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Japan Perspectives APRIL 2012

Japan Perspectives is a compilation of articles from the Tokyo Foundation website, some of which were written specifically for overseas readers. The April 2012 issue explores recent political developments in Japan—a topic that is often opaque to foreigners—and also 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.

Other topics covered include economic and fiscal trends, Japan's perspectives on international and security affairs, an elucidation of traditional culture, and challenges confronting society. The articles here and others on the website outline priorities for the nation, deliver timely policy proposals, and identify potential pitfalls.

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JAPAN PERSPECTIVES

Recent Articles from the Tokyo Foundation Website

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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."

The 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.

Shin'ichi Kitaoka Senior Fellow, Tokyo Foundation; Professor, National Graduate Institute for Policy Studies.

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.

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 Minseito (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. Athough Japan's top naval commanders had actually resigned themselves to the treaty, the opposition Seiyukai (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 Seiyukai 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 multiseat-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.*

March 8, 2012

Democracy on Trial: The Challenge of Fiscal Reform

Katsuyuki Yakushiji

With his plan to raise the consumption tax to cover Japan's soaring social-security costs, Prime Minister Noda is facing up to a responsibility that that nation's leaders have shirked since the 1990s. Still, his reform plan faces formidable political obstacles. Katsuyuki Yakushiji sees the coming year as a crucial test, not only of Noda's leadership but of the capacity of democratic government to function in the post-growth era.

Just over two years since the Democratic Party of Japan broke the Liberal Democratic Party's hold on power, Prime Minister Yoshihiko Noda has taken on a huge political challenge, one that the LDP was ultimately unwilling to tackle: integrated reform of the social-security and tax systems.

The meat of Noda's proposal is a fairly simple plan to raise the consumption tax rate from the current level of 5% to 10% by 2015 and apply all revenues from the hike to Japan's skyrocketing social security costs.

Lest anyone question the need for such a reform, a few simple statistics should suffice to put those doubts to rest.

First, under the government's draft budget for fiscal 2012, expenditures are set to reach 92 trillion yen. Incredibly, the government is relying on bond issues to cover 44 trillion of that, well in excess of the 41 trillion funded by tax revenue.

The expedient of floating more and more government bonds to foot the bill for rising government expenditures instead of cutting spending has been going on in Japan since the 1990s, with the result that Japan's total public debt (local government included) has soared to approximately 1 quadrillion yen, or twice the nation's gross domestic product.

The last time Japan shouldered such a debt-to-GDP ratio was in the mid-1940s, shortly before Japan's surrender in World War II, when the domestic economy collapsed as a consequence of the government's reckless adventurism.

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Not only does Japan have the largest public debt burden of any country in the world but its debt-to-GDP ratio dwarfs Italy's 120 percent—and Italy has been hovering on the brink of default for months. Japan is sitting on a fiscal tinderbox that could explode at any moment.

Next, let's take a look at the social-security side of the equation. The current average life expectancy in Japan is 83 years (80 for men and 86 for women), the highest in the world. In addition, Japan's population is aging faster than any other country's, with the 65-and-over segment projected rise to 39% by 2050 (up from 24 percent in 2010).

This means that in another few decades, two out of every five Japanese citizens will be eligible for old-age pension benefits. As a consequence of this demographic shift, the social-security budget is automatically increasing by 1 trillion yen every year, placing an unsustainable burden on the government's finances.

Under Japan's current social-security system, pension and healthcare benefits for the elderly are financed primarily by the tax payments and contributions of the currently employed population. This system works fine as long as the population keeps growing at a healthy clip.

Back in 1965, when Japan's population structure was still a pyramid, there were nine productively employed people for every elderly person drawing a pension. But things have changed dramatically since then. That ratio will fall to three workers per pensioner in 2012 and 1.2 in 2050, assuming that the current system continues unchanged.

Taxes and social security contributions will swallow up a huge portion of younger workers' earnings, leaving a pittance to cover their own living expenses. Small wonder the government has finally decided to take action and raise the consumption tax.

The DPJ government's proposal for integrated reform of the social-security and tax systems is a rational plan, essential if Japan is to maintain social services for the elderly and prevent a fiscal collapse. Moreover, since the LDP—the DPJ's main rival—has called for a similar increase in the consumption tax as part of its own platform, it has no grounds for opposing Noda's plan from a policy standpoint.

Yet both the LDP and New Komeito have remained recalcitrant. The opposition has maintained that if the DPJ wants to raise the consumption tax in violation of its 2009 election manifesto, it should first call a general election and put the matter to the voters.

In addition, Noda is facing resistance from younger politicians in his own

party, who worry that a tax increase will cost them their Diet seats. Rational, essential reforms are being sacrificed to partisan politics and the short-term imperatives of the election cycle—a situation by no means unique to Japan.

Another major obstacle to reform is the fact that the opposition parties currently control the House of Councillors, and under the Constitution, most bills must win the approval of both houses of the Diet (or else a two-thirds majority in a second vote in the lower house) to become law. Noda has said that he wants the Diet to enact reform legislation during the current ordinary session, but as things stand, his bills have little chance of passing the upper house, even if they make it through the lower house.

The Japanese government's inability to extricate itself from this fiscal quandary reflects a fundamental weakness of representative democracy when faced with the necessity of adding to the national burden.

As long as the economy continued to grow at a healthy pace, corporate and income tax revenues automatically increased each year, enabling each successive administration to adopt generous policies and programs without cutting spending elsewhere or seeking new sources of revenue. Such was Japan's situation from the 1960s all the way through the 1980s.

Moreover, since the population was growing as well, the government operated on the assumption that the contributions of currently employed workers would be sufficient to support the social-security system for the foreseeable future.

All of that changed in the 1990s. During the prolonged recession that followed the collapse of the 1980s bubble economy, tax revenues shrank. Meanwhile, the population was aging rapidly, resulting in a dramatic increase in government outlays for pension and healthcare benefits.

Instead of addressing the growing crisis through much-needed reforms, the LDP tried to ride out the storm with government bond issues, fearing that a serious push for higher taxes and spending cutbacks would trigger a fatal voter backlash. As a result, government debt ballooned, and Japan's fiscal health continued to decline.

In 2009, the public finally despaired of the LDP's leadership and handed the reins of government to the DPJ.

Unfortunately, the DPJ's lack of experience at the helm resulted in one misstep after another. Prime Minister Yukio Hatoyama resigned after less than a year, and his successor Naoto Kan fared little better. Now at last Yoshihiko Noda, Japan's third DPJ prime minister, is tackling the challenge of social security and tax reform.

Should Noda fail, Japan can probably look forward to another change in leadership before the year is out. The current government may be forced to dissolve the House of Representatives and call a general election, which could return the LDP to power. Japanese politics in 2012 is fraught with uncertainty, just when the nation is most in need of stable leadership.

