewal Party joined with other opposition forces to form the New Frontier Party, which mounted a concerted challenge to the LDP-SDP coalition. The general election of 1996 was a milestone on the road to a two-party system in that it was fought by two large parties fielding roughly the same number of candidates. The NFP failed to garner a majority, though, and in the aftermath of the election became marked by internal strife, splintering into a number of smaller parties. The Democratic Party of Japan, then led by Naoto Kan and Yukio Hatoyama, merged with some of the splinter groups to emerge, in April 1998, as the top opposition force.

After several years challenging the policies of the LDP-Komeito ruling coalition, the DPJ significantly boosted its strength in 2003 through a merger with Ichiro Ozawa's Liberal Party. In the 2005 general election, the DPJ was dealt a

bitter setback at the hands of Prime Minister Jun'ichiro Koizumi, a popular LDP maverick, but recovered and emerged from the 2007 House of Councillors election as the top party in the upper house. Finally, in the general election of August 2009, it trounced the LDP and seized the reins of government.

### **Obstructionism Prevails**

In 2007 the DPJ, under Ichiro Ozawa, gained control of the upper house and adopted a strategy of taking maximum advantage of that position to obstruct and undermine the government. This included using the veto power of the upper house to block nominations to critical posts, including governor of the Bank of Japan. Under Ozawa's leadership, the upper house passed an unprecedented censure motion against Prime Minister Yasuo Fukuda in the upper house. (Such a motion had been filed against the director-general of the Defense Agency in 1998, but this was the first motion against a prime minister in the postwar era.)

The DPJ then boycotted deliberations on the grounds that a minister under censure could not be permitted to attend Diet committee meetings. Although the LDP resisted calls for the government's resignation, determined to ignore such a nonbinding resolution, three months later Fukuda announced that he was resigning for different reasons.

The DPJ adopted the same strategy in July 2009 with a censure motion against Prime Minister Taro Aso. Aso refused to step down on that account, but in the general election held the following month, the dysfunctional LDP went down to defeat, and the Aso cabinet resigned en masse.

In the House of Councillors election of 2010, the now-ruling DPJ suffered a major electoral setback and lost control of the upper house. The LDP, this time, adopted the same obstructive tactics against the DPJ, using its upper house majority to undermine the government of Prime Minister Kan Naoto. In November 2010, shortly before the Diet was to adjourn, the LDP pushed censure motions against Transport Minister Sumio Mabuchi and Chief Cabinet Secretary Yoshito Sengoku through the upper house and announced its intention to boycott Diet deliberations unless those cabinet members resigned. As the nation waited to see how the government would respond when the next ordinary Diet session convened the following year, House of Councillors President Takeo Nishioka (a close Ozawa ally harshly critical of Kan) told the prime minister that he would not open the session unless Sengoku resigned. Kan was forced to reshuffle his cabinet, and the loss of Sengoku—his right-hand man—was a major blow to his government.



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The passage of upper house censure motions to cripple the government is a grave abuse of the system, with potentially disastrous consequences. Similar partisan tactics helped propel Japan toward militarism in the years leading up to World War II. In 1930, after the Minseitō (Constitutional Democratic Party) cabinet of Prime Minister Osachi Hamaguchi signed the London Naval Treaty without the full approval of the Naval General Staff, Hamaguchi came under fire for violating the independence of the supreme command. Although Japan's top naval commanders had actually resigned themselves to the treaty, the opposition Seiyūkai (Friends of Constitutional Government) pounced on the issue to launch an all-out attack on the Hamaguchi cabinet and created an uproar.

Although the Meiji Constitution gave the emperor command over the army and navy, independent from civilian control, imperial authority had always been subject to tight constraints. To further its own political ambitions, the Seiyūkai distorted that principle, opened the way for its abuse, and helped set Japan on the road to militarism.

Any political system can break down once time-honored customs and precedents are abandoned. If politicians push the rules past the limits of good sense, the system will cease to function as it was intended to. In this sense, it is no exaggeration to compare today's hung Diet to the partisan battles of 1930.

### **Breaking the Impasse**

Japan's dysfunctional Diet has become a chronic disease. The nation faces monumental problems that do not lend themselves to quick fixes. As a result, any administration—however strong its support at the beginning—quickly runs into difficulties and loses people's confidence. The public expresses its frustration by voting for the opposition, but the next government faces the same problems. How can we break this vicious circle?

Over the long term, the answer is to amend the Constitution to strengthen Japan's parliamentary system. There are a number of options, from abolishing the House of Councillors to reducing to a simple majority the votes needed in the lower house to overturn an upper house rejection of a bill. We also need to give serious thought to ways of reducing turnover in the top executive office and lending some stability to the nation's leadership, such as by holding direct elections for prime minister or adopting a presidential system.

Short of amending the Constitution, however, we should consider measures to strengthen the Conference Committee of Both Houses. At present the committee members are divided equally between the lower and upper house, and

each house selects its representatives from among those who voted with the majority. A committee composed of 10 lower house members in favor of a bill and 10 upper house members opposed to it is a surefire recipe for deadlock. One option might be to weight the composition of the committee in favor of the lower house, say, at a ratio of 2:1 or 3:1. In addition, the makeup could be adjusted to reflect the percentage of each house that supported the conflicting decisions.

A time-honored way of overcoming legislative gridlock without altering the current system is to forge a coalition. A “grand coalition” between the DPJ and the LDP is one possibility, but as things stand now, even a smaller coalition between the DPJ and the Komeito would secure the necessary majority in both houses.

Some oppose the idea of a grand coalition on the grounds that it smacks of the prewar Imperial Rule Assistance Association (Taisei Yokusankai), which absorbed all the nation’s political parties into a single statist organization. But this objection is totally misguided. The prewar association was designed to create a single-party system, while a grand coalition presupposes two or more parties. Other opponents of a grand coalition argue that it would defeat the purpose of single-seat constituencies. But even in Britain, the home of the single-seat constituency, grand coalitions are considered a natural response to crisis situations. In the twentieth century Britain had three such coalition governments: during World War I, the Great Depression, and World War II.

Optimists argue that even with a divided Diet, a legislature should be able to function by means of noncabinet alliances, or simply by approaching each piece of legislation on its own merits. Noncabinet alliances may or may not be effective, but in an emotionally charged realm like politics, it is all too common for the opposition to begin by pledging to address each piece of legislation on its own merits and end by opposing every bill the cabinet submits.

### **Japan’s Second Defeat?**

But regardless of the framework, both sides must be willing to work to reach an agreement. The Imperial Diet under the Meiji Constitution was also a bicameral body, and the popularly elected House of Representatives was almost by nature at odds with the House of Peers, which represented hereditary privilege, wealth, and social position—often former senior government officials. Still, within a few years of the Diet’s establishment, the Meiji oligarchs and the party politicians had learned to work together and find a middle way. Under the administration of Taro Katsura (1848–1913), budget conferences were held to iron out policy dif-

ferences. Japanese government in the prewar and early postwar era offers important lessons for today's politicians.

The policy differences between the DPJ and the LDP are minor compared to those that divided the LDP and the SDP. Moreover, the Japanese people as a whole are less polarized and more politically sophisticated. Why, then, are today's parties incapable of compromising or reaching any agreement?

One reason is the intense inter-party competition fostered by the winner-take-all elections in single-seat districts. In the past I was critical of Japan's multi-seat-district system, but it seems to me now that single-seat constituencies are an even greater evil. We need to consider reforming the electoral system again, this time with the aim of facilitating compromise. The timing may be right, since the court has ruled that malapportionment in both houses has now reached the point of creating a state of unconstitutionality.

Recent criticism of Japan's political circus has gone so far as to declare Japan on the brink of a "second defeat"—not at the hands of Allied forces but due to the failure of its own political system. I cannot but agree with that assessment. The specter of defeat should spur us to adopt bold measures and a new direction. We cannot afford sit back and do nothing out of concern that change could bring instability. If reform offers any chance of rehabilitating our democratic system and stemming our nation's decline, we must pursue it decisively.

*Translated with permission from "Nidai seitosei: Genzai no jokyo wa daini no haisen, kenpo kaisei rongi no hitsuyo mo," Asahi Journal, October 14, 2011, pp. 25–27.*

January 30, 2012

## Charting a New Foreign-Policy Strategy: Progress and Pitfalls

Katsuyuki Yakushiji

*After two years of diplomatic stumbles and false starts, the DPJ government has finally begun to deliver on its pledge of a more independent, regionally oriented foreign policy. In fact, the author argues that the progress of the last few months has been fairly remarkable by the standards of postwar diplomacy. But can a government plagued by political gridlock at home build on those international achievements?*

There are certain facts that all senior foreign policymakers recognize but none will ever unequivocally articulate in a public or diplomatic setting. For example, they will never refer to the relative decline in US power and the concomitant decline in the importance of the Japan-US alliance, in writing or in speech. Nonetheless, this awareness is slowly but surely influencing the course of Japan's foreign policy.

Since the end of World War II, the Japanese government has upheld the Japan-US alliance as the linchpin of its foreign policy. Our leaders have been able to advance the nation's interests by moving in step with Washington over the years, not only on security policy but on economic policy as well.

But the international environment in which Japan operates has changed dramatically over the past few years. In Asia, China has blossomed into a regional superpower, while India and the Association of Southeast Asian Nations are flexing their economic muscle as well. As more and more players assume an increasingly important role, the United States is finding it ever more difficult to exert its will. This makes it all but certain that Japan will face international problems that cannot be addressed merely by following Washington's lead.

An analysis of the government's diplomatic record in 2011 suggests that Japan's foreign policymakers are finally steering a new course in response to this changing environment.

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## From Power Politics to Regional Networks

The essence of this shift was summed up in a little-noted address by Minister for Foreign Affairs Koichiro Genba at the Japan National Press Club in Tokyo on December 14 last year. Under the heading of “Creating an Open, Multilayered Network,” Genba stressed the need to make full use not only of bilateral diplomacy but also of such multilateral economic and security platforms as the Asia-Pacific Economic Cooperation forum, ASEAN, the East Asia Summit, and the ASEAN Regional Forum, as well as smaller frameworks for regional dialogue (Japan-US-China, Japan-US-South Korea, Japan-US-Australia, etc.).

Of course, this in itself is textbook diplomatic strategy. What made the speech remarkable was the juxtaposition of the network concept with two other key points rarely articulated by Japanese foreign policymakers in recent years.

The first was a readiness to move beyond the concept of the “balance of power.” Genba put it like this: “After centuries of trying to maintain order through the balance of power among sovereign states, humankind is now seeking a new approach—beyond the balance of power—under which it can achieve security and prosperity.” The aforementioned “open, multilayered” Asia-Pacific network describes the structure of this new order.

The second point was the importance of including China in any regional order. Genba stressed that “the development of the rules that provide the foundation for the Asia-Pacific network, and support the new order, must be consistent with international law”—a reference intended to dissuade Beijing from challenging the international order with its own Sinocentric reasoning. At the same time, he was quick to emphasize that the network was “in no way intended to contain or exclude China.”

With the rise of China as a major power in the region, the government’s traditional focus on the Japan-US alliance as the linchpin of foreign policy has all too often manifested itself as an impulse to hold China back. During the last decade of the Liberal Democratic Party’s rule, this attitude surfaced in Prime Minister Jun’ichiro Koizumi’s remark that “when the Japan-US alliance goes well, our East Asian diplomacy goes well,” and more blatantly in Prime Minister Taro Aso’s “arc of freedom and prosperity”—a thinly veiled China containment strategy. The difference between this approach and the strategy outlined by Foreign Minister Genba is self-evident.

Through most of the postwar era, the dominance of US military and economic might sustained an international order based on the balance of power. But the political, economic, and military advantage of the United States is gradually

dwindling. Early in January, President Barack Obama began moving away from the strategy of maintaining the capacity to fight a “two-front war” upheld by previous presidents, outlining an initiative to cut defense spending and shift the emphasis from Europe and the Middle East to the Asia-Pacific region. This policy change is further evidence of the relative decline in US power.

China’s growing international clout is also an inescapable reality. Under the LDP, Japan coped with China by working to strengthen the Japan-US alliance—or, to put it another way, by pushing China out to the periphery. But now that China is a regional superpower, such an approach hobbles our ability to address the various issues that crop up between Beijing and Tokyo. Indeed, as the Japanese and Chinese economies grow ever more interdependent, we are in dire need of a coherent strategy for nurturing a constructive relationship with China.

The same applies to other countries in the region. As the ASEAN nations, India, and others emerge as significant players, a variety of regional networks and partnerships have sprung up alongside the traditional US-centered hub-and-spokes framework. Japan needs to decide how to make optimum use of this diverse array of diplomatic networks.

These two salient themes of Genba’s speech—moving beyond power-balance diplomacy and creating “an open, multilayered network”—constitute the basic principles of a new foreign-policy strategy adapted to today’s changing international landscape. And late in 2011, we saw this new strategy being put into practice for the first time.

### **Toward an Asia-Pacific FTA**

The first two years of rule by the Democratic Party of Japan saw virtually no progress in the area of foreign policy. After months of vowing to renegotiate an unpopular plan for the relocation of US Marine Corps Air Station Futenma in Okinawa, Prime Minister Yukio Hatoyama confounded everyone with an abrupt about-face, leaving things exactly where they had started.

In the months that followed, Hatoyama was succeeded by two more prime ministers, and this rapid turnover, combined with the legislative gridlock of a divided Diet, severely hindered efforts to hammer out a coherent foreign policy strategy. As a result, when faced with the unexpected—such as the confrontation with a Chinese fishing vessel near the Senkaku Islands—the government has tended to respond in an impromptu and erratic fashion.

But last year, even while struggling with a dysfunctional legislature, the prime minister’s foreign policy staff was working behind the scenes with Foreign

Ministry officials to plan and implement a diplomatic initiative targeting the November 2011 East Asia Summit in Bali. Reflecting the government's new foreign-policy orientation, the initiative was focused on two concrete goals: the development of an open regional economic framework centered on the Trans-Pacific Partnership and the establishment of a multilateral maritime security forum to help resolve the territorial disputes in the South China Sea.

Addressing economic and security goals simultaneously, it was an initiative of the sort seldom seen in postwar Japan, a sweeping, ambitious plan for the creation of a new East Asian order to ensure regional stability and prosperity. Needless to say, it was also designed to bring China into the fold of the international community.

On the economic front, Noda took a major step at the November APEC summit in Honolulu, when he overrode opposition from his own party by announcing a decision to seek a place at the table in the ongoing TPP negotiations. At the summit and in talks with President Obama, Noda was careful to include China and other Asian countries in his vision, stressing his government's intention to work not only for the TPP but ultimately for the creation of a Free Trade Area of the Asia-Pacific.

The Japanese government's decision on the TPP negotiations had an instantaneous effect. Immediately after Noda's announcement, Canada and Mexico also asked to join in the trade talks. China and the ASEAN countries began speaking more positively of an ASEAN+3 or ASEAN+6 East Asian free trade agreement and lobbying Japan for action. Negotiations for Japan-Australia and Japan-EU FTAs picked up steam. For the first time in years, Japan found itself at the center of attention in international trade talks.

### **Defusing Tensions in the South China Sea**

In the area of security, Japan's focus was on resolving tensions in the South China Sea. With China in mind, the Japanese government has insisted on two points: freedom of navigation in the South China Sea and application of international law for the resolution to territorial disputes.

For Japan, which relies heavily on shipping lanes through the South China Sea, freedom of navigation is a matter of the utmost importance. Japan also has a stake in China's territorial disputes with Vietnam, the Philippines, and other countries in the South China Seas, since their handling is bound to affect the outcome of Japan's disagreements with China in the East China Sea over the Senkaku Islands and the development of undersea gas deposits.

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China has angered its neighbors by disregarding international law and unilaterally claiming “jurisdiction” over an enormous chunk of the South China Sea, sometimes referred to as “the cow’s tongue.”

The Japanese government began to move aggressively on the issue in 2011, viewing Indonesia’s term as ASEAN chair as an opportunity for progress. At the July ASEAN Regional Forum in Bali, China and ASEAN reached an agreement on guidelines for implementation of the 2002 Declaration on the Conduct of Parties in the South China Sea (DoC), and the ASEAN chair’s statement called for the eventual establishment of a regional code of conduct (CoC) in the South China Sea.

And despite objections from China, the chair’s statement issued at the East Asia Summit the following November incorporated language calling for solutions based on international law and welcoming the expansion of the ASEAN Maritime Forum, thus paving the way for resolution of territorial disputes in the South China sea via a multilateral platform including Japan and the United States, instead of the separate bilateral negotiations espoused by Beijing.

### **Domestic Obstacles to Progress**

The Japanese Foreign Ministry was a prime mover behind these developments; although the process was assisted by close consultations and exchange of information with Washington, there is no refuting the fact that Japan took the initiative in many areas. The adoption of formal language calling for a legally binding code of conduct and for use of the ASEAN Maritime Forum—in the face of stiff resistance from the Chinese—was a tactical victory for Japan.

Though not particularly flashy, this diplomatic initiative can be regarded as one of the most successful undertakings of the Foreign Ministry in recent years.

But now comes the real challenge: turning the language of these documents into action. Statements can be hammered out by bureaucrats at the working level, but concrete policy measures and conflict resolution require political leadership by heads of state and national legislatures. Unfortunately, the Japanese political forecast is for another year of chaos.

With the public debt reaching massive proportions, the Noda cabinet is planning to submit legislation to raise the consumption tax in an effort to put government finances on a sustainable footing. But the opposition LDP and New Komeito, which retain control of the upper house, are in no mood to cooperate; their sole aim is to force Noda to dissolve the lower house and call a general election. Under the circumstances, the cabinet will be lucky to push through budget legislation to fund the government in fiscal 2012, let alone a tax increase.



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Meanwhile, the DPJ and the LDP are heading into elections for party leader this coming fall. The upshot of all of this is likely to be yet another change of prime minister.

Last year, the government made important progress in charting a new foreign policy based on a realistic reassessment of the Japan-US alliance. Whether it can overcome domestic political obstacles and build on that progress remains to be seen.

February 3, 2012

## Confronting the Risk of a Fiscal Meltdown

Keiichiro Kobayashi

*The Noda cabinet's plans for raising the consumption tax from 5% to 10% have come up against fierce political opposition. Yet the proposed hike falls far short of what is needed to rehabilitate government finances. What must the government do to avert a full-blown debt crisis, and how can it rally political support for those measures?*

A decade ago, Japanese economists were warning that the consumption tax might have to be raised as high as 15% to achieve fiscal sustainability over the long run. But since then the aging of Japan's population has exceeded predictions, and the economy has foundered in the wake of the 2008 Wall Street meltdown.

Recently, analysts have begun to conclude that a consumption tax rate of 25% will be needed to restore Japan to fiscal health—assuming the government also makes substantial cuts in social-security spending. Without such cuts, the tax rate needed to avert a debt crisis could soar to 30% or higher.

Lest there be any misunderstanding, this is the consumption tax rate required to stabilize the ratio of debt to gross domestic product at a sustainable level, not to actually pay off the national debt. Even with a 25% consumption tax, the debt would continue to grow.

What's more, the situation is deteriorating rapidly. According to a recent study by Takatoshi Ito of the University of Tokyo and Takeo Hoshi of the University of California, San Diego, the Japanese government can achieve fiscal sustainability if it raises taxes now, but if it waits another three years, the debt will explode, and the situation will be out of its control. Clearly, time is of the essence.

Some maintain that the debt problem can be solved without tax increases or spending cuts as long as economic growth picks up. But according to an analysis by Hitotsubashi University economist Kazumasa Oguro, a “natural” increase in revenue sufficient to restore government finances to good health would be poss-

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ible only if growth in per capita gross domestic product reached an unrealistic 3.7% or if inflation soared 14%.<sup>1</sup> Needless to say, 14% inflation would be devastating for Japanese households.

What will happen if government finances continued to deteriorate? Eventually the government will default, financial institutions investing heavily in Japanese government bonds will fail, and a major recession will ensue. So far there are no quantitative studies estimating the impact of a fiscal crisis in Japan, but the examples of countries like Greece and Italy give us a fairly clear idea of what would happen if the markets lost confidence in the Japanese government's ability to repay its debts.

Interest rates would soar, businesses would collapse, and the ranks of the jobless would swell. Senior citizens would see the value of their savings and other assets tumble in the face of rampant inflation, and many would doubtless fall below the poverty line.

If the administration of Prime Minister Yoshihiko Noda is unable to make any headway on the debt problem, we will have to await the next general election and the time required for a new government to settle in and win support for a plan of its own. This will mean another three or four years of inaction at the least.

Although Japan's relatively large household savings rate has helped support its massive public debt to this point, few believe that the situation is sustainable for more than another seven or eight years. Without some progress toward fiscal reform over the next few years, the prospect of a Japanese bond market collapse will begin to loom very large.

In fact, for some, the biggest mystery is why Japanese government bond prices have not crashed already. The current situation is such that the smallest impetus could trigger a panic in the bond market, and one can only wonder what prevents such a crash from occurring. Yet despite this precarious situation, Prime Minister Noda has been unable to drum up political support for his proposed tax increases. What does the government need to do to rally the public behind painful fiscal reforms?