But to blame this instability on some peculiarly Japanese political failure is unfair. The European debt crisis is testimony to the challenges facing developed countries worldwide as they attempt to address the problems of a post-growth era using political systems that have evolved and thrived in the context of social and economic growth.

Representative democracy has functioned primarily to effect the redistribution of wealth under such growth conditions. The dysfunction we are seeing in all likelihood presages the end of that system.

Demographic aging and economic stagnation have hit harder and faster in Japan than elsewhere, but these are structural problems all developed countries will have to face sooner or later. Under the circumstances, Japan's political instability should sound a warning for the developed countries of the West.

Under representative democracy, parties and governments have gained public support through policies that deliver immediate benefits. How can we maintain a stable political system while asking more from the people and delivering less? Given this fundamental dilemma, the fate of Noda's reform initiative could have profound repercussions in the years ahead—not only for Japan's fiscal health but also for the future of democratic government.

February 22, 2012

Fiscal Forecasting for Responsible Government

Zentaro Kamei

As controversy mounts over the Noda administration's plan to raise taxes and limit spending, Zentaro Kamei is dismayed by the lack of substance and objectivity on both sides of the debate. Drawing from recent research, he makes the case for a new system of independent, unbiased forecasting to impose fiscal discipline and restore the public's trust in government.

With many countries facing elections or leadership change this year, the problem of fiscal debt is expected to emerge as a major political issue. In Japan, too, the specter of a European-style debt crisis looms, with public debt soaring to unprecedented levels—likely surpassing 1 quadrillion yen before year-end.

The political debate on this crucial matter, though, has been practically devoid of substance. Neither the ruling party nor the opposition has offered anything more than stopgap solutions and groundless emotional reactions. We have yet to hear constructive debate predicated on the medium- and long-term fiscal outlook.

The debate over the consumption tax is a case in point. Without some sound, objective basis for determining the magnitude of the initial increase, and without reliable forecasts to indicate how that increase will affect government finances and what additional increases will be needed farther down the line, the entire discussion is no more than an exercise in partisan gamesmanship.

I believe that the methodology and quality of fiscal and macroeconomic forecasting is of profound importance for responsible policymaking, since it offers a quantitative basis for informed policy deliberations and decisions. In the following, I draw on the findings of a recent study of Japanese government forecasts carried out with Associate Professor Masumi Kawade of Nippon University and Tokyo Foundation Research Fellow Atsushi Nakamoto to reveal the flaws in our current system of forecasting.

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I also propose guidelines for reform, incorporating principles that have met with success in other countries. In the process, I hope to offer some food for thought about responsible political leadership in a democracy, including the courage not to pass on the costs of beneficial government programs to future generations.

The Sorry State of Fiscal Forecasting

Fiscal and macroeconomic forecasts provide policymakers with quantitative estimates of the impact of expected economic changes and policies. All programs should be based on sound estimates from the outset, assuming that the goal is to meet social needs and not merely to implement policy for its own sake. And in view the seriousness of the fiscal and social-security challenges facing Japan today, our leaders should be relying on quantitative forecasts at each stage of the reform process, from initial study and deliberation to drafting and passage of legislation.

At first glance, it might appear that the Japanese government makes active use of quantitative forecasting, since each agency publishes a variety forecasts pertaining to multiple policies. But in fact, that is part of the problem. For one thing, the parameters and other assumptions that determine the results are often inconsistent with other analyses for reasons that are never adequately explained.

But the most fundamental problem is that the sections drafting the policies in each government agency are the same ones responsible for the analyses that back them up. And because most of the data needed to generate the forecasts is held by the policymaking ministry, it is extremely difficult for outside parties to verify them independently.

A typical example of the government's use of forecasts was seen in the estimates issued in connection with Japan's possible participation in the Trans-Pacific Partnership. Researchers at the Cabinet Office ran a simulation using their own macroeconomic model; the Ministry of Agriculture, Forestry, and Fisheries produced its own estimate of the impact on domestic agriculture; and the Ministry of Economy, Trade, and Industry produced an estimate of the impact on key industries. Needless to say, each of these analyses came up with different results—a classic case of agencies manipulating statistics to suit their own purposes.

Bias, Inconsistency, and Opacity

For our recently issued policy proposal, members of the Tokyo Foundation pro-

ject on the Outlook for Japan's Economy and Public Finance conducted an analysis of forecasts issued by the government since 2000.

First, we conducted a posteriori assessments of the forecasts generated by the Cabinet Office (which plays a central coordinating function for the government as a whole) with its own macroeconomic model, comparing them with actual economic performance. We found that, for the most part, the predictions were neutral. When it came to the gross domestic product deflator, however, future predictions were skewed on the high side, even though the current data was generally consistent.

This bias most likely reflects wishful thinking on the part of a government anxious to conquer the deflation that has plagued the economy since the early 1990s. We also found issues with the transparency of the Cabinet Office's forecasts: Because public disclosure of the raw data is limited, the estimates are not subject to adequate independent verification.

Meanwhile, forecasts generated for specific policy purposes by the Ministry of Health, Labor, and Welfare, the Ministry of Finance, and other agencies tended to incorporate economic assumptions that were inconsistent with those used in other estimates. Furthermore, in the same series of forecasts, assumptions would change significantly from year to year for reasons that were unclear. For example, in its revisions of the 2004, provisional 2007, and 2009 actuarial valuations of the nation's pension system, the MHLW revised its projections for future wage growth and return on investment upward from the original reports, thus improving the outlook for the system's finances.

Needless to say, such practices undermine the people's trust in public policy. One might also note that, despite the government's stated intention of reforming taxes and social security as an integrated package, and despite the need for a constructive national debate on the subject, an integrated analysis of public finances and social security expenses is nowhere to be found.

Best Forecasting Practices

Elsewhere in the world, governments have made considerable progress in the use of unbiased forecasting to impose discipline on public finances and social security. This has been made possible by a conscientious adherence to four principles of forecasting: (1) *centralization* of responsibility; (2) *consistency* of assumptions, models, and parameters; (3) *transparency* via the fullest possible disclosure of data and detailed explanations; and (4) *independent generation or verification* by legislative bodies, private organizations, and so forth.

South Korea's National Assembly Budget Office, a neutral, specialized organ established in 2003, follows the US example of giving the legislative branch a means of checking the power of the executive with unbiased data for use in budget deliberations. In Britain and Germany, where official forecasts are carried out within the administrative branch, the emphasis is on independent verification by private institutions.

In such ways, most countries have developed mechanisms that encourage independent experts, whether in the legislative branch or outside the government, to scrutinize and challenge the administration's estimates and help ensure their neutrality. In such an environment, policymaking is more likely to be based on objective predictions, even when they do not suit political purposes.

In relation to the four abovementioned principles, the first task for Japan today is to impose consistency on government forecasting methods, which now vary widely by ministry or agency. In this area, it would do well to follow the lead of Britain's Office for Budget Responsibility, charged with assessing the consistency of the estimates produced by the various ministries.

With regard to the centralization of responsibility, the Japanese government's National Policy Unit would be the natural choice to oversee forecasting models under the government's current organization, given its stated role of strategically coordinating government policy. However, the government should also consider removing this function from the Cabinet Office, where the NPU is currently located, and setting up a specialized unit.

At the same time, it needs to pursue greater transparency through active disclosure of data and other information to facilitate verification by organizations and individuals outside the government.

The biggest challenge for Japan is independent verification, and in this both the Diet and private organizations have a role to play. The Diet should have primary responsibility for verification, but it will take some time for it to build a system and obtain qualified personnel.

In the meantime, the most realistic option is for the Diet to contract with universities, think tanks, or other nongovernmental institutions that have the requisite economic and legal expertise. In addition to performing the work commissioned by the Diet, private institutions should remain vigilant about verifying and challenging all economic and financial figures released by the government.

Crisis in Democracy

One of the major failings of democratic government in recent years has been the

tendency for one cohort to reap the benefits of government policy while passing on the costs to the next. After all, the elections that determine the shape of the government are won or lost on the policies parties propose to deal with immediate problems. This means that, during economic downturns in particular, politicians are apt to adopt spending measures without regard to the burden on future generations, or to pass the fiscal responsibility on to the next administration.

Aware of this problem, countries around the world have been working conscientiously to build mechanisms controlling the methodology, execution, and use of fiscal forecasts so as to create a basis for responsible policymaking and legislation. They have realized that forecasting is not merely a tool to enforce fiscal discipline (although that is how it was seen at first) but, more fundamentally, a means of compensating for one of the major limitations of democratic government.

Forecasts based on sound economic models and data, generated or verified by neutral, independent organizations, have assumed an increasingly important role in policy making because they provide at least a partial counterbalance to the short-sighted focus our political system fosters.

Japan, too, must embrace the four principles of accurate and responsible forecasting if it is to overcome the current fiscal crisis and restore the people's faith in government.

Translated with permission from "Shoeki nerai no 'ranzo' kaisho o: Ichigennka, seigosei ga hissu, daisansha kensho de shiisei haise," Keizai Kyoshitsu column, Nihon Keizai Shimbun*, January 26, 2012.*

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 pos-

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sible only if growth in per capita gross domestic product reached an unrealistic 3.7% or if inflation soared 14%.[1] 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

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

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,[2] particularly given the

[2] 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, healthcare, 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.[3] 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-

[3] *Ibid*. 1

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.

March 23, 2012

Osaka as a Laboratory for Reform

Sota Kato

"Institutional reform" has become the standard panacea for Japan's chronic political and economic ills. But systemic overhauls are costly, and the outcomes are by no means assured. Devolution along the lines advocated by Toru Hashimoto's Osaka Restoration Association would allow local governments to experiment with various systems on a limited scale and give the nation a chance to evaluate their efficacy objectively before jumping on the latest reform bandwagon.

Osaka Ishin no Kai (Osaka Restoration Association), headed by Mayor Toru Hashimoto, has grabbed headlines recently by releasing the initial draft of a national political platform. The ORA's Senchu Hassaku—literally, "Eight-Point Shipboard Plan," named after the 1867 reform document drawn up by Sakamoto Ryoma on the eve of the Meiji Restoration—is to serve as the Osaka-based group's election manifesto when it makes its national debut in the next general election.

The draft contains a variety of proposals, ranging from common-sense fiscal and social security measures that Japan would do well to adopt immediately to ambitious institutional reforms that would require amending the Constitution (eliminating the House of Councillors, relaxing the requirements for constitutional revision, and so forth).

Judging from recent public opinion polls, Japanese voters have high hopes for the ORA as a force for reform at the national level. Ever since the collapse of the 1980s bubble economy, public opinion in Japan has favored strong leaders championing bold institutional reforms—as suggested by the enduring popularity of Jun'ichiro Koizumi, a "maverick" who spearheaded the privatization of Japan's postal system during his tenure as prime minister (2001–06). Now people are looking to Hashimoto and his party to shake up the status quo.

The public's seemingly endless appetite for institutional reform is rooted in

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part in the perception that the Japanese government always does "too little too late." The government has indeed been too slow to act in some respects. It has known for decades that demographic trends spelled trouble for Japan's social security system, yet it has delayed action time and again, just as it has dragged its feet on the liberalization of the agricultural market.

By international standards, however, Japan has shown itself remarkably eager to overhaul its systems in recent years. The past two decades have witnessed the 1994 reform of the electoral system, the consolidation of government ministries, the "big bang" deregulation of the nation's financial markets, and major legislative and regulatory changes that went to the core of Japan's economic and corporate systems.

Yet these accomplishments have done little to slake the public's appetite for institutional reform; politicians and analysts are continually coming up with new ideas for rebuilding Japan's political, administrative, and economic systems.

No Silver Bullet

To be sure, many of our institutions stand in genuine need of change. But ever since the collapse of the bubble economy, there has been a pronounced tendency to seize on institutional reform as the silver bullet that will vanquish all the economic and political ills that continue to plague the nation.

When a given reform plan falls short of expectations, people shift their focus to another, more radical cure-all. The grim truth of the matter is that the Japanese economy is unlikely ever to regain the momentum it enjoyed prior to 1990. But one can get more political traction by arguing that we just need to go further in reforming outdated institutions.

The problem with this approach is that institutional reform does not come cheap. Recent studies have shown that any major structural overhaul is apt to be a temporary drain on the economy, even if the new system is more efficient than the old.

And given the high costs of reconciling opposing interests and the extra burden reform places on administrators, there is naturally a limit to how many such overhauls the national government can accomplish within any given period of time.

The important thing is to identify which reforms offer the clearest benefits and focus our limited resources on implementing those one at a time, rather than raise the public's hopes with one silver bullet after another.

The first question to ask ourselves is whether the situation really demands a

full-scale institutional overhaul, rather than just procedural improvements. Take Japan's bicameral legislature. In recent years, with the House of Councillors under opposition control, the government has been hard pressed to advance its legislative agenda. Confronted with this situation, some (including the ORA) have argued that weakening or eliminating the House of Councillors will help restore Japanese politics to good health.

But the fact is that the Democratic Party of Japan controlled both houses when it came to power in 2009. And even then it was unable or unwilling to implement the tax, social security, and fiscal reforms the country so badly needs. Dismayed by the confusion and incompetence of the new government, voters in effect chose to deprive the DPJ of an upper house majority in the House of Councillors election just a year later.