## Sharing the Pain

To win such support, the administration needs to offer three things: a package of

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<sup>1</sup> Kazumasa Oguro and Keiichiro Kobayashi, *Nihon hatan o fusegu futatsu no puran* (Two Plans for Preventing Japan's Financial Collapse), Nikkei Premium Series, 2011.

## POLITICS

measures demonstrating the willingness of public servants to share in the sacrifice; a roadmap toward the government's long-term goals for tax and welfare reform; and a detailed timetable showing how both reforms are to proceed concurrently.

Even before Noda came to power, the ruling Democratic Party of Japan had committed itself to a "unified" reform of the tax and welfare systems on the grounds that expenditures and revenues should be approached as part of an integrated package. Economically, the government was correct to stress this linkage, but to succeed politically, Noda needs to focus on a different kind of unity as well. If voters are to be called on to accept painful reforms, they need to know that their leaders and representatives are willing to share the pain.

To win voters' support for fiscal reform, the government must demand sacrifices not only from ordinary people but also from the country's public servants—including politicians, national and local civil servants, and employees of quasi-governmental organizations like national universities and the Bank of Japan. It can do this by including in its reform plan measures to reduce the number of seats in the National Diet, cut Diet members' compensation, and reform the civil service system to reduce pay for local as well as national government employees.

Practically speaking, these measures will have a negligible effect on Japan's massive deficit, but they will do much to marshal political support by conveying the message that those who make and implement painful policies are prepared to share in the sacrifice.

This is the same issue underlying the controversy that erupted over construction of civil-servant housing in Asaka (Saitama Prefecture) and Honancho (Tokyo). Suspension of these construction projects was one of the more popular decisions taken by the government since the DPJ came to power, but last fall Noda reversed that decision and announced that construction would be resumed.

Noda offered various economic rationales, but reviving the projects was an obvious political blunder, and the administration was obliged to backpedal in the face of strong opposition. This could have been avoided if the government had understood how deeply voters resent public servants who refuse to give up their own perks even while imposing sacrifices on ordinary voters.

A second requirement for gaining political acceptance of a tax and welfare reform plan is to issue a roadmap clearly setting forth the government's long-term fiscal goals and the means of reaching them. Simply presenting a timetable for increasing the consumption tax to 10% is not enough,<sup>2</sup> particularly given the

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<sup>2</sup> Noda announced on December 29, 2011, that the tax would be hiked to 8% in April 2014

growing belief that a rate of around 25% will be required in the long run. Reform of the social security system, likewise, should start from clear-cut goals for overall cuts in social spending on the elderly, including the pension system, health-care, and nursing care.

Finally, the government should draft and enlist the opposition parties' support for a truly integrated reform timetable detailing measures that impact public servants (downsizing and pay cuts) as well as ordinary households (tax hikes and cuts in social security spending).

The government must realize that voters will not stand for a tax increase that is not accompanied by cuts in outlays for public employees. But it must also understand that simply trimming fat from around the edges of the budget will not get us to the goal of fiscal sustainability, and further that time is of the essence. That is why substantive tax and welfare reforms must be carried out concurrently with these largely symbolic reforms of the Diet and the civil service.

### **Toward a Global Expanding Equilibrium**

Fiscal reform must demand sacrifices from both the private and public sectors, but a plan that does no more than this is a prescription for economic contraction. The government needs to put forward a vision and strategy for economic growth along with its plan for fiscal retrenchment.

The first element of this growth strategy should be to expand Japan's role as a global investment superpower by making the most of growing demand in the emerging economies and other regions with prospects for rapid growth. With European banks pulling capital out of Asia, Japanese financial institutions have an opportunity to step in and meet the need for financing in the region's emerging economies. In this way they can support rapid growth in those countries and aid the Japanese economy in the process.

Meanwhile, the yen's unprecedented strength presents an opportunity for Japanese manufacturing and other industries to expand overseas. Direct investment and overseas production will initially boost Japanese exports, and the profits from such investment will benefit the domestic economy and create jobs at home. Subsequent losses of manufacturing jobs can be compensated for through deregulation aimed at creating jobs in Japan's healthcare and eldercare markets.

Second, Japan should adopt a more strategic approach when providing assistance to alleviate the European debt crisis. Until now we have merely responded

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and to 10% in October 2015.

to requests from Europe and the United States in piecemeal fashion. This approach exposes Japan to asset risk, with no payoff to speak of. We would be far better off announcing our own initiative to provide financing on the order of 30 trillion yen to 50 trillion yen, provided the debt is fully guaranteed by the European Union. In addition to enhancing Japan's international status, such financing would help stem the yen's rise.

To provide it, the government would have to purchase large quantities of euro-denominated bonds (either common European bonds or instruments issued by the European Financial Stability Facility), and this would have the same effect as the massive selling of yen and buying of euros—which is how the Bank of Japan intervenes in currency markets to keep the yen from soaring further.

In short, by providing bailout funds for the EU in this manner, we can automatically address economic issues at home stemming from the yen's excessive appreciation. Such a policy is sure to have a salutary effect on the Japanese economy.

### **The Need for Fiscal Risk Management**

Over the long term, expanding the government's holdings of overseas assets would also have a stabilizing effect on our government finances, as I explain in greater detail elsewhere.<sup>3</sup> A plunge in Japanese government bond prices would sharply weaken the yen. But if the government moves now—while bond prices remain strong—to float large issues of yen-denominated bonds and buy up the same amount in foreign assets (that is, assets denominated in a foreign currency), it will serve to blunt the yen's historic rise and avert too precipitate a drop in the yen's value later on.

Such a policy would function in the same manner as conventional government intervention to stem the yen's rise by selling yen and buying another currency. Moreover, if the public sector expands its holdings of foreign assets now, government finances should benefit from the relative appreciation of foreign assets relative to yen-denominated assets farther down the road, when the yen begins to depreciate. In this way, the investment in foreign assets can serve as a hedge against a debt crisis.

Finally, our leaders must have a contingency fiscal plan to contain the damage in the event that the Japanese bond market really does crash. Of course, the government has a responsibility to manage its finances so as to avoid such a col-

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<sup>3</sup> *Ibid.* 1

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lapse. But that does not give it license to neglect contingency preparations on the grounds that the worst-case scenario is too awful to contemplate. We have seen the dangers of such thinking in the context of Japan's nuclear energy policy, where a failure to prepare for a full-blown disaster (in the belief that such a disaster must never happen) allowed the damage to snowball to horrendous proportions.

Our government leaders and politicians have a duty to learn from this tragedy and draw up a contingency plan—including emergency tax increases and social-security spending cuts—to restore the market's confidence with the least possible impact on Japanese households in the event of a fiscal meltdown.

February 14, 2012

## A Rubric for Comprehensive Tax Reform

Shigeki Morinobu

*There is more to tax reform than consumption tax hikes, although one would never know it from the commentary the Noda cabinet's "draft plan" has generated to date. Shigeki Morinobu provides an overview of reform objectives and options as a rubric for evaluating the proposed tax overhaul.*

On January 6 this year, Prime Minister Yoshihiko Noda's government formally adopted a draft plan for integrated reform of the social security and tax systems. Although attention has focused almost exclusively on the proposed increase in the consumption tax, the plan goes far beyond that, offering a roadmap for a total overhaul that also covers taxes on income and property.

But is the Noda plan the tax reform Japan needs? In the following I attempt to answer that question by outlining the basic objectives and tools of tax reform and explaining how they apply to Japan today.

### Objectives of Tax Reform

Tax reform is approached from two basic standpoints. One focuses on the size of government (how revenues are secured), while the other focuses on structural changes to the economy and society (how needs are met). These two perspectives correspond to the twin functions of tax policy: on the one hand, raising revenues to fund government services; on the other hand, building an equitable society and a stable, vital economy through income redistribution, stimulus measures, and so forth.

**1. Balancing burdens and benefits.** The issue of paying for government inevitably involves questions regarding the size of government and the content of public services (expenditures). Fundamentally, however, the benefits and burdens of taxation must be brought into balance.

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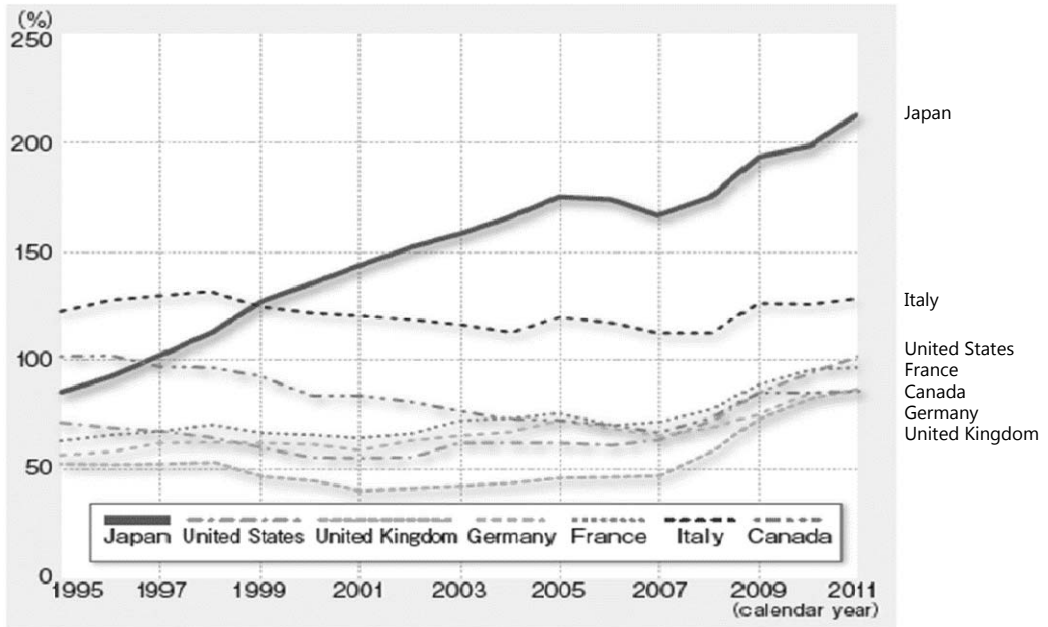
*Shigeki Morinobu    Senior Fellow, Tokyo Foundation; President, Japan Tax Institute; Professor of Law, Chuo University.*



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For Japan, which has a higher ratio of debt to gross domestic product than any other developed country, restoring this balance is critically important, not merely to put government finances on a sound footing but also to prevent future generations from being unfairly burdened by the cost of the benefits we enjoy.

**Figure 1. International Comparison of General Government Gross Debt (Ratio to GDP)**



(Source) OECD, "Economic Outlook" (No. 89, June 2011)

There are two basic ways to restore balance: increase the burden by raising taxes, or decrease spending by making government smaller. Ultimately, the people of a nation must decide which they prefer. Some individuals prize the guarantee of stability and security, even at the price of higher taxes, while others feel that responsibility should be shifted as much as possible to the individual.

In Japan, judging from opinion polls, the majority of people want to maintain the current level of social benefits provided by the government, including pensions, healthcare, nursing care, and child allowance. In other words, if the choice is between capping burdens and maintaining benefits, they prefer to redress the imbalance by increasing the national burden.

In the process, however, the government has the responsibility to provide these benefits as efficiently as possible so as to hold tax increases to a minimum.

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**2. Responding to structural change.** The other purpose of tax reform is to ensure social equity and economic vitality. Unlike tax reforms designed to balance the budget, reforms aimed at adapting to structural change should, in principle, be revenue-neutral—that is, they should neither increase nor decrease the tax burden.

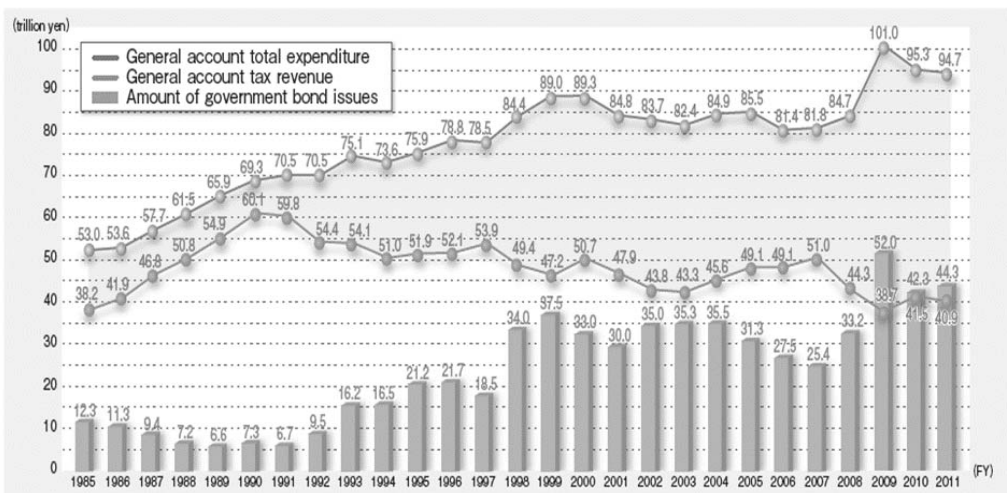
To design reforms for this purpose, we must first agree on the structural social and economic problems confronting us and then consider how the tax system can help mitigate them. In Japan's case, the two basic problems are widening economic disparities, leading to a surge in poverty, and a loss of economic vitality.

Voters will not be persuaded of the necessity of tax reform unless it can be clearly demonstrated that it addresses the above functions.

### Dealing with the Deficit

Japan's general account budget for fiscal year 2012 is approximately 90 trillion yen, of which approximately half—44 trillion yen—is financed by government bonds. This in itself indicates a massive imbalance between burdens and benefits. With one-fourth of government outlays going to service this public debt, a vicious circle has been created in which more and more must be borrowed simply to pay what is already owed.

**Figure 2. Trends in the General Account Tax Revenue, Total Expenditure, and Amount of Government Bond Issues**

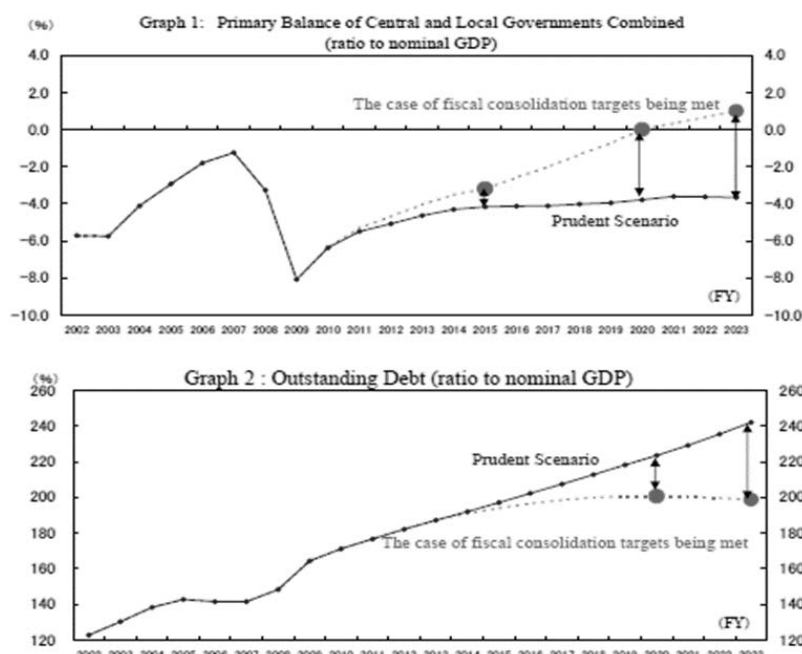


(Note) Figures up to FY2009 are settled accounts, and those for \*FY2010 are secondly revised budgeted accounts\*.

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In 2010 the Japanese government made a public commitment to reduce the primary deficit for national and local government combined by one-half by the middle of this decade, and to achieve a primary surplus by the beginning of the next (Fiscal Management Strategy, Cabinet Decision, June 22, 2010).

**Figure 3. Relationship between the “Prudent” Scenario and Targets**



The primary deficit (or surplus) is the difference between expenditures excluding interest payments on public debt, and revenues excluding funds borrowed via government securities. When the budget achieves “primary balance” in any given year, it means that tax revenues equal program spending. If primary balance is maintained, then the ratio of government debt to GDP will not increase as long as the nominal interest rate and the rate of economic growth are the same.

For this reason, primary balance is regarded as an important milestone in rebuilding government finances. But to eliminate the specter of default, it is not enough to achieve primary balance; we must go further and reduce the level of public debt as a ratio of GDP.

The draft plan adopted on January 6 proposes to boost tax revenues by means of a two-stage increase in the consumption tax, which would be pushed up to 10 percent by 2015. However, on January 14 the government released re-

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vised estimates reflecting changes in the economic situation. According to this report, eliminating the primary deficit by fiscal year 2020 will require a further increase in the consumption tax to 16 percent in 2020. (This is a “prudent” estimate, assuming economic growth averaging 1.1 percent in real terms, 1.5 percent in nominal terms.)

Japan’s looming fiscal crisis is a legacy of the 1990s. Tax revenues, already eroding as a result of the long post-bubble recession, were further reduced by income and corporate tax cuts intended to stimulate the economy (two special tax cuts in fiscal 1998 and another in fiscal 1999). At the same time, expenditures ballooned, partly as a result of new public works projects adopted as stimulus measures and partly owing to increases in social security spending attending the aging of the population. The budget plunged ever deeper into the red, but our leaders postponed the action needed to correct the situation. Now the situation has become urgent.

### **Addressing the Wealth Gap, Poverty, and Stagnation**

How should the tax system be reformed to respond to structural economic and social change?

After the end of the Cold War, economic power began shifting toward the BRIC economies (Brazil, Russia, India, and China) and the emerging markets of Eastern Europe, while economic integration in the European Union facilitated the free flow of goods, people, and funds around the region. Almost overnight, people and businesses around the world found themselves forced to compete in a global economy. To respond to these developments and their impact, governments in the developed world have made two basic adjustments to their tax policies.

As businesses in the developed world found themselves in competition with lower-priced products from the BRICs and other developing economies, they responded by cutting wages and benefits and turning increasingly to part-time or temporary workers to reduce labor costs. As a result, poverty levels rose, and income disparities widened.

Governments soon recognized the necessity of bolstering income redistribution measures. Traditionally, they had done this by strengthening the progressive rate structure of income taxes, raising taxes on the wealthy. But in a global economy, higher taxes on the wealthy simply caused wealth to flow overseas, resulting in further loss of revenue.

Many developed nations thus began integrating their tax and social security policies. In an effort to maintain an incentive to work among low-income earn-

ers, they shifted the emphasis from traditional welfare benefits to a combination of job training and refundable tax credits designed to ensure a minimum income. This was the “earned income tax credit,” most famously implemented under US President Bill Clinton and British Prime Minister Tony Blair.

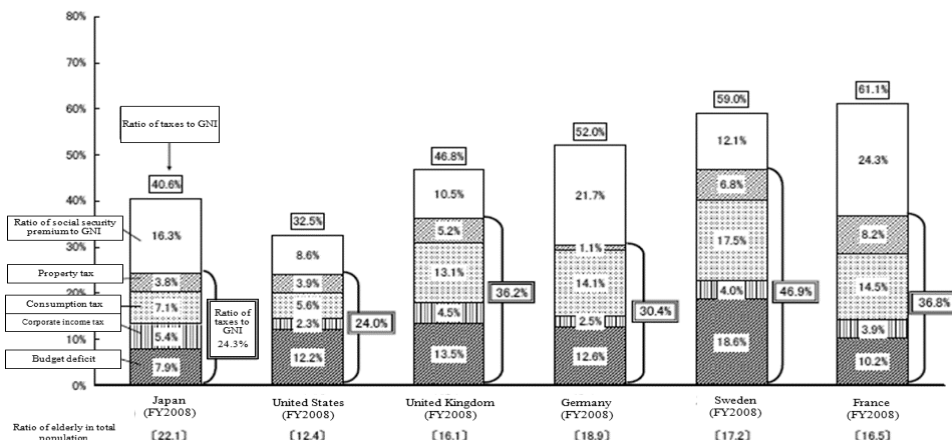
Meanwhile, global tax competition was intensifying, as governments jockeyed for jobs and economic growth by pushing corporate and income taxes lower in an effort to attract businesses and capital. In developed countries with relatively high tax rates, governments were forced to lower corporate taxes to prevent businesses from moving their factories offshore and sending jobs overseas. Between 2000 and 2009, corporate taxes in the OECD countries fell by 8 percentage points on average, from 34 percent to 26 percent. Maximum income-tax rates, meanwhile, fell 5 points between 2000 and 2009, from 40 percent to 35 percent.

What emerged from this trend was the “paradox of corporate taxes”: the lower the rate, the greater the revenue. One major reason was that the cuts were combined with a wider tax base by eliminating tax breaks of various sorts. Japan, too, needs to reform corporate taxes by lowering tax rates and expanding the tax base.

### Tax Mix

In the foregoing, we have examined the various challenges that any major change in Japan’s tax code must address. But any tax reform effort must also pay heed to the balance between income, consumption, and property tax, each of which has advantages and pitfalls.

**Figure 4. International Comparison of Breakdown of Ratio of Taxes to Gross National Income**



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The advantage of income tax is that it facilitates vertical equity by requiring those with higher incomes to shoulder a greater tax burden. But a highly progressive rate structure can also sap high earners' motivation to work or expand their business activities. Moreover, chronic underreporting of taxable income in certain professions leads to revenue loss and horizontal inequity (an unequal tax burden among people with the same income). In addition, high taxes on the wealthy can cause their wealth to drain out of the country.

The consumption tax avoids the problem of horizontal equity, as well as the negative effects that can result from taxing savings. But their regressive nature (the lower one's income, the greater their impact) can make them politically unpalatable.

Taxes on property are one way to redistribute wealth to narrow the gap between rich and poor and help ensure equal opportunity, and they have relatively little impact on economic activity. The drawback to property taxes is the difficulty of accurately assessing the value of land and other assets.

Since each type of tax has merits and demerits, it is important to strive for the optimum "tax mix," that is, the best possible balance of income, consumption, and property taxes.

### Specific Recommendations

With the foregoing considerations in mind, I would offer the following guidelines for tax reform in Japan.

In alleviating wealth disparities, one can redress either the accumulation of wealth at the top end or the loss of wealth at the bottom. Since the accumulation of wealth contributes to economic vitality, the government's draft plan rightly proposes no more than a symbolic rate increase of 5 percentage points for those earning more than 50 million yen annually (yielding a maximum tax rate of 55 percent when combined with the inhabitant tax).

On the other hand, the loss of wealth at the bottom end demands decisive steps, since it is giving rise to the kind of poverty problem that Japanese society has largely escaped until now. To remedy this situation, the government should seamlessly merge its social and tax policies by means of a refundable tax credit system. Under this system, households or individuals receiving less than a set minimum in annual income receive a tax credit—that is, a deduction from their tax liability (as opposed to a deduction from their taxable income). If their income is so low that their tax liability is smaller than the credit, they receive the difference as a "refund." This system has had great success in Britain and the United States.

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The government's draft plan calls for the institution of a refundable tax credit (along with the adoption of a taxpayer identification system) in 2015 as an anti-regressive measure to offset the consumption tax, which would rise to 10 percent that year. It would be better to push for the adoption of a full-scale earned income tax credit, rather than implementing a limited measure simply as an anti-regressive offset for low-income earners.

Meanwhile, to prevent disparities from becoming ever more deeply entrenched, Japan needs to expand the tax base for the inheritance tax. When large disparities in wealth are passed down from generation to generation, the end result is socioeconomic stratification, which can rob a society of its vitality. Under the current system, only 4 percent of all deaths become subject to inheritance tax. Under the draft plan, the base would expand to 6 and then 7 percent. This is a step in the right direction.

This leaves only the issue of corporate taxes. The Diet recently enacted legislation to reduce the effective corporate tax rate by 5 percentage points to 35.6 percent beginning in 2015 (until then, corporations will be paying a surtax to help finance earthquake reconstruction). Even with this cut, however, Japan's effective rate is still more than 5 points higher than levels in other countries. Further reductions are needed to halt Japan's deindustrialization.

Japanese businesses pay a corporation tax at the national level and an inhabitant tax and enterprise tax at the local level. Under the latest changes, the corporation tax will fall to 25.5 percent in 2015. To further lower the effective corporate tax rate, we need to focus on local taxes. In fiscal 2008, the Diet passed measures aimed at the eventual reform of local corporate taxes, which are also blamed for large fluctuations and disparities in local tax revenues. The law laid the groundwork for a reduction by replacing half of the enterprise tax (equivalent to a 1% consumption tax) with a "special local corporate tax," which was to be replaced down the road by a consumption tax increase. If this change were implemented, the effective corporate tax rate would go down to about 33 percent.

Under the government's January 6 draft plan, however, the replacement of the special local corporate tax is postponed indefinitely on the grounds that the consumption tax increase is intended specifically to fund rising social security costs. Without a reform of local corporate taxes, business will go elsewhere, and Japan will lose those tax revenues altogether. The government must move swiftly on this issue, both to secure the funding needed to support social security in our aging society and to provide the stable revenues local governments need if we are to achieve decentralization.

### Going the Distance

The government is facing stiff opposition to an increase in the consumption tax from politicians who protest that it would violate the 2009 election manifesto of the Democratic Party of Japan. But the problem of sovereign risk raised by the debt crises in European countries like Greece and Italy—which show no signs of abating—emerged after the DPJ came into power. Every government has a responsibility to formulate new measures to deal with crisis situations.

The real problem is that the government has not gone nearly far enough in terms of spending cuts. However, the draft plan does promise to reduce the number of Diet seats and cut personnel costs for government employees before increasing the consumption tax.

Adapting to structural change through tax reform inevitably involves shifts and adjustments in the tax burden. For some, the burden is bound to increase. Our political and administrative leaders must work hard to reform their own systems, win the people's trust, and persuade them to take this bitter medicine. The prime minister must have the will and the strength to see this task through to the end.



January 17, 2012

## Can Japanese Farming Survive Liberalization?

Yutaka Harada

*Japan is preparing to enter into TPP negotiations, but debate is still raging over the benefits and dangers of participation, particularly for the farm sector. Even without liberalization, though, agriculture in Japan is in dire need of reform.*

As Japan prepares to enter into negotiations for an expanded Trans-Pacific Partnership, debate is raging over the benefits and dangers of participation in such a comprehensive free trade agreement.

Some have warned that free trade in farm products would devastate Japan's farm sector. Others argue that Japanese agriculture has been declining despite generous government support and protection, and that participation in the TPP will provide an impetus for long-overdue structural reforms. To assess the merits of these positions, we must begin with an objective assessment of the state of Japanese agriculture today.

### Japanese Agriculture at a Glance

As of 2007 the value of gross agricultural production in Japan (agricultural receipts less such costs as machinery, fertilizer, and pesticides) was 5.3 trillion yen.<sup>1</sup> Agricultural imports were valued at 4.8 trillion yen, while the agriculture, forestry, and fisheries budget (the bulk of which goes to the farm sector) was 2.3 trillion yen. Revenues from agricultural tariffs totaled approximately 500 billion yen.<sup>2</sup>

According to figures published by the Organization for Economic Cooperation and Development, prices of farm produce in Japan are 56% higher than the

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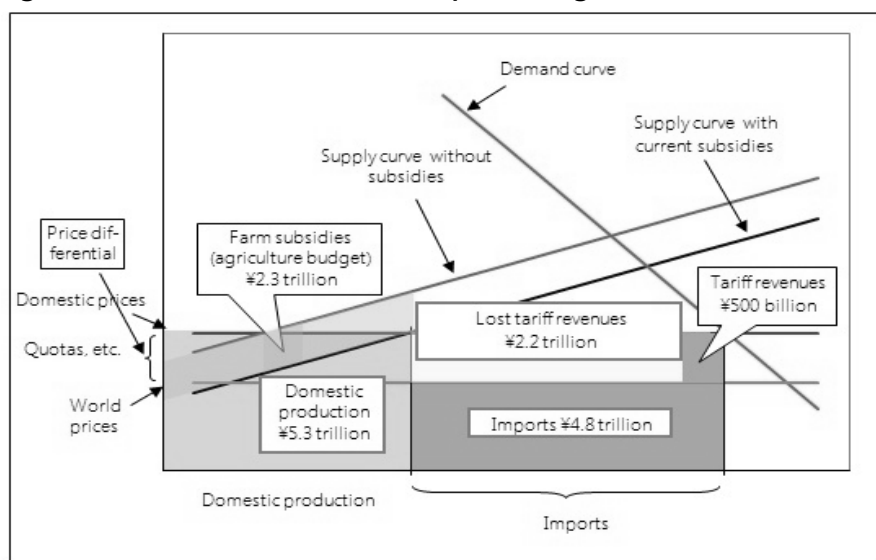
Yutaka Harada    Senior Fellow, Tokyo Foundation; Councilor, Daiwa Institute of Research.

<sup>1</sup> In this article the term "agriculture" excludes forestry and fisheries, unless otherwise noted.

<sup>2</sup> According to data submitted at the fourth general meeting of the Council on Customs, Tariff, Foreign Exchange and Other Transactions, April 20, 2007, [www.mof.go.jp/about\\_mof/councils/customs\\_foreign\\_exchange/soukai/proceedings/material/a190420.htm](http://www.mof.go.jp/about_mof/councils/customs_foreign_exchange/soukai/proceedings/material/a190420.htm).

world average.<sup>3</sup> On the basis of the foregoing figures, Japan's food self-sufficiency by value (domestic production divided by the sum of domestic production and import volume) is approximately 50%. (The more commonly cited rate of 40% is calculated on the basis of calories.)

**Figure 1. Economic Overview of Japanese Agriculture**



Sources: Ministry of Agriculture, Forestry, and Fisheries, *Basic Agriculture, Forestry, and Fisheries Data* (in Japanese), <http://www.maff.go.jp/j/tokei/sihyo/index.html>; Ministry of Finance, Reference Material on Government Finances in Japan (in Japanese), [http://www.mof.go.jp/budget/fiscal condition/related data/index.html](http://www.mof.go.jp/budget/fiscal%20condition/related%20data/index.html); Ministry of Finance, Materials submitted to the fourth general meeting of the Council on Customs, Tariff, Foreign Exchange and Other Transactions (in Japanese), April 20, 2007, [http://www.mof.go.jp/about mof/councils/customs foreign exchange /soukai/proceedings/material/a190420.htm](http://www.mof.go.jp/about%20mof/councils/customs%20foreign%20exchange/soukai/proceedings/material/a190420.htm); OECD, *Produce and Consumer Support Estimates 2010*.

Note: Figures are from 2009–2011.

Figure 1 is a schematic representation of the state of Japanese agriculture based on these statistics. The chart reveals the role that government protection plays in sustaining current levels of domestic production and self-sufficiency. Underlying the 5.3 trillion yen in agricultural production are programs costing 4.2 trillion yen—including 2.3 trillion yen in subsidies and price supports (in-

<sup>3</sup> OECD, *Producer and Consumer Support Estimates 2010*, [www.oecd-ilibrary.org/agriculture-and-food/data/producer-and-consumer-support-estimates\\_agr-pcse-data-en](http://www.oecd-ilibrary.org/agriculture-and-food/data/producer-and-consumer-support-estimates_agr-pcse-data-en).

cluding import quotas) equivalent to 1.9 trillion yen ( $5.3 \text{ trillion yen} \times 0.56 \div 1.56$ )—which have the effect of shifting the supply curve as illustrated in the diagram. If we subtract this 4.2 trillion yen from the current value of domestic production, we are left with just slightly more than 1 trillion yen.

What this means is that Japanese agriculture is being sustained with measures amounting to 4.2 trillion yen so that the sector can create 5.2 trillion yen in added value. Given that farm imports total 4.8 trillion yen and prices in Japan are 56% higher than the world average, tariffs should normally produce revenues of 2.7 trillion yen ( $4.8 \text{ trillion yen} \times 0.56$ ). Adding this to the 1.9 trillion yen in subsidies and price supports gives 4.6 trillion yen, which is the price Japanese consumers are paying to maintain the current agricultural system. Tariff revenues, though, are only 500 billion yen. Obviously, something is not quite right.

For some, the fact that domestic production today would drop from 5.3 trillion yen to 1 trillion yen in the absence of supports validates the claim that liberalization of farm imports would destroy Japanese agriculture. But the fact is that many segments of Japan's agriculture industry are getting along with virtually no protection.

Levels of protection vary widely by commodity. Imports of soybeans and corn are subject to no tariff whatsoever, and tariffs on vegetables range between 3% and 9%. By contrast, Japan levies tariffs of 20% on processing tomatoes, 20%–40% on oranges, 38.5% on beef, 218% on powdered milk, 234% on potato starch, 252% on wheat, 328% on sugar, 360% on butter, 583% on tapioca starch, 778% on rice, and 1,700% on konjac (*konnyaku imo*).

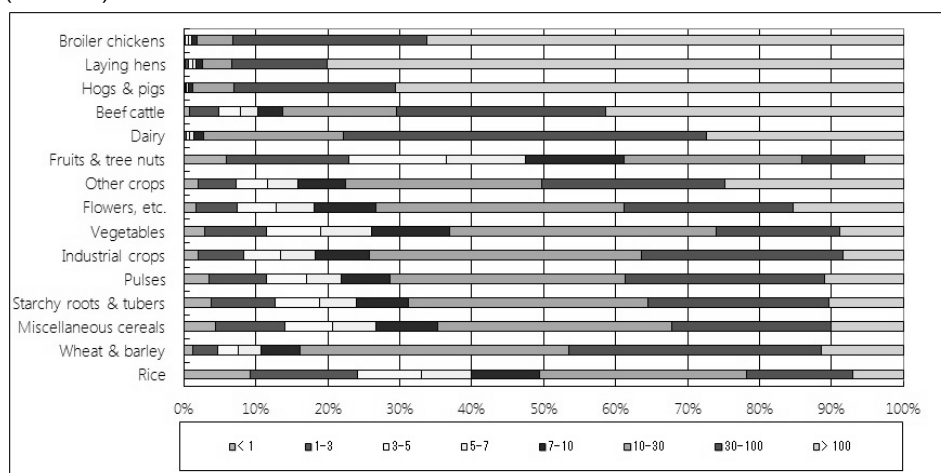
To be sure, some subsectors of the Japanese farm industry are protected precisely because they are structurally incapable of raising productivity to international levels. But in other cases the cause-and-effect relationship is certainly the opposite—protective policies are discouraging the reforms needed for domestic producers to stand on their own.

### Large Farms in Japan

Figure 2 shows total domestic production in each segment broken down by the scale of operations, as measured by receipts. In the category of broiler chickens, for example, farm entities with annual receipts of 10 million yen or more account for 98.1% of total annual production in Japan. Other segments that rely heavily on large-scale operations include eggs, pork, and dairy; farms earning 10 million yen or more account for at least 97% of total production in each of these sectors.

**Figure 2. Share of Production by Farm Scale (in receipts)**

(¥ million)



Source: MAFF, *Noringyo sensasu 2010* (World Census of Agriculture and Forestry 2010; in Japanese), <http://www.maff.go.jp/j/tokei/census/afc/2010/gaiyou.html>

Note: Total receipts in each farm class are calculated by multiplying the number of farms in that class by the range of receipts (for example, for the ¥300–¥500 million class, the range would be ¥200 million).

In the vegetable, rice, and fruit segments, by contrast, farms earning 10 million or more account for a much smaller share of production: 63.0%, 50.5%, and 38.8%, respectively. Between these two extremes we find (from high to low) beef, wheat and barley, other crops, industrial crops, flowers, soybeans, potatoes and tubers, and miscellaneous cereals. Although rice cultivation lends itself to large-scale farming, protection and support have allowed small farms to continue operating in large numbers.

In the case of fruits and vegetables, which tend to be labor intensive, the difficulty of securing adequate labor (especially given the limited supply of immigrant and migrant workers in Japan) probably limits the scale of farming. Even here, however, farm consolidation would surely progress more rapidly were it not for government protection and regulation.

Moreover, the Census of Agriculture conducted by the Ministry of Agriculture, Forestry, and Fisheries reveals that consolidation has occurred even in some of Japan's more regulated and protected sectors. In other words, while many part-time farmers continue to cultivate small plots, the bulk of production is shifting to large-scale farms.

When it comes to grains, Japan is at a disadvantage compared with land-rich

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countries like the United States and Canada. But we need to keep in mind that the real issue is not land area per capita but agricultural acreage per farm. If the number of farms decreases, the acreage per farm grows. One reason farm consolidation has progressed so rapidly in the United States is that so many farmers and farmers' children have migrated to the cities.

By the same token, the reason average farm acreage is so low in Japan is that the government has elected to keep the population of farmers high for political reasons. Out of a total of 2.53 million farming households in Japan, only 440,000 are engaged in agriculture on a full-time basis. The total acreage of farmland in Japan is about 4.6 million hectares, which calculates to an average of just 1.8 hectares per farm. If the total acreage was divided among full-time farmers only, the average would soar to 10.4 hectares.

According to statistics compiled by the Food and Agriculture Organization (whose definitions differ from those used by MAFF), Japan has 2.6 hectares of agricultural land for each person economically active in agriculture. In this area Japan cannot compare with the United States (63.8 hectares), Australia (99.4), or Canada (132.3), but it compares favorably with China (0.2) and South Korea (1.2), and it should be capable of competing with European countries like Germany (4.2), the Netherlands (4.7), France (7.3), and Italy (7.8).

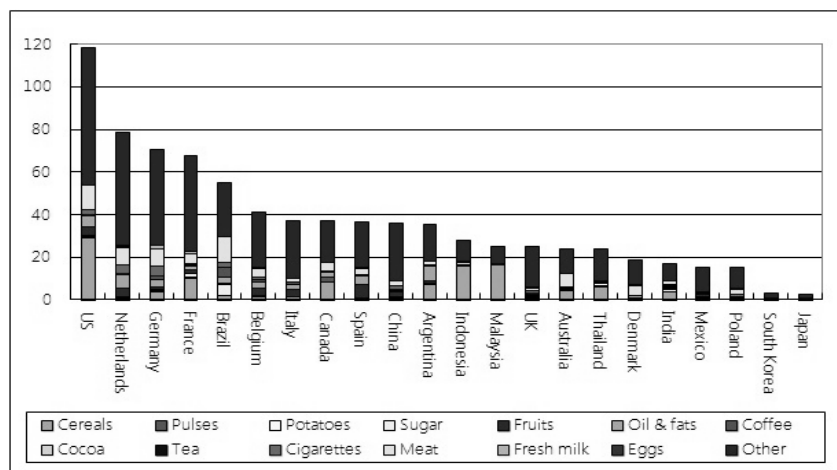
### **How Europe Does It**

On average, European farms are much smaller in scale than their New World counterparts, and yet European nations play an important role in agricultural trade. Figure 3 charts the total volume and makeup of agricultural exports from 20 major exporting nations, plus South Korea and Japan. Of the top 10 exporters, 6 are European nations.

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**Figure 3. Volume and Commodity Breakdown of Agricultural Exports by Country, 2008**

(\$ billion)

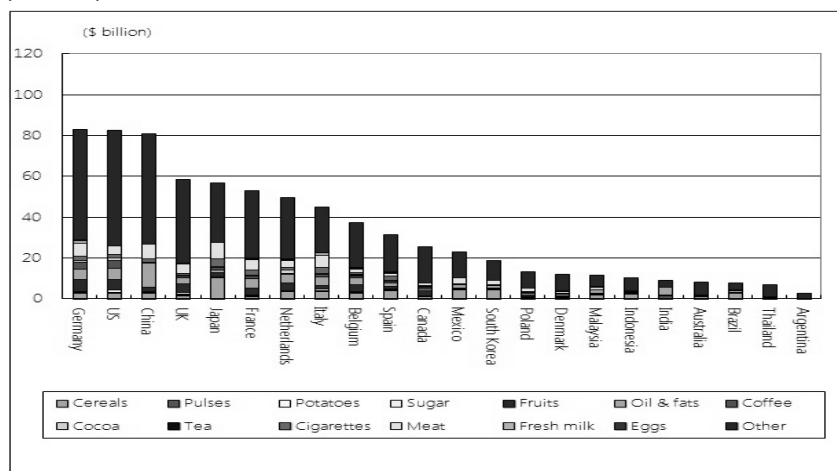


Source: FAO Statistics Division, 2010.

Figure 4 shows the volume and breakdown of agricultural imports by 20 major agricultural importers, plus South Korea and Japan. Of the top 10 importers, 7 are also top exporters, and 6 of those 7 are European countries. (The seventh is the United States.)

**Figure 4. Volume and Commodity Breakdown of Agricultural Imports by Country, 2008**

(\$ billion)



Source: FAO Statistics Division, 2010

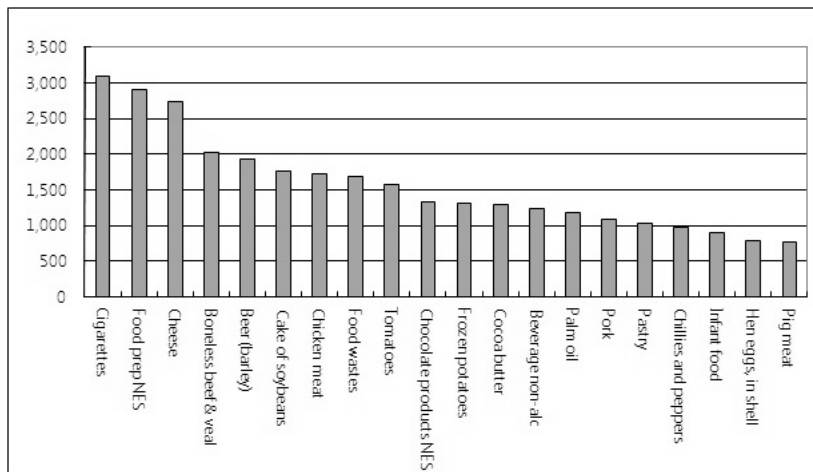
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Belgium and the Netherlands are of particular interest in this context. How do these tiny countries export and import so much? What are they importing and exporting?

Figures 5, 6, and 7 chart the top 20 agricultural exports of the Netherlands, Belgium, and Japan.