Democratic nations in the West, though, have been dealing with divided legislatures for centuries. Rather than overhaul the system at the first sign of gridlock, they have developed a variety of procedural and operational solutions—such as the establishment of bipartisan policymaking organs—to prevent partisanship from bringing government to a halt.

Japan's civil service system has been the target of repeated reform efforts aimed at shifting the balance of power from bureaucrats to elected officials, and many insist that more drastic reforms are required. But the truth is that our politicians already have all the legal tools they need to assert control over the government. One begins to wonder whether they are simply shifting the blame for their own shortcomings.

Avoiding Unintended Consequences

To identify which reforms are truly necessary, policymakers need to carry out careful, objective analyses and assessments. The 1994 overhaul of the electoral system, passed in response to a series of political scandals, was predicated on the belief that multi-seat electoral districts were the root of all evil in Japan's political system.

The nation rushed to embrace this theory despite a lack of supporting evidence, and despite the fact that the tendency in the rest of the world was to move toward larger electoral districts. Surely a careful, dispassionate analysis would have laid the groundwork for a more balanced debate. Instead the government forged ahead and rebuilt the election system on simplistic assumptions. Now, as the unintended consequences are becoming apparent, some are calling for a return to multi-seat districts.

By the same token, streamlining the government to eliminate redundancy among the ministries may seem at first glance a laudable goal, but redundancy can in fact nurture healthy policymaking competition. Institutional reform is far more complex than it often appears.

A priori analysis is essential to predict the efficacy of institutional reforms, but it is scarcely sufficient. In the final analysis, experience is the best teacher. That said, the central government can hardly afford to develop new systems by a process of trial and error.

Herein lies one major advantage of a decentralized political system. If local governments had more genuine autonomy, they would be free to experiment with institutional reforms on a limited scale, providing the rest of the nation with a means of verifying the efficacy of various plans. The original mission of the Osaka Reformation Association was to integrate Osaka City and Osaka Prefecture into a single "metropolis" divided into semi-autonomous municipalities, following Tokyo's model. Beginning with that plan, let the ORA implement its institutional reforms at the local level and demonstrate their efficacy to the rest of the nation.

Translated with permission from "'Osaka-to' wa seido kaikaku no yoi jikken," Nikkei Veritas*, March 4, 2012.*

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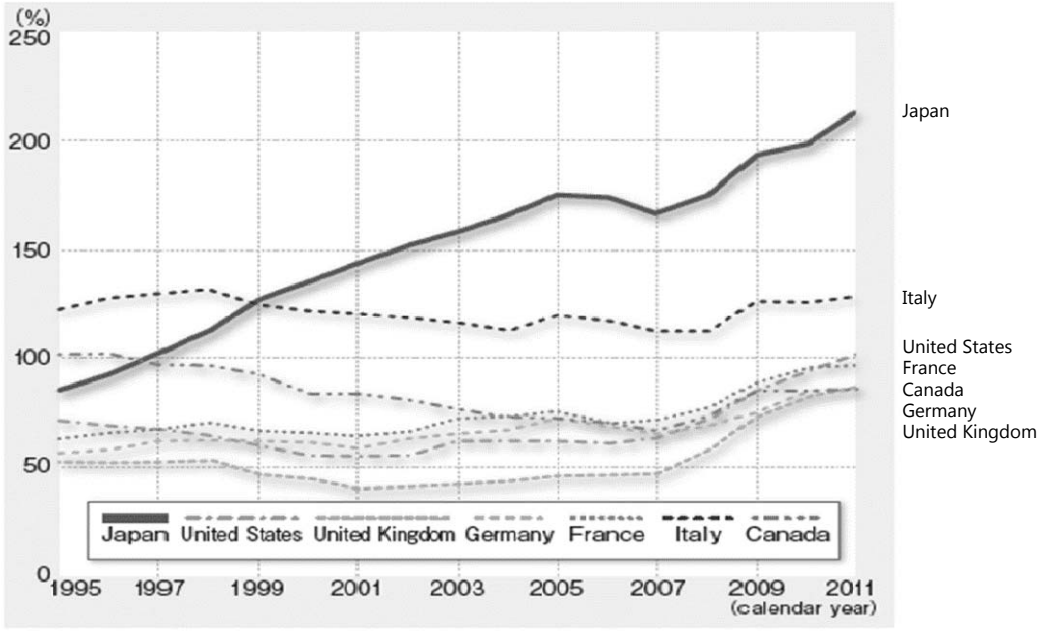
For Japan, which has a higher ratio of debt to gross domestic product than any other developed country, restoring this balance is critically important, not merely to put government finances on a sound footing but also to prevent future generations from being unfairly burdened by the cost of the benefits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

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.

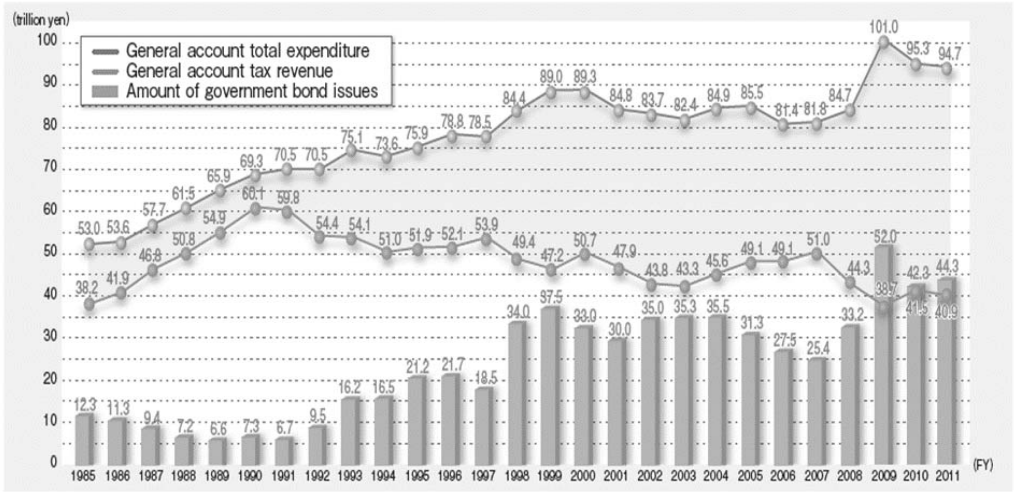
To design reforms for this purpose, we must first agree on the structural social and economic problems confronting us and then consider how the tax system can help mitigate them. In Japan's case, the two basic problems are widening economic disparities, leading to a surge in poverty, and a loss of economic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

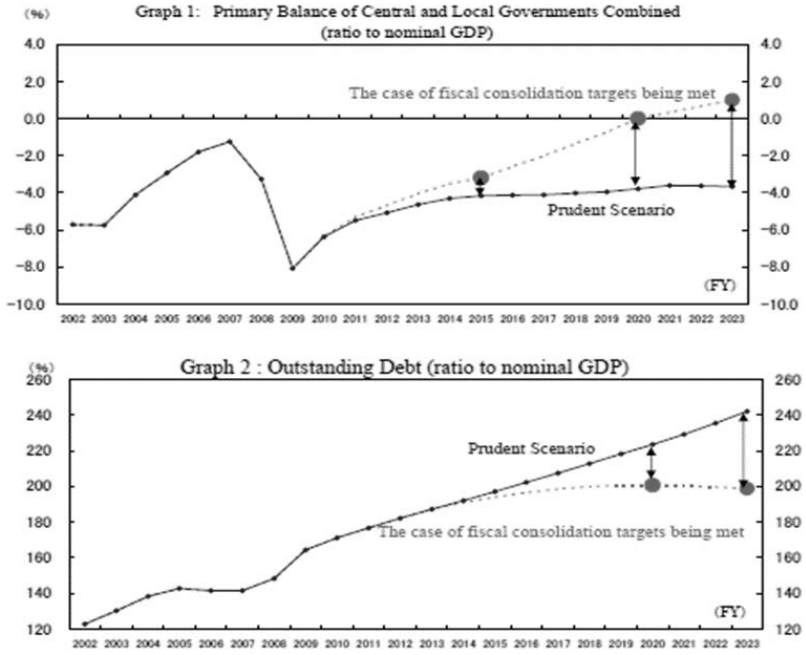
Figure 2. Trends in the General Account Tax Revenue, Total Expenditure, and Amount of Government Bond Issues



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

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-

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 complete 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.

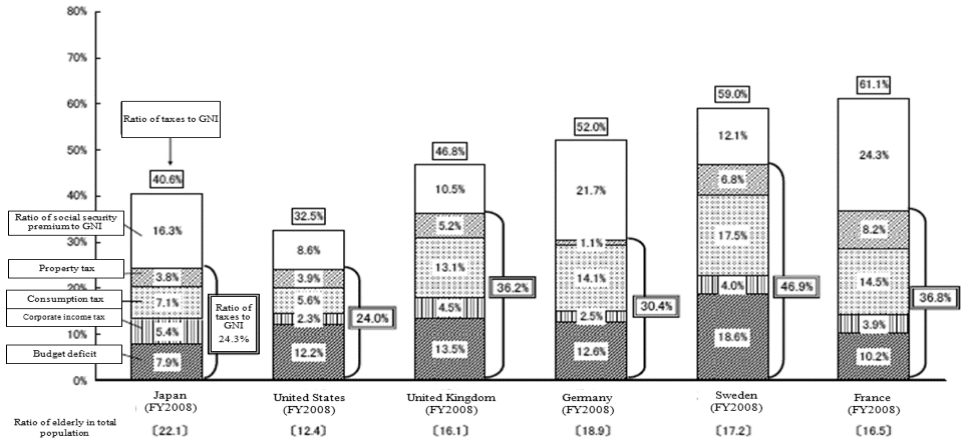
Meanwhile, global tax competition was intensifying, as governments jockeyed for jobs and economic growth by pushing corporate and income taxes lower in an effort to attract businesses and capital. In developed countries with relatively high tax rates, governments were forced to lower corporate taxes 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



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.

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 antiregressive 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 antiregressive 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.

February 24, 2012

Advances toward Public Interest Capitalism

David James Brunner

The idea of public interest capitalism has been gaining support both in Japan and abroad, with even top corporate leaders and business institutions pointing to the need to address an emerging "crisis in capitalism." A myopic focus on short-term profits has discouraged long-term investments and R&D spending, which, the author argues, could have adverse consequences on economic growth in the long run.

Since the Tokyo Foundation's project on Public Interest Capitalism called for a more balanced form of capitalism two years ago, the idea has been gaining support. In a nationally televised interview at the 2011 Tokyo Motor Show, Toyota CEO Akio Toyoda associated his company's growth with public interest capitalism.[1] The Japanese term for public interest capitalism, koeki-shihonshugi, has appeared in major online dictionaries such as the Asahi newspaper's Kotobank[2]. Outside of Japan, economic troubles in the United States and the European Union have fueled an increasingly vigorous discussion about the future of capitalism.

The problems we identified in the Public Interest Capitalism project have not been solved. The advanced nations suffer from anemic growth and rising inequality. Our societies are financially and environmentally unsustainable. Capitalism, in its present form, conflicts with the public interest. The dramatic events of 2011, from protests against austerity in Greece to skyrocketing interest rates in Portugal and Italy and the Occupy Wall Street protests in the United States, underscored the severity of the situation.

Fortunately for the cause of public interest capitalism, leading thinkers are beginning to advocate reform of capitalist institutions. Prominent academics have made the case for change in articles titled "How to Fix Capitalism" (Michael

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[1] During a TV Asahi news interview, broadcast December 1, 2011. www.tv-asahi.co.jp/dap/bangumi/hst/data/feature_asx/22616.asx

[2] http://kotobank.jp/word/公益資本主義

Porter and Mark Kramer),[3] "Is Modern Capitalism Sustainable?" (Kenneth Rogoff),[4] "Self-Interest, Without Morals, Leads to Capitalism's Self-Destruction" (Jeffrey Sachs),[5] and "The Ideological Crisis of Western Capitalism" (Joseph Stiglitz).[6]

Even the Financial Times has joined the movement, with an op-ed series entitled "Capitalism in Crisis."[7] As Lawrence Summers observes in the first article in the series, "It would have been almost unimaginable five years ago that the Financial Times would convene a series of articles on 'Capitalism in Crisis.' That it has done so is a reflection both of sour public opinion and distressing results on the ground in much of the industrial world."[8]

In this essay, I would like to discuss two recent articles of particular importance. The first is the above-mentioned article by Porter and Kramer, published about a year ago in the January-February 2011 issue of the Harvard Business Review. Porter and Kramer describe how serving customers, suppliers, and society as well as shareholders can drive innovation and economic growth. Another article, based on research at the Bank of England, shows how shareholder-oriented capitalism can cause destructively short-sighted decision-making—a central theme of our research.

Together, these articles provide compelling evidence that public interest capitalism may outperform shareholder-oriented capitalism not only with respect to sustainability and social welfare but also in terms of economic growth, corporate profits, and even shareholder returns.

"The capitalist system is under siege," write Porter and Kramer, "and business increasingly has been viewed as a major cause of social, environmental, and economic problems. Companies are widely perceived to be prospering at the ex-

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[3] Michael Porter and Mark Kramer, "Creating Shared Value," *Harvard Business Review*. January-February 2011, pp. 62–77.