**Figure 5. The Netherlands' Top Agricultural Exports, 2009**

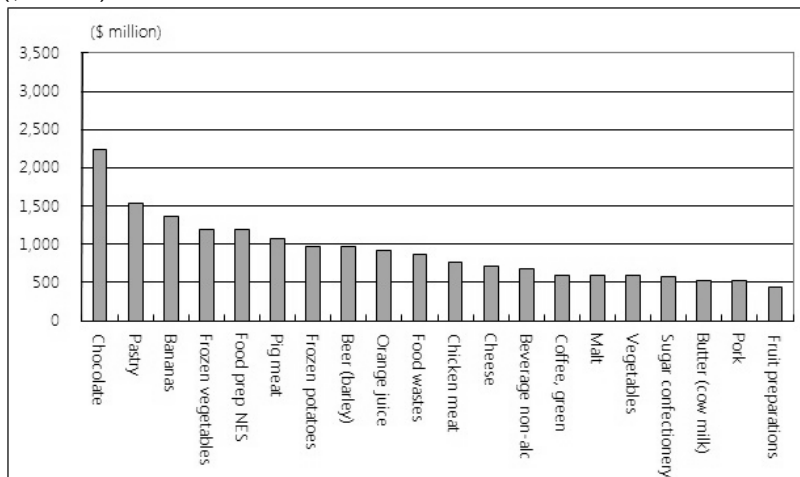
(\$ million)



Source: Source: FAO Statistics Division, 2010

**Figure 6. Belgium's Top Agricultural Exports, 2009**

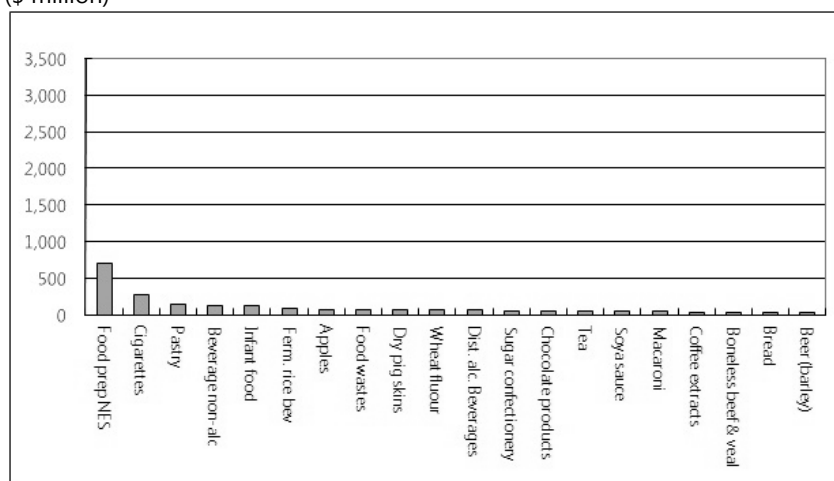
(\$ million)



Source: Source: FAO Statistics Division, 2010

**Figure 7. Japan's Top Agricultural Exports, 2009**

(\$ million)



Source: Source: FAO Statistics Division, 2010

As we see, the top five agricultural commodities exported from the Netherlands are cigarettes, (other) processed foods, cheese from whole milk, boneless beef and veal, and beer made from barley. The top five Belgian exports, as seen in Figure 6, are chocolate and chocolate products, sugar confectionery, bananas, frozen vegetables, and (other) processed foods. Needless to say, neither cocoa nor bananas are grown in Belgium; they are imported, processed, and then exported as processed foodstuffs.

Processing is something at which Japan is quite adept as well; indeed, the top five farm exports are processed foods, cigarettes, confectionery, nonalcoholic beverages, and baby food (Figure 7). But the volume of those exports is small compared with those of countries like Belgium and the Netherlands. Whereas the Netherlands exports \$2.9 billion worth of processed foods, Japan's exports in that category total a mere \$700 million. Figures 5, 6, and 7 reveal the gap between Japan and these tiny European countries in the area of food exports.

It seems odd that Japan—a gastronomic paradise that now boasts more Michelin three-star restaurants stars than any other country in the world—falls so far short in the export of food preparations. One of the biggest factors limiting the development of Japan's food export industry is surely the high cost of raw ingredients—a result of import quotas and other trade barriers designed to protect domestic producers.

MAFF, which has championed such protection over the years, recently estimated that lifting tariffs on 19 agricultural products (including rice, wheat, sugar



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crops and sweeteners, dairy products, beef, pork, chicken, and eggs) would cause domestic production to fall by 4.1 trillion yen and would cost the Japanese economy 7.9 trillion yen, owing to the ripple effect on related industries. It is difficult to fathom, though, why access to cheaper imported ingredients would have such an effect on overall GDP. Apparently it has never occurred to MAFF that liberalization of agricultural imports could aid the development of the food industry.

### **Are Processed Foods Farm Exports?**

Some may question whether processed foods should be considered agricultural exports in the first place, but the FAO and MAFF both regard them as such. MAFF's own trade statistics, which include marine products, identify Japan's top five agricultural export commodities as cigarettes, seasoning sauces, salmon and trout (fresh, preserved, and frozen), alcoholic beverages, and pearls (natural and cultured).

But does it make sense to include processed foods as agricultural commodities? That depends on one's view of agricultural protection and its purpose. The three rationales commonly adduced for protecting agriculture are food security (ensuring a stable food supply in the event that imports are disrupted), supporting local economies, and protecting the environment. With respect to the first two rationales, including processed foods in one's trade calculations makes good sense.

First, having food companies maintain a stock of processed foods is a cheaper way of ensuring food security than entrusting this task to the government. Second, if one is importing primary agricultural products and processing them into food preparations for export, this means one is importing more of those products than is needed for domestic consumption; therefore, a drop in imports will not jeopardize food security, provided that the decrease is within that margin.

As for local economies, the processed food industry clearly has an important role to play. If local produce is used in the processing, then the economy benefits from the value added. But even if imported ingredients are used, the industry can provide jobs and income to sustain the local economy.

### **Conclusion**

The first thing we need to recognize is that Japan's current agricultural policy has been less than a success. If the goal of protection is to give domestic industry

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a chance to develop and stand on its own feet, then the protection of Japan's farm industry has failed in its purpose.

But this, in fact, has not been the government's goal. For agriculture to stand on its own would require improvements in farm productivity, which naturally results in fewer people employed in the farm sector. This would have weakened the political power of the rural districts that constituted the Liberal Democratic Party's most important political base during its years in power. Consequently, the government did almost nothing to encourage farm consolidation.

Even so, large-scale operations have come to occupy the bulk of production in many segments thanks to the initiative of people determined to make farming a more profitable business. By leveraging this power, we should be able to build a more productive farm sector in Japan.

To those who object that this trend will depopulate Japan's rural communities, I would counter that the development of the food processing industry would create job opportunities for former farmers. We should follow the lead of European nations that have introduced large-scale farming while maintaining the population in the agriculture sector by having more people work in food-related industries.

The fact that a few large-scale farm operations now account for the bulk of production in many Japanese agricultural segments argues for a fundamental shift in Japanese farm policy. The subsidies for individual farming households introduced by the Democratic Party of Japan are regarded as being counterproductive, since they support small farms and discourage farm consolidation. Yet, DPJ administrations have been loath to risk a political backlash by abolishing the scheme.

If, on the other hand, these subsidies were allocated according to production volume, they would cease to act as a disincentive to consolidation. In the rice subsector, for example, 67% of income compensation would go to farms with annual receipts of 5 million yen or more (based on the values in Figure 2). In most other subsectors, the ratio would be in excess of 80%. Some purists will protest that the remaining 20% would be a wasteful use of public funds, and so it would be. But it seems a relatively small price to pay, given the magnitude of the waste perpetrated by Japan's counterproductive agricultural policies over the years.

November 28, 2011

## Beyond the TPP Flap

### *Toward a New Dialogue on Trade Policy*

Takaaki Asano

*In announcing his decision to take part in talks for the Trans-Pacific Partnership, Prime Minister Noda defied a wave of furious opposition, including from his own party. Although the objections sometimes bordered on the hysterical, Takaaki Asano argues that they reflect a widespread and legitimate concern that Japan is plunging head-first into economic integration without a strategy for coping with its impact.*

The issue of Japan's participation in multilateral talks for an expanded Trans-Pacific Partnership erupted with a vengeance this fall after being pushed to the back burner in the wake of the March 11 Great East Japan Earthquake. With the November 12–13 summit of the Asia-Pacific Economic Cooperation forum in the offing, Prime Minister Yoshihiko Noda viewed the summit as the last chance for Japan to announce its intention to join in ongoing negotiations for the TPP, a broad-based Asia-Pacific free trade agreement advocated by the United States.<sup>1</sup> This triggered howls of protest, primarily from the farm lobby and its allies, and in no time the controversy was raging full force.

With the decision a fait accompli, there is a danger that the debate could subside as quickly as it erupted, without ever progressing beyond a meaningless exchange of verbal blows between the supporting and opposing camps. In the following, I would like to look beyond the announcement per se to raise some more fundamental trade issues and challenges looming on the horizon.

### From Announcement to Anticlimax

Given the urgent tenor of the debate—both in the pro-TPP camp, which warned

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Takaaki Asano    *Project Manager and Research Fellow, Tokyo Foundation.*

<sup>1</sup> This was strictly a self-imposed deadline set by the Noda cabinet. The current four-party Trans-Pacific Strategic Economic Partnership Agreement (P4 Agreement), which lays the foundation for the TPP, establishes no such deadline.

of Japan's "missing the bus" unless it promptly opted to join the talks, and in the anti-TPP army, which fiercely fought to prevent such a calamity—one might suppose that the controversy over Noda's decision represented a climactic battle in the TPP wars. In fact, Noda's APEC announcement is just one step in a long and uncertain process. Let us begin by shifting the focus from the rather myopic object of the Noda government's headlong charge and what lies beyond.

At the TPP summit held a year earlier, in conjunction with the November 2010 APEC meeting in Yokohama, the parties involved agreed to step up negotiations with an eye to winding them up in November 2011, at the APEC meeting in Honolulu. Later it became clear that more time would be needed to iron out differences on commodity market access and other key issues, and that the most they could hope to achieve by November this year was a basic framework.

For Japan to formally join in these talks, it needs the approval of all nine of the countries currently involved in the negotiations.<sup>2</sup> Six already have free trade agreements with Japan, but three do not: the United States, Australia, and New Zealand.<sup>3</sup> It is expected to take at least three months for Japan to win approval from all nine countries and begin taking part in negotiations.

The United States has called for a "high quality" FTA that eliminates all tariffs, but that will be no easy feat given the economic diversity of the participants. Reconciling the TPP with existing bilateral agreements—something Japan has experienced in negotiating an FTA with the Association of Southeast Asian Nations—will be a key obstacle to concluding negotiations in the coming year.

For example, the US-Australia FTA, which went into effect in 2005, exempts a number of key areas from liberalization, and the parties have yet to agree on whether those items will go back on the negotiating table in the multilateral TPP talks. Similar challenges await if the TPP is to expand further into a Free Trade Area of the Asia-Pacific (FTAAP). The handling of this issue could also determine whether Canada and South Korea, which have their own FTAs with the United States, will opt to join the TPP.

Assuming these obstacles are overcome and an agreement is reached and signed, the pact then goes back to each country for ratification. The United

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<sup>2</sup> At present there are nine parties to the TPP negotiations: Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States, and Vietnam.

<sup>3</sup> The Japanese government has been pursuing economic partnership agreements on the understanding that EPAs cover more ground (such as nontariff barriers) than FTAs, which focus on trade in goods and services. In recent years, however, the trend has been toward more comprehensive FTAs, and for this reason I have chosen to use that term to cover all such agreements, including EPAs.

States presents special challenges in this regard. Notwithstanding the fears of American domination expressed by some Japanese opponents of TPP membership, the United States is hardly capable of using the TPP as a tool of imperialist expansion.<sup>4</sup> To overcome domestic resistance in pursuing an expanded free trade network, President Barack Obama must rely on the promise of boosting exports and creating jobs.

Members of Congress must consider the TPP's impact on their own constituencies, and in the private sector, attitudes toward the partnership differ from industry to industry and even from business to business, depending on the scale of operations. In this sense the United States is no different from Japan.

Moreover, the TPP is bound to come under greater public scrutiny in the United States now that it is set to evolve from a pact with a handful of small-to-midsize Asia-Pacific economies to a free trade agreement with Japan. Bearing in mind the US auto industry's early resistance to the US–South Korea Free Trade Agreement, we should expect similar objections to the TPP to flare up once Japan joins the negotiations.

The fact is that the diversity of economic interests in the United States can make congressional approval for any trade agreement a very tenuous proposition, depending on the political landscape at the time. The US–South Korea FTA was signed in June 2007 but was not passed by Congress until October this year, more than four years later.<sup>5</sup> The action then shifted to the South Korean National Assembly, where ratification was delayed by the same sort of partisan strife before being forced through the legislature in November.

Clearly, such political risk is not limited to the United States. However, as things stand now, the fate of any such agreement in Congress is especially problematical owing to the expiration of fast-track authority. Under the US Constitution, Congress has the power to regulate commerce with foreign nations. To prevent international economic agreements from becoming hopelessly bogged down in congressional bickering, Washington developed the system of fast-track authority (or trade promotion authority), whereby Congress can grant the President sole authority to negotiate trade agreements for a designated period. Once

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<sup>4</sup> While opponents of Japanese participation have placed considerable emphasis on the supposed threat of US domination over Japanese society, virtually no one seems to have asked how the countries of Asia feel about the pro-TPP argument that participation will allow Japan to “absorb Asian demand.”

<sup>5</sup> The FTAs with Colombia and Panama that were approved at the same time were originally signed in November 2006 and June 2007, respectively. Colombia and Panama had completed ratification quickly and were awaiting action by Congress.

such an agreement is signed, Congress must either accept or reject it as submitted, without modification.

However, when the last period of fast-track authority came to an end in July 2007, under the administration of George W. Bush, Congress failed to renew it. This means that, as things stand, any TPP agreement signed by the president would be subject to modification by Congress. Needless to say, this would throw a wrench in the process and undermine Washington's credibility in international trade negotiations.<sup>6</sup>

### Domestic Fears

In reality, it is far too soon to worry about political obstacles to ratification, and in any case we cannot confidently predict how politics play out in another country. But from Japan's standpoint, the recent decision to join the negotiations seems precipitate, given the international and domestic hurdles described.

To begin with, embarking on international trade negotiations with domestic opinion so sharply divided increases the risk that Japan will fail to ratify the resulting agreement and lose international credibility.

Meanwhile, our very participation in the TPP negotiations—which could drag on for years—raises questions that have yet to be addressed. Will it affect the conclusion of FTAs with China, the European Union, and South Korea? Is there any point in continuing FTA negotiations with Australia and Canada? And does it signal Japan's relinquishment of its insistence on exemptions for agriculture, which had shackled FTA negotiations until now?

Noting that current TPP negotiations are aimed at a high-standard, broad-based agreement, opponents in Japan have voiced concerns over the impact of international competition not only on agriculture but also healthcare, finance, telecommunications, and government procurement. They have raised the specter of skyrocketing unemployment caused by an influx of unskilled labor and warned that Japan's very identity as a society could be in jeopardy. Supporters have dismissed such fears as ungrounded, arguing that Japan's healthcare system is not about to collapse and that a surge of immigrants is unlikely.

The objections raised are no doubt the product of deep and widespread uncertainty over the future of the country's healthcare system, business environment, food safety, and employment picture amid the rising tide of globalization.

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<sup>6</sup> Because the US-South Korean FTA was concluded when the Bush administration still had fast-track authority, it was not subject to revision by Congress.

The recent burst of opposition to the TPP should be taken as an admonition to those who have rushed into economic integration without pausing for a serious and forthright discussion of how the Japanese economy has fared under current free-trade regime and how it can be expected to fare in the future. This is a topic that will be given closer attention by the Tokyo Foundation.

Trade policy is one means a country has of defining its relationship with other states. Today the international community as a whole is being transformed by the irreversible advance of globalization. Japan cannot remain unscathed by such transformation or isolate itself from the global trend toward market liberalization and integration. We must realize that erecting uniform walls around our borders to keep out competition is no longer tenable.

That being the case, it is all the more important to pursue policies and strategies that maximize the merits and minimize the drawbacks of access and exposure to the global economy. For this, Japan needs to formulate a national strategy that addresses the future of all our major industries in the context of the global marketplace—regardless of whether they are included in the TPP framework.

### **Taking Stock**

The first step—however circuitous it may appear—is to review the extensive FTA network that Japan has built over the past decade, primarily with ASEAN members. What was the original purpose of this network, and how well has it served that purpose? What sort of trade agreements should we aim for henceforth?

Japan's first economic partnership agreement was concluded with Singapore in 2002. World Trade Organization negotiations were stalled, and with more and more economies entering into regional and bilateral trade partnerships, Tokyo was anxious not to be left out. But the landscape has changed since then. The world has outgrown its early, somewhat naïve expectations for a post-Cold War globalized society. China's clout in East Asia and the world has increased dramatically. Confronted with these new realities on the one hand and external pressures for further market liberalization on the other, Japan needs to seize this moment to develop a new economic vision and strategy for the future.

While the principal purpose of trade agreements is economic, these agreements can also have important diplomatic implications. The extent to which Japan's participation in the TPP talks is viewed as being proactive and an outgrowth of its own initiative will become key factors. And the way in which Prime Minister Noda explains his decision to the Japanese people and to the interna-

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tional community will have diplomatic repercussions. He must adopt a lofty tone and make it clear that Japan's foremost concern is its own role in the international community, not accommodating American allies or drawing China and the EU into free trade negotiations.

The Noda administration may regard the decision to join the TPP talks as a victory. But for Japan, the real fight is yet to come.



October 6, 2011

## Political Hurdles to a Japan–South Korea EPA

Takashi Sekiyama

One of the major items on the diplomatic agenda of newly installed Prime Minister Yoshihiko Noda is a summit meeting with South Korean President Lee Myung-bak. Lee originally planned to visit Japan last spring, but the trip was postponed after a flare-up of bilateral tension over the disputed Takeshima islets (called Dokdo in Korean).

An issue that is sure to come up as the two Asian leaders explore avenues for cooperation is resumption of long-stalled negotiations for a bilateral economic partnership agreement (EPA). In the following, I hope to shed some light on the role Korean attitudes toward Japan and domestic political pressures have played in creating this stalemate, in the hope of pointing a way toward its resolution.

### Evolving Attitudes toward Japan

I spent August 15 in Seoul, where I was teaching a summer university class. Back in Japan, it was Shusen Kinenbi (marking the end of World War II), and all the major TV stations were airing programs commemorating the sixty-sixth anniversary of the war's end.

In South Korea, August 15 is Independence Day, a holiday commemorating the Korean people's liberation from Japanese colonial rule. Given all the attention Shusen Kinenbi gets in Japan, one might easily imagine that August 15 in South Korea would be a day of nationwide events and programs replete with harsh words for Japan's colonial policy. But the truth is, whether one searches the public venues or the television lineup, it was difficult to find anything on the subject of Japanese colonial rule.

In fact, August 15 in Seoul differs little from any other day at the height of the summer vacation season, when Japanese tourists swarm through the Myeong-dong shopping and entertainment district, eagerly waited on by store clerks fluent in Japanese.

Such scenes are almost enough to persuade one that anti-Japanese feeling

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has ceased to be an issue in South Korea. And indeed, hostility between the South Korean and Japanese people has subsided dramatically in recent years, thanks to the effects of cultural interaction.

In Japan, a major turning point came in 2003, with the broadcast of the popular South Korean television drama *Winter Sonata* (*Gyeoul yeonga*). The hit show ushered in a wave of South Korean cultural imports, which have become part and parcel of Japan's pop-culture scene and have contributed to a sharp rise in pro-Korean sentiment among the Japanese people.

According to the Japanese Cabinet Office's annual public opinion survey on foreign relations, the ratio of Japanese people with friendly feelings toward South Korea was stalled at around 40% during most of the 1990s, dropping as low as 35.8% in 1996. After 2000, however, that figure quickly rose to more than 50%, and in 2009 more than 60% of Japanese respondents expressed friendly feelings toward South Korea.

In South Korea, popular sentiment toward Japan began to improve when the government ended its ban on Japanese culture in 1998, particularly among the younger generation. When I asked my South Korean college students to name their favorite foreign countries, more than half cited Japan. In explaining their choice, they spoke in considerable detail about the merits of Japanese TV dramas, anime, and fashion.

All of this suggests a calm and genial bilateral relationship. But despite the overall improvement in attitudes, diplomacy with Japan remains a highly explosive political issue in South Korea.

### Political Powder Keg

As recently as August 1, three Liberal Democratic Party politicians (lower house members Yoshitaka Shindo and Tomomi Inada and upper house member Masahisa Sato) were denied entry into South Korea. Bound for the South Korean island of Ulleungdo, just northwest of the controversial Takeshima islands, they arrived at Gimpo Airport outside Seoul only to be turned back by the South Korean authorities.

Protests had broken out in South Korea after word had spread of the Diet members' plans to visit Ulleungdo's Dokdo Museum and other spots in connection with the territorial dispute. I was on hand at Gimpo Airport the day the Japanese lawmakers arrived, and it was a chaotic scene, as several hundred protesters scuffled with police and aired their indignation by tearing up a Japanese flag. Confronted with such a domestic backlash, South Korean authorities took the

extraordinary step of denying Japanese politicians entry into the country.