[4] Kenneth Rogoff, "Is Modern Capitalism Sustainable?" *Project Syndicate*, December 2, 2011. www.project-syndicate.org/commentary/rogoff87/English

[5] Jeffrey Sachs, "Self-Interest, Without Morals, Leads to Capitalism's Self-Destruction," January 18, 2012. blogs.ft.com/the-a-list/2012/01/18/self-interest-without-morals-leads-to-capitalisms-self-destruction/

[6] Joseph Stiglitz, "The Ideological Crisis of Western Capitalism," *Project Syndicate*, July 6, 2011. www.project-syndicate.org/commentary/stiglitz140/English

[7] *Financial Times*, "Capitalism in Crisis," accessed February 15, 2012. www.ft.com/intl/indepth/capitalism-in-crisis

[8] Lawrence Summers, "Current Woes Call for Smart Reinvention not Destruction," *Financial Times*, January 8, 2012. www.ft.com/intl/cms/s/2/f6e8a7c4-3857-11e1-9f07-00144feabdco.html#axzz1mVDgYmaI

pense of the broader community."[9] Rather than refuting these charges, Porter and Kramer place the blame squarely on "companies themselves" for pursuing "an outdated approach to value creation."

Companies are "optimizing short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine their longer-term success." The authors even attack the dominant paradigm of profit maximization: "The purpose of the corporation must be redefined as creating shared value, not just profit per se." It is surprising to find Michael Porter, one of the world's most influential business academics, leveling such stinging criticism at US managers.

That the article appeared in and was featured on the cover of the Harvard Business Review—arguably the country's leading publication for senior managers—makes it all the more remarkable.

Calling attention to the problem of greedy, short-termist management is a contribution in itself, but Porter and Kramer go a step further: They articulate a mechanism by which "creating shared value" may lead to growth and innovation. To create shared value, managers must focus on satisfying the needs of customers, employees, suppliers, local communities, and society as a whole. To meet these needs profitably, companies must develop new technologies and business models. Porter and Kramer cite numerous examples of how social needs present opportunities for innovation that gives rise to profitable new businesses.

In the Public Interest Capitalism project, we emphasized the importance of economic institutions—the laws, habits, customs, and values that influence decision-making by economic actors. When institutions encourage productive activity, such as Porter and Kramer's creation of shared value, societies prosper. When institutions encourage destructive activity, exemplified by the short-term profiteering and asset-stripping often associated with hostile takeovers, societies decline.

If, as Porter and Kramer propose, we define the purpose of the business corporation to be "creating shared value," and if we develop legal and managerial institutions consistent with this purpose, we may substantially advance the cause of public interest capitalism.

Creating shared value involves identifying and understanding societal needs, researching new technologies, developing new or improved products, and fine-tuning production processes. These activities require time and sustained effort.

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[9] Michael Porter and Mark Kramer, "Creating Shared Value," *Harvard Business Review*. January-February 2011, pp. 62–77.

By contrast, appropriating value is quick and relatively easy: cut wages and benefits, downsize, put pressure on suppliers, implement clever tax-avoidance strategies, etc. Of course, these measures have long-term costs, from angry and distrustful employees to weakened supply chains and deteriorating social infrastructure. The more managers focus on short-term profit, the more innovation and growth decline, while long-term costs rise.

Though the evils of short-termism are widely recognized, the extent and impact of short-termism have been difficult to quantify. Recent research by Haldane and Davies at the Bank of England makes an important contribution toward filling this gap.[10]

Haldane and Davies use stock price data and statistical techniques to estimate how shareholders value future profits. They find evidence of short-termism in both the United States and Britain. That is, investors value profits in the distant future disproportionately less than profits in the near future, even after accounting for the time value of money. The authors also find that short-termism increased significantly over the two decades from 1985 to 2004.

The levels of short-termism measured by Haldane and Davies are large enough to substantially distort investment decisions. If companies seek to maximize profits for their myopic shareholders, the companies will underinvest and sacrifice long-term profits. Truly long-term projects, such as railway lines or major research initiatives, may be abandoned altogether.

Public policy measures will probably be required to prevent short-termism from undermining economic growth. Haldane and Davies discuss several proposals, including two that we recommended in the Public Interest Capitalism project: tax systems that favor long-term shareholders, and corporate governance mechanisms that give greater influence to long-term shareholders. That such proposals are being seriously discussed at the Bank of England is a welcome development indeed.

Every day, managers face myriad choices between investing in innovative projects with potential to create new value for stakeholders or leveraging the company's resources to redistribute value from one set of stakeholders to another. The institutions of shareholder-oriented capitalism—from accounting principles and corporate governance regulations to incentive systems and managerial ideologies—encourage managers to choose redistribution over investment, quick

[10] Andrew Haldane and Richard Davies, "The Short Long," speech at the 29th Société Universitaire Européene de Recherches Financières Colloquium: New Paradigms in Money and Finance? Brussels, May 2011.

payouts over sustainable profits. Without institutional change, companies will continue to drag their host economies into stagnation, decline, crisis and social disintegration.

There already exists an ample supply of "big ideas" to guide reform, including but by no means limited to public interest capitalism and creating shared value. Now we must invest our effort in the painstaking, time-consuming, and inherently uncertain work of institutional innovation.

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.[1] 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.[2]

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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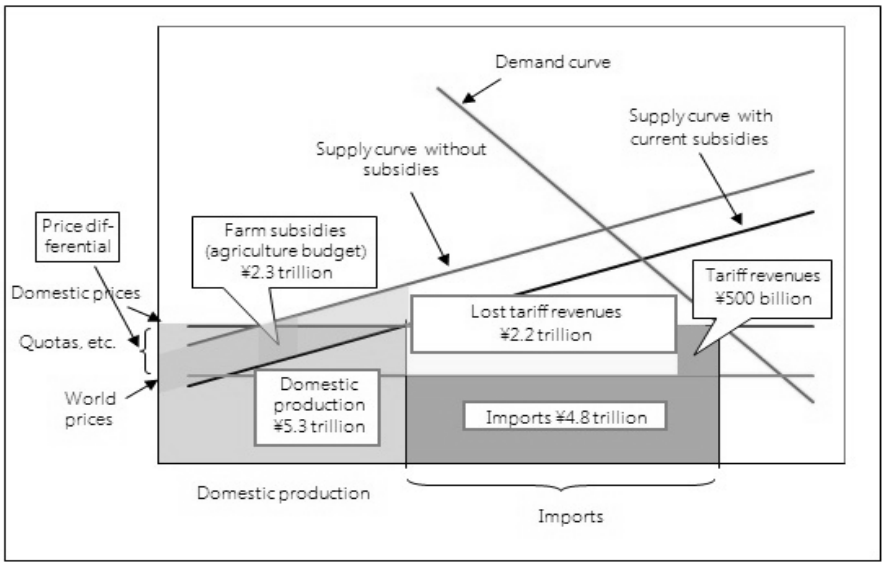
[1] In this article the term "agriculture" excludes forestry and fisheries, unless otherwise noted.