The controversy over Takeshima had initially flared up the previous March, after the Japanese Ministry of Education, Culture, Sports, Science, and Technology approved a middle school social studies textbook that asserted Japan's sovereignty over the disputed islands in relatively unequivocal terms. It was the hostile public reaction to this assertion that had caused President Lee to put his planned visit on hold.

South Korean attitudes toward Japan remain prickly, and the impact of these sentiments can sometimes cast a shadow over economic relations. The clearest example of this in recent years has been the fate of Japan-South Korea EPA negotiations.

### **Economic Sticking Points**

The campaign for a Japan-South Korea EPA was kicked off in 1998 with a joint research project conducted by the private sector. Government talks began in December 2003 and continued through November 2004. But negotiations broke down during the sixth round, and they have yet to be resumed. During the seven-year hiatus, high- and mid-ranking diplomats have continued to hold working-level meetings in hopes of laying the groundwork for renewed negotiations, but despite their ongoing efforts, the next round is nowhere on the horizon.

Economic issues certainly played a part in the breakdown of talks. Japan's insistence on protections for domestic farmers is a persistent bone of contention in EPA negotiations, and the Japan-South Korea EPA was no exception. In this case, however, the biggest stumbling-block was the clash of interests in the manufacturing sector.

As things stand now, Japan's average tariff rate on manufactured goods is close to zero, while South Korea's is in the neighborhood of 8%. This means that under the status quo, most manufactured goods from South Korea can flow into Japan virtually unhindered by tariffs, even while South Korean manufacturers enjoy robust protection against competition from Japanese imports. Accordingly, a Japan-South Korea EPA that eliminates tariffs on manufactured goods would offer significant benefits to Japanese businesses exporting manufactured goods to South Korea, without having much impact on South Korean exports to Japan.

South Korea posts a chronic trade deficit with Japan even now, owing to the structure of its flagship automobile and electronics industries, which import key components from Japan and export the assembled products abroad. According to statistics released by the South Korean government, the country's trade deficit

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with Japan jumped from \$27.7 billion in 2009 to an all-time high of \$36.1 billion in 2010. Authorities in Seoul are concerned that a Japan–South Korea EPA would leave South Korea’s weak parts industry defenseless against a flood of Japanese imports, causing the trade deficit with Japan to balloon even further.

That said, an EPA offers undeniable benefits for South Korea, as well as for Japan, since the elimination of tariffs on Japanese-made parts would help South Korean manufacturers keep costs down in the face of rapidly mounting competition from inexpensive Chinese cars and electronics.

What, then, is preventing the resumption of negotiations?

### Political Hurdles

A high-level Japanese diplomat in Seoul explained it as follows. “From the South Korean standpoint, it’s much easier to see the downside of a Japan–South Korea EPA than the potential benefits. Given the fraught political atmosphere surrounding relations with Japan, it would be politically risky for the government here to be perceived as rushing toward an EPA with Japan that doesn’t have obvious benefits for South Korea.”

President Lee’s low standing with the public compounds the problem. With approval ratings below 30%, Lee has little political capital to spend in improving relations with Japan. In the words of a South Korean university professor who has studied in Japan, “There’s a real danger that Lee would be crucified by the media and the academic community if he simply advocated stronger ties with Japan.”

In the meantime, South Korea has been busy pursuing trade agreements elsewhere. The South Korea–European Union FTA went into effect provisionally in July 2011; an FTA with the United States is in the works; and domestic opinion is building for an FTA with China. In the midst of such progress, the prospect for renewed negotiations with Japan continues to recede.

### A Need for Leadership

Because free trade agreements almost always involve costs as well as benefits, political leadership is typically needed to negotiate a pact in the face of resistance from domestic interests. In the case of the Japan–South Korea EPA, the political climate in South Korea makes such leadership all the more critical.

At every bilateral summit and foreign ministers’ meeting since the Japan–South Korea EPA negotiations broke down in 2004, the two sides appear to have

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reaffirmed the importance of concluding an agreement as quickly as possible. They have held working-level meetings to that end in the knowledge that the two countries' shared interests far outweigh the differences that divide them. That negotiations have nonetheless remained on hold for a full seven years points clearly to a lack of true political leadership.

The anticipated summit meeting offers a golden opportunity to display such leadership. A summit would naturally produce a joint statement outlining areas of agreement. Armed with sufficient political resolve, the two leaders could make the most of the summit to get the EPA negotiations back on track. Conversely, in the absence of such leadership, the Japan–South Korea EPA could languish indefinitely.

As South Korea's December 2012 presidential election draws closer, Lee will be under increasing pressure to steer clear of politically risky initiatives. We can only hope that a meeting is held soon, and that when it is held, our leaders will summon the political will to act for the economic good of both nations.

September 15, 2011

## The Search for a Sustainable Partnership

The Tokyo Foundation

*On September 6, 2011, the Tokyo Foundation co-organized a unique symposium in Beijing attended by prominent scholars from China, Japan, and the United States to discuss the future of the trilateral relationship. Participants voiced the need for the world's three biggest economies to build greater confidence to promote stability and growth in the East Asian region.*

Stability and growth in East Asia hinge on promoting greater confidence and cooperation among the region's three key stakeholders—China, Japan, and the United States. Yet forums to promote closer relations among the three countries have been quite rare.

It was to fill this gaping vacuum that the Tokyo Foundation—a not-for-profit, independent think tank—organized a symposium focusing on the historical, diplomatic, and security aspects of the relationship among the world's three biggest economies.

Attracting over 100 prominent scholars from the three countries, including Harvard University Professor Emeritus Ezra Vogel, Chinese Academy of Social Sciences Vice-President Li Yang, and former speaker of the House of Representatives Yohei Kono, the symposium was an outgrowth of the Tokyo Foundation's extensive network with top research institutes and opinion leaders around the world.

Held at the Beijing International Hotel on September 6, 2011, the symposium on “New Patterns in East Asia and China-Japan-US Relations” was co-organized with the Institute of Japanese Studies of the Chinese Academy of Social Sciences (CASS) to commemorate the institute's thirtieth anniversary.

### Shaping a New Order

One key theme of the symposium was finding approaches to overcoming the lingering mistrust that characterizes relations among the region's three biggest economies and building a more stable atmosphere conducive to advancing their common interests.

Such a theme was quite timely, noted CASS Vice-President Li Yang, as new patterns are emerging in East Asia. The three countries have a critical role in guiding the regional order, he added, as they account for over 40% of the world's total gross domestic product.

He emphasized that China seeks peaceful and harmonious development, a goal that requires a greater acknowledgment of each other's positions and strategic interests and a better political and military balance.

Former House of Representatives Speaker Yohei Kono echoed these sentiments, adding that the peaceful goals and rejection of hegemony that China has outlined need to be more effectively communicated to the world. As cases in point, he expressed concern that hard-line statements sometimes still emerge from People's Liberation Army and Foreign Ministry officials, which Kono feared only causes China to lose friends.

The veteran politician also expressed hope that the United States would make greater efforts to forge a more cooperative relationship with China, not just in economic matters but in shaping its own future—especially in the light of its overstretched defense capabilities and problems emerging from its mounting public debt.

It was noted that Japan, too, must redefine its position and role in the region, given China's dramatic rise. Kono referred to the condescending attitude that some members of the older generation still harbor toward China.

Japanese Ambassador to China Uichiro Niwa said that negative attitudes and prejudices are often formed by what people are taught as children and carried by those who have never personally met their Asian neighbors. Overcoming such attitudes takes time and must start with a fuller awareness of each other's modern reality. Hoping to promote deeper understanding, Niwa explained that he actively travels throughout China to meet local residents and to inform them of what Japan is like today.

### **Past and Future of Japanese Studies**

One force for overcoming prejudice in China and the United States has been Japanese studies in both countries. While it has followed very divergent paths in the two countries, it has continued to evolve in both due to internal and external factors.



*Ezra Vogel, right, speaking at the Beijing symposium on the China-Japan-US relationship with Yohei Kono, left, and Li Yang, center.*

Three decades ago, for instance, the United States feared that Japan would overtake it as the world's number one economy, recounted Ezra Vogel—an expert on both Chinese and Japanese affairs. China was still a poor country at the time and looked at Japan as a model. China no longer sees Japan that way, but there are still many things it can learn, he noted, such as approaches to maintaining social order in the face of a major disaster.

In the United States, there was a jump in the number of scholars researching Japan in the late 1980s, explained University of Hawaii Professor Patricia Steinhoff. There was also a qualitative shift, away from a “monolithic” area studies approach to one emphasizing the training of diplomats, lawyers, and other personnel to deal with Japan as a competitor.

There has subsequently been a shift to achieve a more integrated understanding of Japan as a postindustrial society and culture. While the number of students has declined since the late 1980s, there has been a rise in people staying in academia as specialists, and both programs and resources are expanding.

China, on the other hand, has taken a more pragmatic approach and emphasized research of contemporary realities. Most recently, for example, the emphasis has been to explore whether Japan has a grand strategy, like those explicitly announced by China and United States, commented Li Wei, director of the Institute of Japanese Studies. Such an emphasis has emerged, she explained, since the 1997 Guidelines for US-Japan Defense Cooperation seemed to suggest Japan is expanding its security focus.

In contrast to the realism of Japanese studies in China, Chinese studies in Japan has tended to focus on ancient history, noted University of Tokyo Associate Professor Shin Kawashima. Perhaps because of the romantic nature of the discipline, tensions in the bilateral relationship in recent years have caused the



number of students in the field to fall sharply. Scholars, he offered, was in a position to turn such trends around by correcting misconceptions held by members of the public.

### **Wither the Trilateral Relationship**

How, then, should the three countries shape their trilateral relationship in the years to come? Wang Jisi, dean of the School of International Studies at Peking University, believes that in the light of the three countries' common interests, there is considerable room for cooperation in addressing threats to regional and global stability, such as the nuclearization of the Korean Peninsula and responses to climate change. He also expressed concern that failure to improve the weakest link in the triangle—namely between China and Japan, could lead to unexpected accidents, such as last year's trawler incident last year.

Achieving closer ties will require not just efforts to achieve rosy targets but a hard look at the status quo. Strong political leadership must be exercised, said Alan Romberg of the Stimson Center in Washington, DC, to overcome mutual suspicions and fears, which often drive international relations. In that light, the mutual visits by US and Chinese political leaders could help mitigate deep-seated historical resentments and disagreement over contested issues like the treatment of North Korea and US arms sales to Taiwan.

Learning what the other seeks is often not enough to achieve true mutual understanding, said Akio Takahara, professor at the University of Tokyo; there is also a need to understand why they think that way. China, Japan, and the United States should thoroughly review the three sets of bilateral relationships, enhancing their respective strengths and minimizing the vulnerabilities through greater social, cultural, and military exchanges.

In their effort to improve trilateral relations, the three countries must confront the fact, cautioned Toyoo Gyohten, president of the Institute for International Monetary Affairs, that growth models to date—based on the dollar as the key international currency and the inflexible exchange rate of the renminbi—are no longer sustainable.

### **The Search for a New East Asian Order**

The security dimension of the trilateral relationship is perhaps the most sensitive with the greatest room for misunderstanding and friction.

Countering charges that China has adopted a more assertive defense posture,

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Yang Yi, former director of the Institute for Strategic Studies at the PLA National Defense University, said the government is now advancing peaceful, harmonious development. This, he noted, has left many Chinese people unsatisfied, who believe that the government is being too weak. He also explained that increases in the defense budget were partly due to a significant jump in the salaries of top military officials.

A symbolic step forward in promoting closer relations through direct dialogue will be US President Obama's presence at the upcoming East Asia Summit in Bali. This, commented Patrick Cronin of the Center for a New American Security, represents an attempt to steer America away from the over-militarized approach in the Middle East to an emphasis on soft power in East Asia.

There have been voices in China contending that the US presence is an attempt to "contain" China. This is untrue, asserted Kyoji Yanagisawa, former assistant deputy chief cabinet secretary, who noted that the United States is being invited to the EAS to act as a balancer among the East Asian countries. Territorial and other disputes have strained bilateral relations, but Yanagisawa urged that difficult issues not simply be shelved for the sake of smoothening relations but actively addressed through innovative political approaches.

It was also noted that there appears to be a mistaken view in China that the Trans-Pacific Partnership is being used by Japan and the United States to sabotage Chinese efforts at regional integration. Japan, too, has not yet decided whether or not to join the TPP, noted Tsuneo Watanabe of the Tokyo Foundation, and this will be a hard political choice. Participation, he added, will probably be necessary for Japan to pursue its own economic interests by opening the country up to the burgeoning Asia-Pacific economy.

### List of Speakers

#### *United States*

**Ezra F. Vogel**, Henry Ford II Professor of the Social Sciences Emeritus, Harvard University

**Kent E. Calder**, Director, Edwin O. Reischauer Center for East Asia Studies, SAIS

**Patrick Cronin**, Senior Advisor and Senior Director of the Asia-Pacific Security Program, Center for a New American Security

**Abraham Denmark**, Senior Asia-Pacific Advisor, Center for Naval Analyses

**Mark E. Manyin**, Specialist in Asian Affairs, Congressional Research Service

**Alan D. Romberg**, Distinguished Fellow and Director of the East Asia Program, Stimson Center

**Kay Shimizu**, Assistant Professor of Political Science, Columbia University

**Patricia G. Steinhoff**, Professor of Sociology, University of Hawaii

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### *Japan*

**Yohei Kono**, Former Speaker, House of Representatives

**Toyoo Gyohten**, President, Institute for International Monetary Affairs

**Kaoru Iokibe**, Member, Tokyo Foundation Project on Political and Diplomatic Review; Associate Professor, University of Tokyo

**Shin Kawashima**, Associate Professor, University of Tokyo

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

**Akio Takahara**, Senior Fellow, Tokyo Foundation; Professor, Faculty of Law, University of Tokyo

**Tsuneo Watanabe**, Senior Fellow and Director for Foreign and Security Policy Research, Tokyo Foundation

**Kyoji Yanagisawa**, Advisor, Nippon Life Insurance Company; Former Assistant Deputy Chief Cabinet Secretary

### *China*

**Li Yang**, Vice-President, Chinese Academy of Social Sciences

**Cui Liru**, President, China Institutes of Contemporary International Relations

**Huang Ping**, Director, Institute of American Studies, CASS

**Jiang Lifeng**, Former Director, Institute of Japanese Studies, CASS

**Li Wei**, Director, Institute of Japanese Studies, CASS

**Li Xiangyang**, Director, Institute of Asia-Pacific Studies, CASS

**Wang Jisi**, Dean, School of International Studies, Peking University

**Yang Yi**, Former Director, Institute for Strategic Studies, PLA National Defense University

*(This article is reprinted with permission from the September 14, 2011, "Summer Davos" Special supplement of the Japan Times.)*

December 12, 2011

## Building the Next Generation of the US-Japan Partnership

Gerald Curtis

*Following are the remarks Senior Fellow Gerald Curtis made as guest speaker at the twenty-fifth annual dinner of the Japan-America of Washington, DC, on December 7, 2011. Curtis and former Ambassadors Thomas Foley and William Sherman were awarded the First Marshall Green Award for their contributions to Japan-US relations at that dinner. The citation for the award to Dr. Curtis reads "For your significant and sustained contribution to increasing understanding between Americans and Japanese; as an educator, writer, and commentator on Japanese political affairs and the conduct of our relationship with Japan, you have educated and informed tens of thousands, from senior government leaders to students and academics around the world."*

I am very grateful for and humbled by this wonderful award and honored to be sharing it with Tom Foley and Bill Sherman, men I deeply admire and respect.

I am sorry that Tom cannot be with us this evening. We first met some forty years ago when he was a young congressman and I was starting out as an assistant professor at Columbia.

In those days I was involved in running the US-Japan Parliamentary Exchange Program, which was administered on the US side by Columbia University. Tom was one of the earliest and most enthusiastic participants. I remember the visits to Tokyo with him and other congressmen with great fondness. I first met then Congressman Norm Mineta when he participated in the program in 1975. I am delighted to see him here this evening.

In the early 1970s, when that program began, there was hardly any contact between American and Japanese legislators. It was congressmen like Tom Foley, Norm Mineta, Don Rumsfeld, and senators such as Hugh Scott, Ed Muskie, and William Roth who understood the importance of building relationships with

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*Gerald Curtis      Senior Fellow, Tokyo Foundation; Burgess Professor of Political Science, Columbia University.*

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their Japanese counterparts and provided the leadership for this very successful exchange program.

Today we need once again to encourage greater communication among our legislators not just to consider bilateral issues but to discuss how Japan and the United States can best cooperate to mobilize our respective strengths to resolve a host of regional and global issues. I cannot resist adding that we also need to encourage more cooperation among our own congressmen. The situation today is sadly different from the time when I was involved with the parliamentary exchange program and when Democrats and Republicans sought compromise rather than confrontation.

Before we turn our attention to the future it is appropriate that we pause and remind ourselves that the postwar history of US-Japan relations is an extraordinary story of reconciliation and of engagement. Both American and Japanese societies have been enriched by our interaction. Our relationship has contributed to our economic well-being and it has been essential for providing for our national security. And that will continue to be the case in the future.

Before the Second World War there were only a very few Americans with specialized knowledge of Japan. Perhaps the two most renowned academics were Ed Reischauer and Hugh Borton. Hugh Borton was a wonderful man who was instrumental in planning postwar policy toward Japan. He came to Columbia after the war to be director of the East Asian Institute and taught along with several others the first seminar I took on international relations in East Asia.

It was in the early postwar years that Japan studies blossomed in this country. Many men who had studied Japanese in the army and navy Japanese language programs during the war and who served in the US Occupation determined that they would devote their lives to create strong bonds between Japan and America.

All of my professors and mentors at Columbia University were of this generation—Jim Morley, Donald Keene, Herb Passin, and many others. Today there are Japan specialists in every major university and in many smaller colleges as well. Interactions among and joint research by American and Japanese scholars is extensive and mutually rewarding. American scholarship about Japan is of high quality and is so regarded by Japanese scholars. Jim Morley, Bob Scalapino, who recently passed away, and others of that generation were the true pioneers in developing Japan studies in this country. Those of us who followed in their footsteps owe them a great debt of gratitude.

It is important to point out that these developments were made possible because the US government, the Ford and Rockefeller Foundations and other

foundations and the Japanese government and companies provided generous financial support.

The first grant I received to study Japanese was a National Defense Education Act fellowship. The NDEA program was inaugurated in 1958. The conviction then that it was a matter of national defense to have young Americans learn the languages of countries that we need to understand better is an idea that we Americans should take to heart again today. The US must do much more to educate our young people about Japan and about other cultures and languages that we know far too little about.

And if I may be permitted to say so, Japan could use a national defense education act of its own. For one thing, it has a national security interest in radically improving the quality of its English language education and encouraging young Japanese to study Korean and Chinese and Urdu and other languages as well.

That the US-Japan relationship rests on a dense network of ties at all levels was evidenced in the American response to the horrendous disaster that struck the Tohoku region on March 11 of this year.

I was in New York at the time. Over the following days, as Americans watched with horror pictures of the devastation on their television screens, there was an outpouring of sympathy and support. What was so striking to me was that for so many Americans this disaster was not something affecting people in some far off country that we know little about but a tragedy that was happening to people with whom we feel a close bond and deep affection.

When I went to Tohoku the following month I met with and was deeply touched by the dedication of American military personnel who were working with the Self-Defense Forces in Operation Tomodachi and American civilian volunteers who were helping to clean up debris and repair houses that were damaged but not destroyed.

The relationship between our countries is far more than a military alliance or a product of economic interdependence. It really does rest on a foundation of mutual respect and goodwill and core common values.

But the relationship needs to be nurtured. We need to train the next generation of Japan specialists. We need to encourage young Americans to seek careers that involve Japan. We need programs to provide opportunities for people in journalism, business, government, and other professions who are not Japan specialists to learn more about Japan. And we need to encourage more Japanese young people to study in the United States.

Japan is the pivot for America's relations in Asia. We cannot take each other for granted. Our relationship is strong, but if we do not give it constant and

steady attention we will miss opportunities to combine our strengths and bring our distinct perspectives to bear on the resolution of critical domestic and regional and global issues.

As Americans we lose a lot by not better understanding why Japan is able to provide universal, high-quality healthcare to its citizens at half the cost in terms of share of GDP that America spends on healthcare. And perhaps even more important, we lose by not better understanding why Japanese live healthier and longer lives than Americans do.

We lose by not learning from Japan about how a society can respond to the incredible disaster of March 11 with the dignity, fortitude, perseverance, and sense of community and mutual help that the victims of the tsunami showed the world.

Let me say a few words about young people. I do not share the pessimism that is so widespread about our young people—that young Americans are not interested in Japan and that young Japanese are becoming more inward looking. I do not believe that either is the case.

It is true that the number of Japanese studying in the US is about half of what it was ten years ago. But what this signifies is more complex than just a declining interest in going abroad.

Part of the reason is the larger Japanese demographic problem. The number of 22 year olds, for example, has declined by 42 percent from 1974 to 2009, 23 percent in just the past twenty years. So part of the reason for fewer students is the decline of the total number of Japanese in the age cohort from which students who study abroad is drawn.

Added to that is that Japanese are studying more in China and Korea and in other English-speaking countries like Australia, New Zealand, Canada, and Britain.

Finally there is little incentive to study abroad if it does not translate into better job and promotion opportunities back in Japan. Why incur the financial burden of studying overseas if it is not rewarded back home?

I think that young Japanese are *less* inward looking than previous generations. Many are well aware that globalization means that they themselves need a more global perspective. The burden is on government and business to provide the incentives for them to study and work overseas.

As a professor I have the opportunity to meet lots of Japanese and American young people. They are just like we were when we were young, with dreams and ambitions. The problem is the growing perception among young people in both of our societies that the opportunities to realize those dreams are declining.

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The interesting thing about American young people is that so many of them are very much interested in Japan. The Inter-University Center for Japanese Language Studies in Yokohama, which is supported by a consortium of fourteen US universities and is the preeminent institution for advanced Japanese language training, has for the past few years had its largest enrollments ever. When I attended the IUC in 1964 there were 17 students. This year there are 50. What the IUC lacks is not students but adequate funding.

At Columbia University enrollments in courses dealing with China and in Chinese language classes has skyrocketed but interest in Japan has not declined. We are seeing enrollments in our courses increase.

But this involves a very important change. When I was a student most of us who got interested in Japan had the goal for one reason or another of becoming Japan specialists. Most of my classmates were graduate students like I was. Now most of the American students are undergraduates and many of our graduate students are foreigners. Young Americans at a school like Columbia who got fascinated by Japanese pop culture in high school, or who were astounded by the Japanese response to 3.11 want to learn more about this fascinating country, not necessarily to become Japan specialists but to be cultured, educated human beings.

We do not have many students who yearn to become specialists on the French economy or British politics, but they do want to know more about Europe as part of their general education. That is true also with regard to Japan. There is a great curiosity about and fascination with Japan. That is why so many college students apply to the JET program, graduates of which become lifelong friends of Japan. If Japanese companies provided more opportunities for summer internships, if the Japanese government provided more opportunities for American high school and college students to spend a year in a Japanese school, I am certain there would be a large and enthusiastic response.

Many of our graduate students in courses on Japan are foreign students, especially from countries in Asia. Chinese and Korean students in particular are curious about Japan and about American perspectives on Japan.

Teaching at a university with a large international student body offers an interesting vantage point from which to view Japan's relations with the rest of the world. Until quite recently few Chinese students at Columbia took my course on Japanese politics, and those who did tended to have strongly negative attitudes about Japan.

But that is not the case today. I have several Chinese students in my classes. They are far more balanced in their views and find a lot about Japan to admire



and think that there are many things about Japan that they would like their own country to emulate.

There clearly is a generational change in attitudes among Chinese students. Similar changes became evident among Korean students more than a decade ago. And many of our Japanese students are eager to learn more about Korea and China while they are with us.

This makes me hopeful about the future of relations in East Asia. And it is gratifying that American universities can be the meeting ground for students from countries in East Asia to learn about and form fast friendships with each other.

In the United States we are not turning out enough Japan specialists. Japan is not like Britain or France or Germany. The language is far more difficult for Americans to master. Understanding Japan's history and culture requires a major investment of time and money. We need to train a core group of Japan specialists in this country and give them the opportunities that my generation had to visit Japan often and interact with their Japanese counterparts. Neither the US government nor the philanthropic or private sector is doing anywhere near enough to meet that need.

Training specialists in the social sciences—economics, political science, sociology, anthropology—is more challenging now that it was when I was a student.

For one thing, despite globalization and our need to have deeper knowledge about foreign countries and regions, the anti-area-studies bias in American academia is stronger now than ever. No one can get tenure at a major university because he or she has great knowledge and insights about Japan. Japan specialists have to master the theories and methodologies that are dominant in their academic disciplines as well as develop expertise about Japan. That means that it takes that much longer to complete a PhD. Funding, therefore, is critical if the US is to continue to have a core group of well-trained Japan specialists. The need is especially critical in economics and sociology, and the only way to fill that need is to provide financial support for language study and for research in Japan.

The other interesting—and in this case entirely welcome—change from years ago is that now many, perhaps most, of our American graduate students have studied Japanese in college and in some cases began Japanese in high school and many have travelled in Japan and other parts of Asia.

Most of our best graduate students want to be regional specialists—just knowing about Japan is not enough. This is a trend that we should encourage.

*Nichbei kankei*, US-Japan relations, is no longer only or mainly about bilateral relations. It involves how we engage with China, how we coordinate with each

other and with South Korea and China to deal with a nuclear-armed North Korea, how we respond to regionalism in East Asia, and so on.

We need Japan specialists who understand the regional and global context within which the US-Japan relationship is situated. A few years ago the heads of the international relations department at Peking University and the law faculty at Keio University and I organized a research project that recruited young American, Chinese, and Japanese scholars who had done research on bilateral relations to write research papers that would force them to think trilaterally. We need to do more in this spirit to make sure that we are training a new generation of Japan specialists who can think trilaterally and multilaterally.

Some important efforts are being made. The Mansfield Foundation and the Pacific Forum CSIS both have created innovative programs targeted at young promising scholars. The US-Japan Foundation sponsors a US-Japan Leadership Program whose goal is to develop networks among the next generation of American and Japanese leaders. But much more needs to be done.

The challenge is not only to train Japan specialists but to provide opportunities for people in other professions to better understand Japan. Programs that have made it possible for journalists to spend time in Japan and that sponsored exchanges between elected public officials at both the national and local levels need to be revitalized and strengthened. I am hopeful that the recently established US-Japan Council will play an important role in organizing support for such programs.

I do not believe that there is any danger of a downward spiral in US-Japan relations. Of course, we face problems that will grow more serious if left unattended. We have to figure out together how to expeditiously close a military base in Okinawa that sits in the middle of a crowded urban area, how to coordinate policies to deal with current and potential regional security threats, and how to promote greater regional and global trade liberalization.

But the relationship is too important to both of us to let any of these problems undermine it. The major cost of not giving the relationship more attention is the lost opportunities that result. As I suggested earlier, we can learn much more from Japan about how to deal with our common problems. We have a mutual interest in pursuing a strategic dialogue and close consultations to respond effectively to the dramatic changes in East Asia, especially China's emergence as a great power in every dimension of power—economic, political, and military—and the East Asian region's position at the center of the global economy.

Tom Foley epitomizes the role that politicians and statesmen can play in strengthening our partnership. Bill Sherman is a fine example of the role dedi-

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cated diplomats and public servants play. I have been privileged to have been in a position to teach young people about Japan for more than forty years now. I cannot think of a more rewarding career for me to have pursued. Thank you.

November 10, 2011

## Working with the New Russia

### *Progress and Setbacks*

Taisuke Abiru

*Last year Russia seemed poised on the threshold of a new era in international cooperation, thanks both to Washington's commitment to "reset" the bilateral relationship and Moscow's deepening involvement in the Asia-Pacific region. How has 2011 lived up to the promise of 2010? Taisuke Abiru reports.*

In previous articles I explored two major developments affecting Russia's foreign policy and security strategy in 2010. The first was the "resetting" of US-Russia relations, an initiative launched by the administration of US President Barack Obama in 2008 with a view to enlisting Russia's cooperation in defusing the threat of Iran's nuclear program.<sup>1</sup>

The second was the dawn of a new phase in Asia-Pacific diplomacy, as embodied by the November 2010 decision of the East Asia Summit (composed of the 10 ASEAN countries plus China, Japan, South Korea, Australia, New Zealand, and India), to admit Russia and the United States as full members beginning in 2011.<sup>2</sup>

In the following, I would like to follow up on both topics, with a focus on subsequent developments.

### The Reset and Its Limitations

The event most emblematic of the resetting of US-Russia relations was the coming into force of the New Strategic Arms Reduction Treaty (New START) in February 2011. A month earlier, a bilateral nuclear energy accord called the US-

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Taisuke Abiru    *Research Fellow, Tokyo Foundation.*

<sup>1</sup> See "Japan and the Resetting of US-Russia Relations," October 15, 2010, [www.tokyofoundation.org/en/t/5bu7](http://www.tokyofoundation.org/en/t/5bu7), and my February 2011 update, [www.tokyofoundation.org/en/t/an8e5](http://www.tokyofoundation.org/en/t/an8e5).

<sup>2</sup> For more on Russia in the Asia-Pacific, see "Reframing the Japan-Russia Relationship: A Report from the Valdai Club," December 3, 2010, [www.tokyofoundation.org/en/t/olhlu](http://www.tokyofoundation.org/en/t/olhlu).

Russia 123 Agreement—submitted by President Obama on May 10, 2010, and passed by Congress on December 9 last year—took effect with the exchange of diplomatic notes between US Ambassador to Russia John Beyrle and Russian Deputy Foreign Minister Sergey Ryabkov.

The latter agreement gave the green light for a 10-year contract, announced on March 23, under which American nuclear fuel company USEC will purchase low-enriched uranium from Tekhsnabexport (TENEX), Russia's state-run exporter of nuclear fuel and fuel-processing services. One particularly noteworthy detail of this contract is its inclusion of an agreement to launch a feasibility study on construction of a new uranium enrichment plant in the United States using Russian centrifuge technology.

On another key item of the “post-resetting” agenda, however, progress has been elusive. Although attempts were made to take the relationship to a higher level through US-Russian cooperation in a missile defense system for Europe, Moscow insisted on being included in a single, integrated European shield, while Washington held firm to the position that there should be two independent and mutually complementary systems. The impasse suggests a point of fundamental divergence between US and Russian strategic interests.

### **Energy Diplomacy in the Asia-Pacific Region**

The March 2011 nuclear accident in Fukushima has greatly altered the outlook for energy development and cooperation over the coming years. In the accident's aftermath, the expansion of Russia's presence in the Asia-Pacific region via nuclear energy, a development I have tracked for several years now, has come to a standstill.

On the other hand, Russia has already begun supplying Japan and South Korea with liquefied natural gas through the Sakhalin-2 project, and the strategic importance of natural gas as an alternative to nuclear energy has risen significantly.

On August 20, 2011, North Korean leader Kim Jong-il crossed over the Tumen River for a rare official visit to Russia. During talks between Kim and Russian President Dmitri Medvedev on August 24, the two governments agreed to set up a special joint committee to discuss conditions for cooperation between Russia, North Korea, and South Korea on a proposed gas pipeline running from Vladivostok through North Korea to South Korea.

On September 15, Russia's Gazprom and South Korea's Korea Gas signed a “roadmap” agreement, and Gazprom signed a memorandum of understanding with North Korea's oil ministry regarding the pipeline project.

The objective of these negotiations is the construction of a 1,100-kilometer gas pipeline, 700 km of which would run through North Korean territory. The pipeline would supply about 10 billion cubic meters of natural gas per year and provide North Korea with approximately \$100 million in annual transit fees. At the earliest, it would be completed in 2017.

Just a week before the abovementioned agreements, Prime Minister Vladimir Putin attended the September 8 opening ceremony for the Sakhalin–Khabarovsk–Vladivostok gas pipeline. The 1,822 km pipeline, built to transport Sakhalin’s gas to the most populated regions of the Russian Far East and for export, has an initial capacity of 6 billion m<sup>3</sup> per year, but it is expected transport as much as 30 billion m<sup>3</sup> by 2020. The opening ceremony was held off Vladivostok on Russky Island, where preparations are now underway for its hosting of the Asia-Pacific Economic Cooperation (APEC) summit in autumn 2012.

Following the Fukushima accident Russia was quick to stress its commitment to supplying natural gas to Japan. Deputy Prime Minister Igor Sechin conveyed that message to then Ambassador Masaharu Kono at the Japanese embassy in Moscow on March 22, 2011. An agreement was also reached during that meeting to establish a bilateral working group on energy cooperation.

On April 25, Japan Far East Gas Co., a joint venture among Itochu, Marubeni, Japan Petroleum Exploration (JAPEX), INPEX, and Itochu Oil Exploration, signed an agreement with Gazprom to carry out a joint study on a number of proposed natural-gas projects in the Vladivostok area. The projects are expected to lead to the construction of Russia’s second LNG plant in the Asia-Pacific region—following the Sakhalin-2 plant—in Vladivostok.

The newly established Japan-Russia Working Group for Cooperation in the Petroleum and Natural Gas Sectors held its first meeting in Moscow on July 26. The main topic, incidentally, was the Vladivostok natural gas project.

All of this provides strong evidence that Russia is working aggressively in advance of APEC 2012 to become a major strategic player in the Asia-Pacific region by leveraging its energy resources. The prime mover behind this policy is none other than Prime Minister Putin, who now seems certain to take back the presidency in 2012.

### **Uncertain Fate for Nuclear Cooperation**

Cooperation between Japan and Russia on nuclear energy, meanwhile, has fallen victim to changing priorities since the Fukushima accident. A major casualty of the Japanese government’s decision to limit funding for nuclear power to current

allocations in the reconstruction budget is the “Russian Far East route,” a nascent scheme under which uranium ore extracted by Japanese businesses in Kazakhstan would be enriched in Russian facilities and then shipped to Japan and other parts of the Asia-Pacific via ports in the Russian Far East.<sup>3</sup> Trial shipments of nuclear fuel, which had been scheduled to begin before the year’s end, have been placed on hold indefinitely.

Japan’s Ministry of Economy, Trade, and Industry had worked hard to make the Russian Far East route a centerpiece of the APEC Russia 2012 agenda. The plan was seen as a possible steppingstone to cooperation with Russia in the supply of nuclear fuel for Vietnam’s nuclear energy project, which has tapped Russian and Japanese companies for the first and second phases of construction, respectively.

Speaking on September 22 at a high-level UN meeting on nuclear safety and security, Prime Minister Yoshihiko Noda stressed that, while determined to learn from the Fukushima disaster, “Japan stands ready to respond to the interest of countries seeking to use nuclear power generation.” This clear signal of Japan’s intent to continue nuclear exports tells us that Japanese industry will remain involved in Vietnam’s nuclear energy program. It also leaves the door open for a resurrection of the Russian Far East route initiative. This writer will be following further developments with keen interest.

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<sup>3</sup> *Ibid.*

October 31, 2011

POLICY PROPOSAL

## Japan's Security Strategy toward China

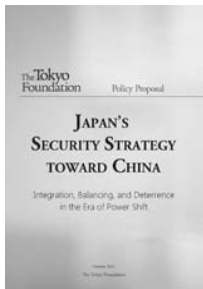
### *Integration, Balancing, and Deterrence in the Era of Power Shift*

The Tokyo Foundation

*The following is the Executive Summary of the Policy Proposal issued by the Tokyo Foundation's Asia Security Project, led by Tokyo Foundation Senior Fellow and Keio University Associate Professor Ken Jimbo.*

#### **Power Shift and Power Transition: Case for Japan-China Relations**

The rise of China is rapidly changing the strategic landscape in the Asia-Pacific region. As China becomes a leading power in Asia, China's growing influence is shifting the strategic weight of bilateral and regional security relations. The rise of China is also a global phenomenon. The distribution of global wealth is becoming further multipolarized and diversified as China's nominal GDP is braced to match that of the United States and EU. China, along with other emerging economies in the world, may gradually alter the rules, norms and institutions of global governance. Thus, for policymakers in Japan, the days of old-fashioned management of Japan-China bilateral relations may become utterly obsolete. Accordingly, Japan's strategy toward China should be readjusted as constituting the core of Japan's regional strategy in East Asia and a gateway for a strategy toward the emerging powers in the world.



One prevailing view suggests that as China becomes more powerful and the US position erodes, it will inevitably lead to serious strategic competition between China and the liberal order predominantly led by the United States. The result of such developments will be heightened tensions, distrust, and conflict during the process of power shift. However, other views assert that while the “unipolar moment” will inevitably end, China can comfortably accommodate the United States since China has already been highly integrated into the liberal in-



ternational order. In this view, the US-China relationship will not necessarily be confrontational but will have the potential of peaceful co-existence between the two leading powers. Indeed, the Chinese government has repeatedly proclaimed that China would be able to rise to prominence in a peaceful manner that would not challenge the existing order.

The peaceful rise of China, however, is not an easy goal to be realized without bridging a crevasse between China and the liberal order. China's fundamental claims on territorial integrity and "core interests" are giving rise to tensions with neighboring states. China's promotion of state capitalism, heavy intervention in the market, and tight currency control have been sources of economic friction with the leading economies of the world. China's limited progress on democracy, human rights and the rule of law also pose a problem in sharing common values. In realizing the peaceful rise of China, China needs to clarify its road to bridge the gap between concept and reality.

Japan's security strategy toward China must be based on an assessment of the dynamism of China's changing status in the power distribution in the Asia-Pacific, China's approach and strategy for Asian security order, and how much Japan, the US-Japan alliance, and other regional partners can shape the strategic choice of China. As described in Part I-4, our project proposes *integration*, *balancing*, and *deterrence* as Japan's three-layered security strategy toward China. This approach aims to overcome shortcomings of the simple binomial framework of *engagement* and *hedging* because (1) China is no longer outside the international system, so that days of *engaging* China is over; and (2) in order to shape China's strategic choices so that China conforms to the liberal order, we need more proactive approaches beyond merely *hedging* against China. Japan should enhance its efforts to *integrate* China into bilateral, regional, and global orders, *balance* China to induce China to become a full-fledged member of the international community by making it expensive for China not to comply with international rules and norms, and should *deter* China from attempting to change the status-quo by force.

For Japan, the year 2010 brought the dawn of a full-scale encounter with the rise of China. China became the world's second-largest economy in 2010, as its nominal GDP overtook Japan's. China also became Japan's top trading partner, replacing the US in 2009. As Japan-China economic relations become highly interdependent based on mutual interests, the two countries are now hardly separable. However, mutual distrust and tensions linger in bilateral security relations, as highlighted in the confrontation over the Senkaku Islands (known as the Diaoyu Islands in Chinese) in September 2010. The incident also brought to

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light the fact that Japan and China had few effective mechanisms to reduce danger, manage crises, or increase their common interests over bilateral security issues. As China is advancing the level of military activity in the East China Sea, and Japan is correspondingly placing emphasis on defending its southwestern territory, there is a greater need to fill the vacuum of stability and crisis management in Japan-China security relations.

### US-China-Japan GDP and Military Spending in 2030

Japan's China strategy should be founded upon the objective assessment of the future distribution of power, especially among Japan, the United States, and China. For this purpose, our project conducted research on economic projection and military spending trends toward 2030. Referencing the various economic projection studies of the International Monetary Fund's *World Economic Outlook* and Goldman Sachs reports, etc., we have updated and modified the projection trends reflecting the changes after the global financial crisis in 2008.

Our estimate suggests that China will surpass the US in GDP (nominal terms, in US dollar as of 2010) and become the world's biggest economy in 2026 (see Part I-1). In 2030, it is projected that US nominal GDP will be 28.4 trillion dollars, China's 34.7 trillion dollars, and Japan's 8.4 trillion dollars. The ratio of the size of GDP among the US, China, and Japan will be 3.4 to 4.1 to 1.

Our study also discovered that future projections of China's military spending will also pose a challenge to US primacy. Most of the previous studies argued that China would not be able to compete with the US in the military domain despite its economic ascendancy. Although military power should be measured in a comprehensive manner, our project decided to compile a long-term outlook on national defense spending based on the GDP projection. We worked with a simple assumption, calculating defense spending as a fixed percentage of GDP, with high and low estimate paths for the US and China (See Part I-2).

By the year 2030, China's high-end path will surpass the US defense-cut path, reversing the ranking of military spending by two countries (see Figure 6). We are not suggesting that such a power transition will become reality but are simply calling attention to the fact that a power shift is occurring at a much faster pace than most experts believe. The projection manifests in even more drastic form in Japan-China relations. China's national defense spending is rising beyond Japan's defense expenditures at a rapid rate, and the military balance between Japan and China is expected to become one of overwhelming ascendancy for China. Chinese defense spending will be 4.8 times (6.5 times in the high-end

estimate) larger than that of Japan's in 2020 and 9.1 times (12.7 times) larger in 2030. The power transition is a reality of the Japan-China relationship, and this foretells of a coming era when Japan will find it increasingly difficult to deal with China's military rise with its own resources alone.

### **Japan's Security Strategy toward China: Integration, Balancing and Deterrence**

Against this background, Japan's security strategy toward China in this era of dynamic power shift in Japan-US-China relations should be designed as a three-layered approach consisting of *integration, balancing, and deterrence*.

An *integration strategy* should involve (1) deepening the partnership and interdependence in both economic and security domains (extended engagement), (2) managing risks and crises in Japan-China security relations through cooperation and institutions (risk/crisis management), and (3) expand strategic cooperation in the Asia-Pacific region. It is important for Japan to encourage China to play a constructive and proactive role in the regional economic and security architecture, while promoting bilateral cooperation based on common interests. At the same time, Japan and China should deeply institutionalize their dialogue and communication channels among defense officials in order to manage the potential bilateral risks and crises. Further, Japan should promote China's full-fledged membership in the liberal international order by encouraging the country's representation and presence in international and regional organizations.

A *balancing strategy* should be promoted in a comprehensive manner (hard balancing, soft balancing, and institutional balancing) to shape China's strategic choices. Balancing begins with diplomatic competition that results in higher eventual costs for China in case of its noncollaboration. Balancing further extends to forming coalitions without China (external balancing) while supporting the capacity of nations in the Asia-Pacific region to deal with China (capacity building for internal balancing). Balancing will be more effective when regional members agree not to cooperate with China. However, it is critically important to confirm that the aim of a balancing strategy is to promote integration. We suggest that the balancing strategy be regarded as a pilot for navigating China toward a path of cooperation. Such navigation needs to be founded of a balance of power. Our project asserts that the Asia-Pacific region needs regional preparedness and collective capacity to counterbalance China.