[2] 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.

world average.[3] 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; 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; 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-

[3] OECD, Producer and Consumer Support Estimates 2010, 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 trillion yen × 0.56 ÷ 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 trillion yen × 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*).

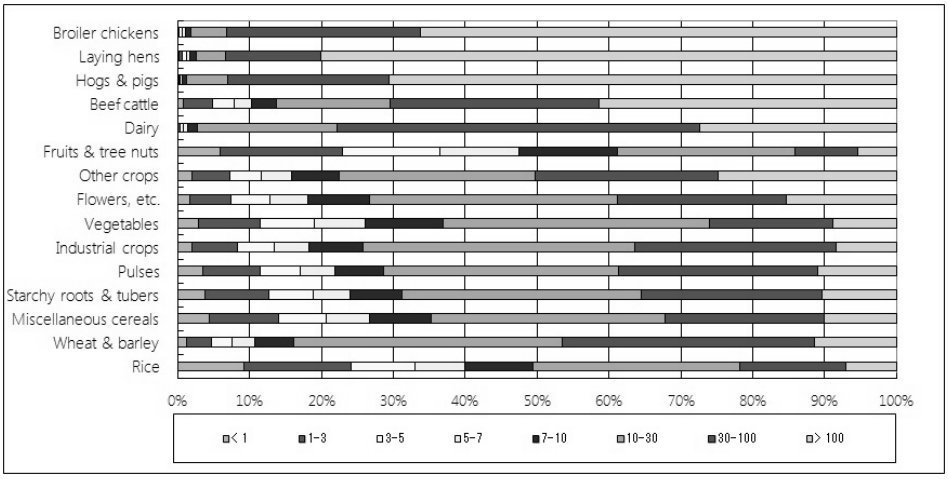
To be sure, some subsectors of the Japanese farm industry are protected precisely because they are structurally incapable of raising productivity to international levels. But in other cases the cause-and-effect relationship is certainly the opposite—protective policies are discouraging the reforms needed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

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.

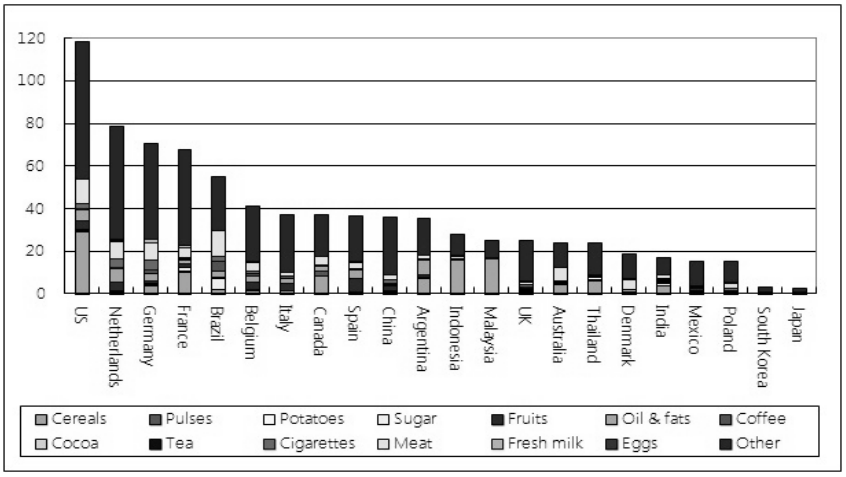
According to statistics compiled by the Food and Agriculture Organization (whose definitions differ from those used by MAFF), Japan has 2.6 hectares of agricultural land for each person economically active in agriculture. In this area Japan cannot compare with the United States (63.8 hectares), Australia (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.

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

($ billion)

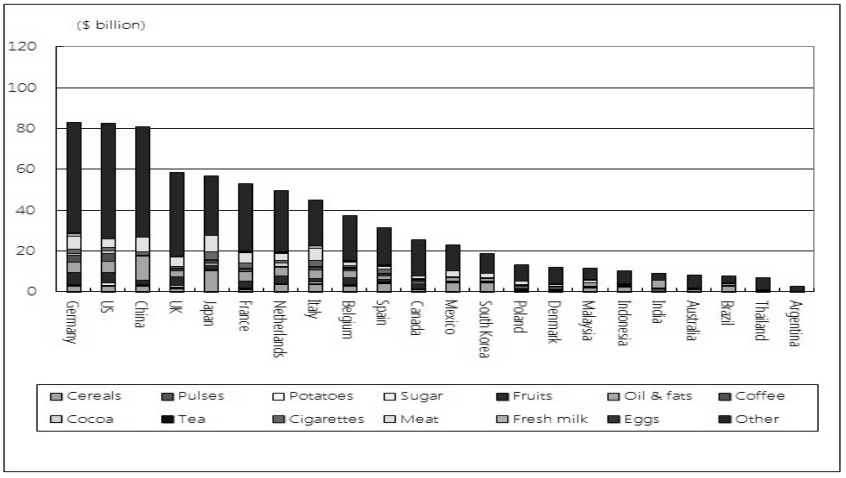


Source: FAO Statistics Division, 2010.

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)