*Deterrence* represents the leading edge of national security. If China advances the creeping expansion of its military activities in disputed areas, or if it decides to resolve conflicts by force, such actions to change the status quo will

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have to be deterred. Our project recommends that Japan needs to enhance the operational domain of the Self-Defense Forces around the Nansei Islands by promoting intelligence, surveillance, and reconnaissance (ISR) activities. We also assert that the Japan-US alliance will need to adjust to the new strategic reality under China's anti-access and area-denial (A2/AD) environment. The new operational concept of the Joint Air-Sea Battle should be explored in the alliance agenda. It is also very important to increase the roles and capacities of Japan in dealing with low-intensity friction and conflicts with China while maintaining the Japan-US alliance that plays an indispensable role in escalation control and extended deterrence.

In the light of the above observations and basic principles for Japan's security strategy toward China, our project offers 15 specific policy proposals as follows:

### *Integration*

1. Form a resilient habit of cooperation capable of withstanding the power shift
2. Explore new frontiers in Japan-China security cooperation
3. Reinforce the crisis management mechanisms in place at the Japan-China summit level and between their national defense authorities
4. Gain access to Chinese-led frameworks and take steps toward two-way integration

### *Balancing*

5. Inaugurate a Japan-US-China strategic security dialogue
6. Strengthen security cooperation with Australia, South Korea, India, and Southeast Asia
7. Promote functional and ad-hoc regional cooperation

### *Deterrence*

8. Promote dynamic deterrence with respect to opportunistic expansion by China
9. Promote a Japan-US joint air-sea battle (JASB) concept

### *Integration and Balancing*

10. Utilize Japan-South Korea strategic cooperation wisely

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11. Promote regional cooperation with China through the six-party talks and Japan-China-South Korea cooperation
12. Prepare for a North Korean destabilization scenario

### *Integration*

13. Bring China into the extensive array of regional security cooperation arrangements

### *Balancing*

14. Build “a coalition of the willing” within regional institutions
15. Promote the reform of regional institutions

September 14, 2011

## Putting the National Defense Program Guidelines into Practice

### *Five Proposals from the Tokyo Foundation*

The Tokyo Foundation

*The new National Defense Program Guidelines spell out various innovations and advocate the strengthening of Japan's security posture. The Tokyo Foundation's National Security Policy Project offers proposals that would help ensure their actual implementation.*

**T**he National Defense Program Guidelines adopted in December 2010 spell out various innovations and advocate the strengthening of Japan's security posture. Inasmuch as the guidelines express medium- to long-term ideas and the direction that the nation ought to pursue, their implementation requires a process of formulating concrete Mid-Term Defense Program projects for each fiscal year and drafting or improving relevant laws and regulations and developing new policy guidelines.

Failure to formulate concrete measures will mean that the ideas presented in the new Guidelines will be for naught. Members of the Tokyo Foundation's National Security Policy Project engaged in repeated discussions concerning the measures urgently required for the implementation of the Guidelines.

As a result of these deliberations, the project team identified five most important policy areas: (1) strengthening the government's crisis management structure, (2) maintaining and strengthening the Japan-US alliance, (3) enhancing security cooperation and international peace cooperation activities in the Asia-Pacific region, (4) developing a dynamic defense force, and (5) implementing a new arms export control policy.

### **Proposal 1: Strengthen the government's crisis management structure**

#### *(1) A framework to enable more effective crisis management*

Describing the government's role in a crisis, the Guidelines state, "In the event of

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various contingencies, it will seamlessly deal with the situation as it unfolds.” For this to happen, the security and crisis management capabilities of the government, particularly the cabinet, must be strengthened.

The creation of a framework for seamless task planning and leadership from a unified perspective is vital. This will work only if the lines separating different ministries and agencies—including the Ministry of Foreign Affairs, Ministry of Defense, National Police Agency, Ministry of Land, Infrastructure, Transport and Tourism, and Ministry of Economy, Trade, and Industry—are transcended. Over the short term, conceivable countermeasures in the event of a crisis could include temporarily putting in place, at the cabinet-secretary or deputy-chief-cabinet-secretary level or higher, a structure to perform the functions of consolidating information, communicating the intentions of the government to pertinent organizations, and coordinating the activities of different entities.

Over the medium term, an advisory committee should be established under the prime minister to design a structure charged with national crisis management. Along with examining the overall concept for such a structure, this committee can also identify measures for its establishment as an institution.

Specifically, a panel of experts in the areas of security and crisis management should be established as staff for top government leaders. This structure would be headed by the chief cabinet secretary or a newly appointed parliamentary deputy chief cabinet secretary (a longstanding member of the House of Councilors would be one idea).

This panel would undertake the formulation of Japan’s medium- to long-term national defense strategy and integrated security strategy and also regularly consider the government’s response to an array of crisis scenarios. In the event of an actual crisis, this panel would not become involved in actual operations but would make an overall assessment of the government-wide response and provide response guidance from a longer-term perspective.

### *(2) Strengthening information security as a prerequisite for enhanced intelligence functions*

Strengthening information security systems is fundamental to the nation’s overall collection and analysis of information as well as its utilization. It is also important in terms of the Japan-US alliance, for it can lead to more appropriate decision-making by Japan through effective utilization of information provided by the United States, a country with excellent intelligence capabilities.

The sharing of information possessed by different government agencies is predicated upon individual agencies trusting the information security systems of

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the other agencies to which they provide information on a reciprocal basis. Information security systems are also crucial in the context of information sharing between the administrative and legislative branches of government. Along with clarifying Diet members' obligation of confidentiality, the Diet should hold closed sessions so that members can engage in debate based on privileged information.

Furthermore, the establishment of a permanent information committee would also be required in the legislative branch to ensure that policy pertaining to information and information security for Japan as a whole is properly followed.

In making a response extending across government ministries and agencies, it must be made clear where responsibility lies. This will involve, for example, the establishment under the deputy chief cabinet secretary of a project team that will quickly sort out different aspects of the response, including government-wide efforts, matters to be addressed separately by each ministry and agency, legislative action, administrative measures, and operations to ensure that everyone involved is equipped with the hardware and software needed to share information and keep it secure.

In addition, the responsibility for the measures to be taken must be clarified, and prompt action to implement them should follow.

### *(3) Reinforcement of awareness concerning communications preparedness*

One point that became clear in the aftermath of the Great East Japan Earthquake was the vulnerability of the communications infrastructure. The destruction of the cell phone infrastructure had an enormous impact on the victims and made it difficult for information to be shared among and instructions and requests to be communicated to different organizations: the national government, local disaster headquarters, relief agencies, and municipalities hit by the disaster.

Given that damage to the communications infrastructure can be foreseen in the event of a large-scale disaster or armed attack, Japan should make provisions to supplement it through channels that include the utilization of a disaster radio network, emergency restoration of contact through communication satellites, and network reinforcement based on mobile communication terminals.

Consideration should also be given to utilizing the tactical network communication system created by the Self-Defense Forces. With regard to a potential inland earthquake centered on Tokyo or major quakes in the Tokai and Tonankai regions, in particular, special attention should be given to the government's communications functions, since they would presumably cause widespread damage.



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To ensure the gathering of information required for decision-making by top government officials and for guiding and supervising the agencies involved, the government should back up its communications network or else be prepared to reconfigure the communications infrastructure on a temporary basis.

Additionally, consideration should be given in advance to such countermeasures as the temporary relocation of government offices, including the Prime Minister's Office, should the need arise, and the conducting of drills for such a scenario.

### **Proposal 2: Continue efforts to maintain and strengthen the Japan-US alliance**

If the international community recognizes the strength of the Japan-US alliance, this can significantly help deter aggression. The way that the United States demonstrated its willingness to cooperate generously in response to the Great East Japan Earthquake should be seen as a golden opportunity. The question of whether or not Japan can continue working closely with the United States in post-quake recovery and reconstruction, including efforts to come to grips with the nuclear accident, and regain the confidence of the international community is crucial for the future of the bilateral alliance.

Of foremost importance is the broad sharing of the recognition that the realignment of US forces on Okinawa, including the relocation of Futenma air station to the Henoko area, would help ease the burden on Okinawa. At the same time, a bold vision for the future of Okinawa's society and economy should be mapped out, including plans to utilize bases south of Kadena after they have been relocated.

The situation surrounding Japan, such as issues involving the Korean Peninsula, is unpredictable, and consideration for so-called traditional military security must be kept in place. Likewise, as far as the Japan-US alliance is concerned, Japan should carry out more in-depth discussions concerning common strategic objectives from the standpoint of Japan's own surroundings. Pressing on with measures related to joint operational plan formulation and joint exercises would also be critical.

### **Proposal 3: Work actively to promote security cooperation and enhance international peace cooperation activities in the Asia-Pacific region with the aim of becoming a peace-building nation**

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One predominant feature of the Guidelines is the emphasis given to bilateral and multilateral security cooperation. In particular, the Guidelines cite further stabilization of the security environment in the Asia-Pacific region as an objective of Japan's security for the first time and also advocate that Japan work toward regional security.

The March 11 disaster shook the Japanese people out of their inward-looking tendency, which had become pervasive since the Lost Decade of the early 1990s. When the Japanese people saw how nations around the world—like their ally the United States and neighbors such as China and South Korea—reached out to lend a hand, they were reminded of their membership in the international community.

This show of support also demonstrated the world's expectations of Japan, which even after being hit by the earthquake and tsunami remains a global power with the world's third-largest economy. Japan should contribute to the global economy through its own recovery and sincerely respond to the outpouring of support from various countries.

Prime Minister Naoto Kan indicated that while a temporary drop in Japan's official development assistance is unavoidable, the nation should contribute to the world by substantially increasing its ODA once it has recovered. Urgent action is also required, though, in order to solidify Japan's presence in the international community and ensure it has a voice.

Japan should move quickly to contribute actively to the international community through not just ODA but also such other ways as the provision of personnel for international peace activities and international disaster relief work, balancing these efforts with its own recovery process.

Although previous Guidelines identified Japan's defense and international contribution objectives, they had not referred to regional security. The Asia-Pacific security environment has worsened in the two decades since the end of the Cold War, and this is not unrelated to Japan's passive posture regarding regional security.

In this light, the nation should more actively work toward the region's stabilization. Japan should cultivate broad recognition that promoting defense exchange and regional cooperation in tandem with strengthening its own defense capabilities constitutes an important dual-track policy for the nation's security and defense. These activities should be supported through adequate budgetary allocations.

As a major regional power, Japan should take the lead in instituting frameworks for bilateral and multilateral defense cooperation and in creating a struc-

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ture for multilayered cooperation. Specifically, Japan should reinforce the Japan-US alliance and coordination with the ASEAN Regional Forum and promote regional network formation by strengthening Japan-South Korea and Japan-Australia coordination.

Along with the advancement of bilateral defense exchange, efforts are also needed to promote the institutionalization of trilateral and multilateral cooperative frameworks—including Japan-US-South Korea, Japan-US-Australia, and Japan-US-China relations—and to be involved in regional rule creation.

While coordinating its activities with other countries in the region, Japan should also actively support capacity building in Southeast Asia and elsewhere. When it participates in international cooperation activities outside the region, Japan's involvement should be based on its own regional strategy, such as by attaching importance to strengthening cooperation with other countries in the region as it undertakes such activities.

There is an increasing need for development assistance to destitute areas of the world that are potential breeding grounds for international terrorism, piracy, the proliferation of weapons of mass destruction, and pandemics, as well as for underlying activities to maintain security. The international community has high expectations with regard to Japan's active involvement in these endeavors.

There are also rising expectations of the military's role in international disaster relief. After the Great East Japan Earthquake, the SDF assigned more than 100,000 troops—a figure close to half the total number of defense personnel—to engage in rescue and other assistance activities in disaster-stricken areas and at the Fukushima Daiichi Nuclear Power Plant.

The US armed forces supported the SDF activities by launching Operation Tomodachi, dispatching as many as 24,000 troops and deploying two dozen ships, including an aircraft carrier, and approximately 190 military aircraft. These activities by Japan and the United States have shown the people of Japan, who have been wary of nonmilitary uses of military forces, that the military has an essential role to play in international disaster relief.

Contributing to international peace is already an intrinsic role of the SDF. In order to step up SDF activities in this area, the Japanese government should not wait until the completion of recovery from the disaster but secure the necessary budgetary and human resources to the maximum extent possible.

**Proposal 4: Implement the following measures in aiming for a more dynamic defense force**

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### *(1) Strengthen the emergency deployment capabilities (hubs and mobility capabilities) of the defense force*

Important factors in building a dynamic defense force are putting in place advance military posts and bases that can serve as hubs for military unit deployment and having the ability to quickly establish necessary hubs. On that basis, the defense force needs to have air and marine transport capacity for moving troops and supplies as well as the ability to gain air and sea supremacy in order to make such transport possible.

The SDF concentrated 106,000 troops in the Tohoku district in response to the March disaster, which was made possible by the existing network of posts and bases located in the vicinity of disaster-stricken areas. Ground Self-Defense Force posts in Iwate, Sendai, Fukushima, and Koriyama, as well as bases of the Maritime and Air Self-Defense Forces in such locations as Hachinohe and Matsushima became hubs for the activities of military units. Along with providing accommodations for troops that converged from around the country, these SDF installations further functioned as logistics hubs for military units working on the front lines of disaster relief.

Meanwhile, the US forces utilized ships belonging to the US Seventh Fleet as a support base and assisted SDF troops assigned to rescue work by acting quickly to re-open Sendai Airport, where operations had been paralyzed by the disaster, so that it could be used as a logistics hub. US forces first restored 1,500 meters of runway—the minimum length required for C-130 transport planes to land. After that it used C-130s to bring in heavy equipment and restored the minimum functions for the airport to operate as an air base, including a 3,000-meter runway.

On top of that, approximately 260 support troops needed to perform air traffic control and transport hub operations were deployed. In this way the US forces transformed Sendai Airport into an air transport base for supplying emergency provisions to afflicted areas and providing supplies to US troops.

At present, emergency deployment capabilities for offshore islands—including those in southwestern Japan where SDF installations are sparse—need attention. Military posts and bases capable of serving as hubs in the event of an emergency should be put into place. The SDF needs to follow the US example in Sendai and equip itself with the ability to set up and operate hubs in areas with inadequate infrastructure.

### *(2) Case studies of complex contingencies*

The new Guidelines call for preparations against complex contingencies involving the consecutive or simultaneous unfolding of situations. The responses spe-

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cified by the Guidelines include (1) ensuring the security of Japan's airspace or surrounding waters, (2) responding to attacks on offshore islands, (3) responding to cyber attacks, (4) responding to assaults by guerrillas or special operations forces, and (5) responding to ballistic missile attacks.

Undertaking case studies for dealing with such complex contingencies will be quite helpful in terms of contingency preparedness. This is because case studies premised on worst-case scenarios will involve giving advance consideration to how the SDF and relevant authorities should respond in a crisis and the manner in which they should cooperate.

This will also make it possible to clarify the anticipated capacity levels of each institution (or capacity limitations and problem areas that need to be improved) and to obtain a basis for formulating concrete response plans and an idea of the anticipated damage (as well as the tolerable degree of damage). Preparing countermeasures in advance of a crisis will enable expeditious decision-making, so the response itself will be quicker. This would therefore be conducive to achieving a more dynamic defense force.

Giving consideration to a crisis scenario involving the Korean Peninsula would be worthwhile, for instance. A war between North and South Korea could conceivably be reignited should the Korean War Armistice Agreement be violated. A form of civil unrest could also flare up in North Korea, or may even occur at the same time as a war. In such a situation, a flood of refugees from the Korean Peninsula could wash up along Japanese shores via the Sea of Japan.

Many Japanese nationals in South Korea would then need to be rescued. At the same time, support for US operations would have to be carried out for such a "situation in areas surrounding Japan." There would be a need as well to ensure a state of readiness for missile attacks, terrorist assaults by special operations forces, and cyber attacks.

Should such a situation develop, Japan would need to orchestrate its own response. Specifically, while communicating with neighboring countries, Japan must keep abreast of all activities on the domestic front—such as those of relevant agencies, the SDF, and the Japan Coast Guard—and manage information appropriately, make swift decisions, issue commands, and ensure that orders reach where they are needed.

Necessary legislative measures are being put in place, and drills, tactical exercises, and so on are being carried out to deal with individual emergencies. There is an urgent need, though, to address the handling of situations that occur simultaneously or take place one after another.

**Proposal 5: Implement a new arms export control policy**

The Guidelines do not go so far as stipulate that the Three Principles on Arms Exports be revised. But in Section VI, entitled “Basic Foundations to Maximize Defense Capability,” the Guidelines make an indirect reference to the necessity of easing the principles, stating, “Japan will study measures to respond to such major changes” as the fact that participation in international joint development and production—now the mainstream among developed nations—enables improved performance of defense equipment and ways of dealing with the rising cost of equipment.

The 1962 Three Principles on Arms Exports were part of a policy of solidarity with West-bloc nations during the Cold War era. But their subsequent revision in 1976 into something more restrictive brought about a major change in the scope of the original policy. Maintaining this policy was problematic even during the time of the Cold War, and ever since the transfer of military technology to the United States in 1983, Japan has managed to deal with this by making exceptions based upon statements by the chief cabinet secretary or the consent of relevant ministries and agencies.

The security environment in the Asia-Pacific region has deteriorated in the two decades since the end of the Cold War. Moreover, given the difficulty of increasing defense spending in Japan’s current fiscal situation, it is clear that Japan must proceed with joint international arms development and production while at the same time deepening the Japan-US alliance, enhancing regional cooperation, and increasing international contributions. These steps are being hindered, however, by the Three Principles.

Since the end of the Cold War Japan has taken action to make exemptions in cases such as UN peacekeeping operations, activities for the removal of anti-personnel landmines, joint development of ballistic missile defense systems, and counter-terrorism and anti-piracy activities. But there is a limit to making exemptions on a case-by-case basis.

One recent example is the suspension in 2010 of the joint development of carrier-based battle command system software, a BMD system research project that Japan and the United States had been working on together. Because it was decided in 2010 that BMD systems would be deployed in Europe, the US planned for European countries to purchase the aforementioned software system under joint Japanese-US development. Given the current policy, however, action to make an exception to the Three Principles would have been required. This would have meant going through a protracted process involving an ex-

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change of notes between Japan and the United States and approval by the Japanese cabinet.

Seeking to avoid a lengthy, convoluted process, the United States chose to pursue independent development. Japan ended up not only hurting its alliance with the United States but also missing an opportunity to contribute to improving the security of close allies as well as a prime chance to raise the level of civilian technology through military software development.

Furthermore, if Japan endeavors to become more active in PKOs and other forms of international cooperation, as expressed in the Guidelines, it will need to consider donating a variety of equipment, including arms, so that developing countries can enhance their peacekeeping capabilities.

In this light, Japan has few choices. The clearest-cut choice would be prompt termination of the Three Principles policy. Japan is a “white list” country that participates in all export control regimes. It is a nation that implements export controls on arms in accordance with an ironclad export control law, the Foreign Exchange and Foreign Trade Act (Act. No. 228 in 1949). The Foreign Exchange Act is rated on a par with laws in the United States and European countries.

Presumably, contributing to international peace and security by controlling arms, general-purpose goods, and so forth in accordance with UN resolutions, the Foreign Exchange Act, and sanction laws unique to Japan should suffice under normal conditions. But if this is ambiguous as a guiding principle, arms export controls should be administered in accordance with the new principles presented below.

- (1) Strictly control and regulate technology transfers and exports of arms, etc., in accordance with the principle of a peace-loving nation.
- (2) Do not carry out technology transfers and exports of arms, etc., to parties to international disputes (including potential cases).
- (3) Do not carry out technology transfers and exports of arms, etc., to countries and regions where human rights are being violated or to parties to such abuse.
- (4) Abide by UN resolutions and other international agreements pertaining to banning or limiting exports of arms, etc.
- (5) Make decisions on a case-by-case basis in accordance with principles (1) through (4) for international technology cooperation in such forms as exports and technology transfers for humanitarian purposes, exports and technology transfers for the purpose of encouraging capacity building for peace building in other countries, and the international development of weapons.

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Note: Under the Three Principles, *arms* are defined as goods that “based on shape, features, and so forth . . . are to be used by military forces and directly employed in combat.” Among the goods listed in Paragraph 1 of Appended Table 1 of the Export Trade Control Order (Cabinet Order No. 378; Dec. 1, 1949) for the Foreign Exchange and Foreign Trade Act (Act No. 228; Dec. 1, 1949) and technologies related to arms listed in Paragraph 1 of the Appended Table of the Foreign Exchange Order (Cabinet Order No. 260; Oct. 11, 1980), they comprise eight types of conventional weapons: those falling in one of the seven categories specified in the UN Register of Conventional Arms and those in the additional category of small arms (including portable surface-to-air missiles).



December 20, 2011

## How Regulation Is Strangling the Social-Services Industry

Kazuo Ishikawa

*A severe shortage of nursing homes and childcare centers could have serious economic as well social consequences for Japan. While the government is eyeing higher taxes to support increases in social spending, the author stresses the need to dismantle regulations that discourage innovation and limit business profits if Japan is to build a truly sustainable social security system.*

Talk of “wait-listed seniors” and “wait-listed children” has become commonplace in Japan these days as the nation grapples with a severe shortage of nursing homes for the elderly and daycare facilities for infants and children.

According to figures from the Ministry of Health, Labor, and Welfare, approximately 420,000 senior citizens are currently receiving long-term nursing care in some 6,000 “special nursing homes” around the country. Approximately the same number of seniors are on waiting lists for placement (receiving in-home services in the interim), with the wait time averaging two to three years. Meanwhile, the number of elderly citizens with dementia is expected to rise from 2 million to 3 million over the next decade, further expanding the demand for nursing care.

On the face of it, the shortage of day-care facilities for children may seem less severe. As of April 2011 there were 26,000 infants and children awaiting enrollment in licensed daycare facilities, as compared with 2.12 million enrolled, according to a MHLW survey. But these figures understate the problem, particularly in Japan’s big cities. Japan’s daycare system would need to accommodate an estimated 1 million additional children to meet the needs of all the Japanese women whose childcare responsibilities prevent them from seeking employment.

Clearly, rectifying this situation is vital not only to the young and elderly requiring those services but to our working-age population as well. Apart from

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providing equal opportunities for women, policies that enable mothers of young children to work outside the home could be crucial in the years ahead if Japan is to maintain an adequate labor force amid a dwindling and aging population.

### **Low Productivity, Meager Returns**

Where eldercare is concerned, the industry has at least been expanding steadily since Japan's Long-Term Care Insurance System was launched in 2000; although profits are modest compared with most other industries, private enterprise has moved in to take advantage of new opportunities, and private nursing facilities for the elderly have proliferated.

In childcare, however, government regulations restrict the form that private operations can take, limiting the potential for profit and making daycare centers an unattractive business investment.

Of Japan's licensed childcare facilities, the majority are operated by "social welfare corporations"—private entities that receive public support and are subject to strict government regulation. The Welfare and Medical Service Agency, which provides low-interest financing for such facilities, surveyed 2,634 loan recipients in 2009 and discovered that about 20% were operating in the red. It also found that labor productivity—value added (operating income less business expenses and depreciation) divided by the number of employees—was just ¥3.86 million on average. This compares unfavorably with the averages for eldercare facilities, including low-cost "care houses" (¥4.38 million), special nursing homes (¥4.58 million), and "health service" (rehabilitation) facilities (¥4.91 million). Meanwhile, all of the foregoing compare poorly with the overall average for private businesses, which is slightly in excess of ¥6 million.

One reason for low productivity in the daycare industry is that it has failed to adopt management practices that have improved cost-efficiency elsewhere. This relates to the fact that most social welfare corporations operate only one facility. This forces them to hire a comparatively higher number of employees than those that can assign workers to shifts at several facilities, and prevents them from designing systems to deal more flexibly with fluctuations in demand according to time of day. And because they purchase their supplies (toys, instructional materials, etc.) in relatively smaller lots, they end up paying more per unit. Such factors keep daycare costs high and prevent major increases in productivity among social welfare corporations.

Meanwhile, of the approximately 23,000 licensed childcare facilities in Japan, only 157 are operated by joint-stock corporations. Many companies that have

considered entering the business note they were discouraged by government regulations. Social welfare corporations alone cannot be expected to meet the needs for childcare services. Unless we actively tap the resources of private business, the shortage in daycare facilities is bound to persist, and women with young children will continue to find it difficult to enter into the workforce.

### **Pioneering Cross-Generational Care**

Although long-term care for the elderly and daycare for children are both under the jurisdiction of the Ministry of Health, Labor, and Welfare, they are handled by different departments and governed by separate policies. In the private sector, however, an effort is underway to partially integrate nursing care with childcare operations. Joe Sadamatsu is head of a Tokyo firm called Global Bridge that is one of the pioneers in this effort, and he is optimistic about the prospects. "There's high demand among working couples, and business is on a stable footing," says Sadamatsu.

Expected return on investment is one of the key factors businesspeople consider when deciding whether or not to venture into a new area. In the case of elder- and childcare, the potential for profit is limited by regulations requiring a minimum number of employees for each person receiving services. Sadamatsu's answer is to save on investment in facilities by operating eldercare and childcare programs under the same roof, with shared entranceways, business offices, kitchens, reception rooms, and so forth. By his reckoning, this arrangement can reduce investment costs by one-third.

In recent years both nursing homes and childcare centers in Japan have been hard pressed to secure adequate personnel. Sadamatsu's model offers an advantage here as well. Having daycare on the premises of a nursing-care facility enables businesses to extend their recruiting efforts to those who are themselves raising children, while women need not quit to bear or raise children. Meanwhile, the interest and publicity this innovative approach is generating gives it a leg up in recruitment. From a social standpoint as well, such joint facilities provide valuable opportunities for interaction between small children and the elderly in an era when three-generation households are increasingly rare.

### **Regulatory Obstacles**

Unfortunately, this sort of venture faces major regulatory hurdles under Japan's current system. The biggest is the fact that the government subsidies available to

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qualified, privately operated daycare centers are limited to one establishment per operating entity. Under this system, a business that operates multiple nursing homes is unlikely to consider opening a childcare facility adjacent to each home. Eliminating this one-establishment-per-operator rule would go a long way toward improving profitability and facilitating staffing.

Given the current situation, the most realistic option is to combine day services for the elderly either with small-scale nationally licensed daycare services or with centers operating under local certification systems (such as in Tokyo). From the standpoint of encouraging interaction between children and the elderly, the ideal nursing-care model is a day facility for seniors who are not bedridden. Sadamatsu has already launched such a business in partnership with a daycare service provider in the city of Chiba, and so far the results have been very promising: the nursing facility is operating at 98% capacity, while enrollment in the childcare facility is 95%.

Since coming to power in 2009, the Democratic Party of Japan has pushed hard for increases in public funding for children's welfare, most notably through a controversial child allowance. Leaving aside the issue of whether cash payments are the most effective approach, a policy dependent solely on bigger government outlays runs into serious funding hurdles in today's fiscal environment. What we need now are new models for the efficient delivery of social services, and the combining of elder- and childcare is one such model.

### Social Security Goals under the Government Reform Plan

		Current	Goal
Eldercare (users per day)			
	Group homes, small multifunctional facilities	210,000 (2011)	770,000 (2025)
	Nursing homes, in-home services	3.35 million (2011)	5.10 million (2025)
Childcare			
	Ratio of children < 3 yrs in day care	23% (2010)	35% (2014) 44% (2017)
	Schoolchildren in after-school facilities	810,000 (2010)	1.11 million (2014)
	Ratio of women aged 25-44 employed outside home	66% (2009)	73% (2020)

Social welfare has acquired a reputation as a black hole for public funds, but it can also be seen as a market with vast business potential. The public and private sectors should work together to encourage the development of this market,

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starting with those segments that are conducive to private initiatives. One crucial prerequisite for such development is the wholesale relaxation of the regulations governing the entry of private business into the care industry. I believe that such reform will lead to more judicious and efficient uses of tax revenues for social welfare and pave the way for the “integrated reform of the social security and tax systems” that the government and the DPJ have pledged to pursue.

*Translated with permission from “Shakai hoshō: Sangyōka no joken,” Keizai Kyōshitsu column, Nihon Keizai Shimbun, October 28.*

October 27, 2011

## In Portland, a New Public Paradigm

Kiyoyuki Tomita

*Local administrators participating in a Tokyo Foundation leadership program returned from a week in Portland, Oregon, with plenty of food for thought on the role government, the responsibility of citizens, and the optimum relationship between the two. Kiyoyuki Tomita discusses his own impressions of the city and the lessons it has to offer Japan, a country in search of a new public paradigm.*

The Tokyo Foundation Weekend School, a leadership training program for local administrators, sponsors an annual summer trip to Portland, Oregon, to observe participative municipal government in action. Rather than attend classroom lectures, participants in the summer program have the opportunity to get to know the city directly—sometime on foot, sometimes by automobile, bicycle, light rail, or streetcar—and to meet with various city officials, as well ordinary citizens. This last element is perhaps the program's most exciting feature, as it provides Japanese municipal employees with a rare opportunity to interact in person with the residents of a non-Japanese city.

Last summer I joined the trainees in Portland. As a researcher specializing in Japanese public policy, I took advantage of the experience to consider the differences between Portland and the average Japanese city in terms of municipal administration and attitudes toward public policy.

Needless to say, a one-week visit cannot provide a complete, in-depth picture, but in the course of our conversations with the people of Portland, some of the key issue with Japanese local administration began to appear in sharp relief.

### Between Government and the Citizens

No examination of public policy in Portland would be complete without reference to the city's neighborhood associations. These are autonomous local organizations of ordinary citizens that meet periodically to discuss issues affecting the community, including conflicts with city hall or with other interests.

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Kiyoyuki Tomita    *Director of Policy Research and Research Fellow, Tokyo Foundation.*

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During the Portland trip, we learned a good deal about the area's neighborhood associations by talking to some of the figures involved and sitting in on actual meetings.

Neighborhood association meetings are not devoted to abstract discussions about the role of government and civil society. Their focus is on airing views and working together to solve everyday problems faced by members of the community.



A typical issue might stem from complaints by community members about construction noise and traffic congestion caused by renovation and expansion work at a local supermarket. The neighborhood association provides a framework for airing the problem, building a consensus for action, and entering into discussions with the supermarket. And with 95 such associations within a city of

550,000, building a consensus for an issue is always within the realm of possibility even in an urban environment.

In Japan, reaching a consensus would be hard enough in a rural community, where everyone knows one another, but in a congested urban neighborhood, it would be next to impossible. The only practical option, accordingly, is to seek the mediation of the local government. But will the authorities respond quickly enough? Does the local government even know how to deal with such a problem? Under the circumstances, many people may conclude that their only choice is to simply put up with the noise and traffic.

Portland's neighborhood associations will lobby the government when government action is needed, but this is not their primary purpose. They operate on the assumption that a community's problems are best solved by the residents themselves, who know the area best. At the same time, they facilitate a close interaction between municipal administrators and the community—which we were fortunate enough to witness.

One evening we decided to sit in on a neighborhood association meeting that was deliberating issues pertaining to the local park. We had assumed that the meeting would be in the conference room of some community hall, but when we arrived we saw that the venue consisted of picnic tables and benches in the park itself. (In mid-summer it stays light until around 9:00 pm in Portland.)

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About a dozen residents showed up. They deliberated and reached agreements on a series of items, including renovation of facilities, questions about use of the garden, and so forth. It was only after some time had passed that we realized an official from the city's parks department was in attendance, too. She would join in the discussion whenever she felt it appropriate for a frank give-and-take with the residents in a relaxed but earnest atmosphere.

Interestingly, one of the Japanese trainees participating in the program told us that similar interaction between residents and local administrators had been common in his community until about 10 years ago. But for most people living in Japan, such a scene would be utterly unfamiliar. In Japan it seems that the more we depend on our government for services, the more remote and out of touch it becomes. Our experience in Portland made us keenly aware of this paradox.

### Community Gardening

Local food is an important part of Portland's culture. People flock to farmers' markets held regularly at locations around the city, and locally grown organic food is standard on restaurant menus. This culture is one reason for the popularity of community gardens.



Community gardens are fields divided into multiple plots that people in the community use to grow vegetables or flowers—which may be construed as the agricultural equivalent of apartment living.

The city of Portland sponsors 39 community gardens, according to the city website, and there are others operated by nonprofit groups. The gardens are a common sight throughout the city. Nonetheless, in some areas the waiting period for a plot is several years.

During my visit I toured four such gardens. I noticed that each plot had its own distinct personality, some focused on flowers, others on vegetables, herbs, and blueberries. The gardens themselves had a distinct personality as well, reflecting the character and needs of the surrounding community.

Some offer enhanced access to water-supply facilities and communal gardening tools or provide elevated plots for people who have trouble bending over.



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One garden is setting up an educational program to teach gardening to urban children who have seen vegetables only in supermarkets. Other gardens are trying to contribute to the diet and health of low-income residents by providing them with organic vegetables grown on the site.

Amid all this diversity, one constant of Portland's community gardens is a clear commitment to their own ideals. Another is the absence of any obvious sign of government involvement. When we asked garden operators if there was anything they wanted or needed from the city, they rarely came up with a demand. Each garden governs itself and takes responsibility for solving its own problems.

Problems do occur, of course. Although a sense of fellowship prevails in most gardens, there are a few individualists who simply tend their own plots with no concern for anything growing around them. Yet every community garden is founded on certain shared principles, and in every case one can sense a focus on community. It seemed to me that these gardens held one of the keys to the new public paradigm.

### Responsive Government, Responsible Citizens

The United States has a reputation as a place where it is difficult to get along without a car of one's own, but Portland offers a menu of environmental options, including bike paths and lanes, light rail, and streetcar service. Most notable is the way that public transportation, passenger cars, bikes, and pedestrians all manage to function side by side in an orderly, efficient manner.

Because bikers have their own lanes equipped with traffic signals, they do not pose a hazard to pedestrians. And even as automobile traffic congestion in-



creases near the city center, the short blocks and numerous traffic lights keep speeds down, ensuring the safety of bikers.

Time and again, the city officials with whom we spoke stressed the concept of a government attuned to the citizens, and in many respects, Portland's transportation policies embodies this ideal.

When it comes to bike lanes, city officials make a point of riding their own bikes alongside ordinary citizens to obtain direct, personal knowledge of traffic and safety issues. They also ride along the routes children take to and from school

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and cooperate with the schools to make children aware of safety hazards. In this way the city has focused not only on the “hard” infrastructure of roads but also on the “soft” infrastructure of citizen awareness.

Portland’s public transportation system is another of the city’s distinguishing features. To commute between the suburbs and the city and move around Portland proper, residents rely heavily on the light rail and streetcar system. And in the Free Rail Zone downtown, anyone can ride free of charge, a system that has been in effect for almost 40 years.

However, in recent years a number of problems have forced the city to reconsider the Free Rail Zone. Aware that any such change is sure to be hotly contested, the city is using every avenue at its disposal to provide information and get feedback from the community—including neighborhood association meetings, websites, direct mail, and email—in an attempt reach some kind of consensus on the future of the system.

In fact, to compile an email list, city employees actually boarded trains and streetcars and asked passengers for their email addresses. It is difficult to imagine a Japanese civil servant hailing ordinary citizens on the street and asking for their email.

In this way Portland teaches us that fostering participative government is not simply a matter of holding town meetings. It requires ongoing and assiduous efforts on the part of administrators to devise and implement new ways of disseminating information and tuning in to the voice of the citizens—even if it means gathering email addresses one at a time.

Nonetheless if citizens consistently fail to respond to the Portland government’s efforts to solicit their opinions by mail, email, and so forth, they are eventually removed them from the mailing list. This decision was explained to us in terms of administrative efficiency, but to my mind it points more fundamentally to the belief that residents who decline to offer any opinion despite being given the opportunity to do so forfeit their claim on the government’s consideration when it comes time to make policy.

Who is ultimately responsible for the welfare of the community? For too long, Japanese citizens and administrators alike have operated on the assumption that the responsibility lies with the government alone. The time has come to rethink that proposition.

### In Conclusion

A week in Portland provided considerable food for thought on public participa-

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tion and the role of government. The participants in our program asked countless questions and listened thoughtfully to the answers. But their doubts lingered. Although they gained valuable insight into Portland's success, they could not help but wonder how they could turn that insight into concrete action to address their own communities' issues after they arrived back home.

In Japan today we seem to have exhausted the options for addressing community problems. But it is only the government-driven approach that has run out of sustainable solutions. New solutions will emerge once the paradigm changes to one in which the citizens assume responsibility, with the government offering only support. As to the best means of such support, the answer must emerge from dialogue with citizens.

Having engaged in direct dialogue with the people of Portland, our program's participants are ready to do the same in their own communities. They know that change will take time; every city official we spoke to in Portland told us that nurturing public participation involved a long-term commitment. But they are now convinced—as am I—that such dialogue is the first step toward solving their communities' problems.

# Life after the Disaster

Following the March 11 earthquake and tsunami, the Tokyo Foundation—an independent, not-for-profit public policy think tank—has been engaged in placing the disaster in perspective. We have outlined priorities for the nation, delivered timely policy proposals, and identified potential pitfalls. We have also reached out to people directly affected by the tsunami and nuclear crisis, asking them to share their insights and perspectives in the hope that they will help us identify the most important lessons—not only for Japan but also for humankind in the twenty-first century. The following is a sampling of the many comments voiced in the course of our research activities, Foundation-organized intellectual dialogue, and social action initiatives, including the “101 Voices from Tohoku” project to document the lives of tsunami-affected residents, as told in their own words.

[www.tokyofoundation.org/en](http://www.tokyofoundation.org/en)

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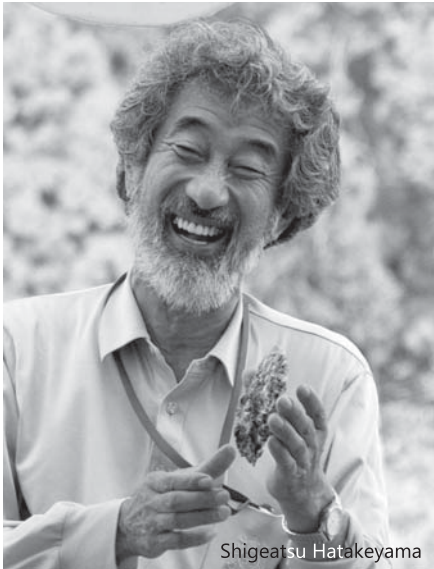
The nuclear accident has offered an opportunity to reflect on a lifestyle premised on mass production, mass consumption, and mass waste. The hardships we're going through now will hopefully be remembered 50 years later as the price that was paid for achieving a lifestyle—which we in Iitate call *madei*—that places a higher value on caring for others than on personal profits.

—Norio Kanno, Mayor, Iitate Village in Fukushima Prefecture, addressing Chinese, Japanese, and US scholars during a Tokyo Foundation-organized Tohoku tour in September 2011.



During the three months since the quake, over half a million people have gone to Tohoku as volunteers. Every weekend, young people who work in Tokyo get on a bus on Friday night and arrive in Ishinomaki the next morning. They clean up the mud all day, sleep in a tent, do the same thing the next day, get on the bus again, and are back at work Monday morning. There is a lot happening that people should feel proud about.

—Gerald Curtis, Tokyo Foundation Senior Fellow and Burgess Professor of Political Science, Columbia University, from “Beyond Reconstruction: Political Priorities in the Wake of 3/11.” <http://www.tokyofoundation.org/en/t/9jmxz>



Shigeatsu Hatakeyama

There used to be 52 houses in this cove, and 44 were washed away. The tsunami took everything away, but nobody here—myself included—bears any grudges. Virtually no one has any bitter feelings against the sea or the tsunami. That's because the sea has been such a generous provider until now.

—*Shigeatsu Hatakeyama*, oyster cultivator in Kesennuma, Iwate Prefecture, and founder of Mori wa Umi no Koibito nonprofit organization working to plant forests to maintain a nutrient-rich sea.

The tsunami pushed the reset button in many agricultural communities. It swept away not only homes and farms but also many obsolete structures and practices that have stood in the way of change. Now is the time for residents to mull over ideas that they would previously have dismissed as impossible or to revive an abandoned dream.

—*Shinichi Shogenji*, Tokyo Foundation Senior Fellow and Professor at the Graduate School of Bioagricultural Sciences, Nagoya University, from "A Community-Based Model of Rural Recovery." <http://www.tokyofoundation.org/en/t/g1yri>

People whose houses survived the tsunami took in neighbors who lost their homes. We pooled our stocks of rice and distributed *onigiri* rice balls to everyone. The three fish stores in town all donated their stock, saying that with power lines down, the fish in their freezers would go bad anyway. So none of us went hungry.

—*Masae Maekawa*, former midwife in the Kirikiri district of Otsuchi, comments on the strong ties in her community that enabled everyone in her neighborhood to look after one another. <http://kikigaki101.tokyofoundation.org/?p=1294>



Masae Maekawa

There are many things that the world can still learn from Japan, like how to keep social order. Japan has not had rapid growth for 20 years, but they've had a very orderly society. There was no looting or stealing at the time of the quake, and people in Tokyo happily did without air-conditioning in the middle of summer. For a country with slow growth to do so well in maintaining order is really a remarkable achievement.

—*Ezra F. Vogel*, Professor Emeritus, Harvard University, speaking at a Japan-China-US symposium in Beijing on September 6, 2011, organized by the Tokyo Foundation. <http://www.tokyofoundation.org/en/t/ayqzw>



Ezra Vogel, right, with Tokyo Foundation Senior Fellow Shinichi Kitaoka in Rikuzentakata

I think we need to give people with minority opinions—including women and younger people—a bigger voice in how to rebuild. I'm perfectly happy just being a link in the chain.

—*Hiroki Haga*, deputy leader of the evacuation center in the Kirikiri district of Otsuchi. He recounts that he guided people up the stairs to higher ground, rescuing three people, but there were many more he could not reach. His wife was carried about 400 meters by the waves in her car, but it struck a house, and she was miraculously able to crawl out. <http://kikigaki101.tokyofoundation.org/?p=1624>

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