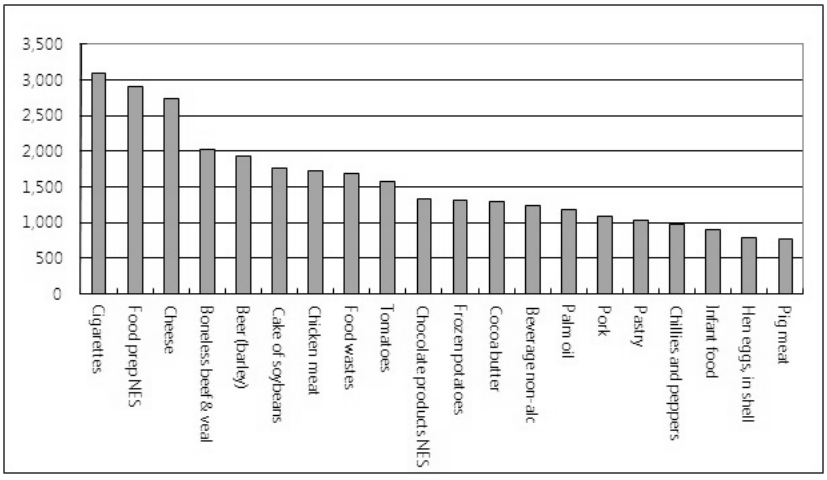
Source: FAO Statistics Division, 2010

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

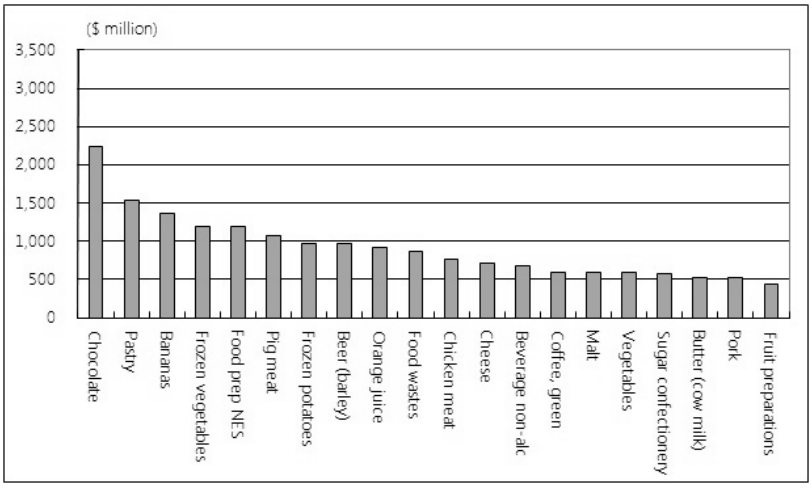
($ million)



Source: Source: FAO Statistics Division, 2010

Figure 6. Belgium's Top Agricultural Exports, 2009

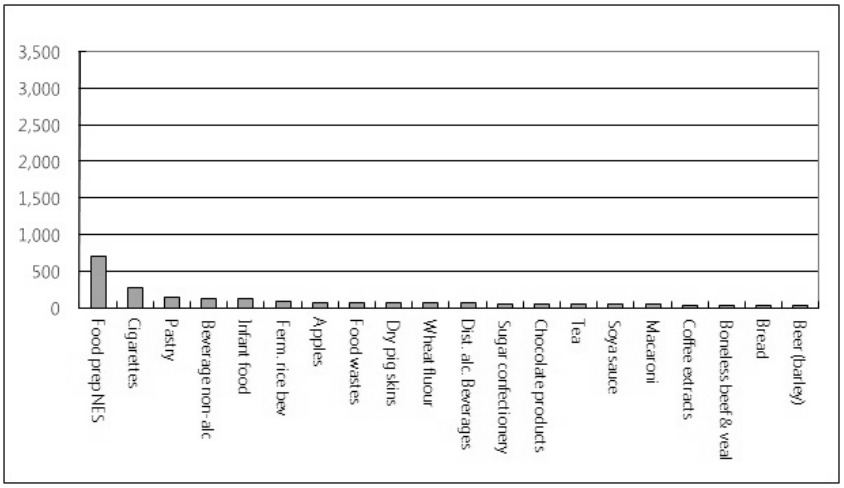
($ million)



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

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

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.[1] 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

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

[1] 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.[2] Six already have free trade agreements with Japan, but three do not: the United States, Australia, and New Zealand.[3] 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

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

[3] 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.[4] 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.[5] 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

[4] 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."

[5] 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.[6]

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.

[6] 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-

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 Myeongdong 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 protestors 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

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

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.

March 2, 2012

Dilemmas Posed by the US–North Korean Nuclear Deal

Paul J. Saunders

North Korea's unexpected willingness to commit to a moratorium on uranium enrichment, nuclear testing, and long-range missile launches—and to allow International Atomic Energy Agency inspectors back inside the country's sensitive nuclear facilities—highlights the fundamental dilemmas that the United States and its allies must confront in dealing with Pyongyang's secretive and tyrannical regime.

Recognizing these realities, and the difficult choices they force, it is unlikely that the deal will become as "historic" as some media reports have already claimed it to be. The Barack Obama administration would do well to be cautious.

Many governments have welcomed the US–North Korean agreement, which was apparently negotiated during recent talks in China. Most important, China, Russia, Japan, and South Korea—the other parties in the so-called Six-Party Talks—have each announced their support, though Tokyo and Seoul are clearly eager to see Pyongyang take concrete steps rather than simply promising action. Their skepticism is clearly justified, as real and sustainable progress will require grappling with three major dilemmas.

The first dilemma is whether or not to support the survival of North Korea's bizarre and repressive government, which is arguably the world's only remaining truly totalitarian system. On one hand, North Korea's people deserve much better and its leaders deserve nothing. On the other hand, however, North Korea's people—and others in the region—could suffer considerably if Pyongyang's rule collapses abruptly.

The Obama administration has elected to provide food aid while seeking some level of monitoring over its distribution. Many in the United States who are justifiably troubled by North Korea's regime and its conduct have already been critical of this choice.

Moreover, since the US–North Korean agreement is widely viewed as the be-

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ginning of a negotiating process rather than the end, the administration will face the same choice over and over again—particularly if past talks with Pyongyang are any guide. How far down this road is President Obama prepared to go?

The second dilemma is whether or not to trust North Korea's leaders. The answer to this question is relatively easy today; few in Washington, Tokyo, or Seoul have confidence in Pyongyang's reliability in view of its conduct during and after previous talks. The problem is that if there is any further progress with North Korea, each successive step will require greater levels of trust.

This raises questions not only about the reliability of the assurances that North Korean representatives offer, but also about the ability of the 28-year-old Kim Jong-un—or whoever else might be running the country individually or collectively—to deliver what negotiators say they will deliver. Few outsiders can offer informed judgments, or even informed speculation, about the inner workings of one of the planet's most inscrutable political systems.

At the same time, Mr. Kim and his backers are likely to have similar questions about Washington, asking both whether the Obama administration will be able to follow through with assistance commitments and whether the United States has abandoned perceived efforts to overthrow the North Korean government. The more the administration is critical of North Korea's leadership to reassure its domestic critics, the greater the suspicion in Pyongyang.

The final dilemma is how to fit negotiations with North Korea into wider American foreign policy objectives. Israeli officials have already pointed out how hard this will be by arguing that the understanding between Washington and Pyongyang cannot be a model for interaction with Iran.

Here, the challenge is that the United States wants to demonstrate that negotiations can successfully resolve complex nonproliferation challenges like the one in North Korea without establishing a precedent for Iran to retain a large-scale uranium enrichment capability or—much worse—without Iran actually testing a nuclear device first, as North Korea has done. This is not simply a matter of US–North Korean agreements signaling to Iran what Washington might be prepared to accept; China and Russia are participants in both processes through the Six-Party Talks on North Korea and the P-5+1 talks on Iran, which involve the five permanent members of the UN Security Council as well as Germany.

Overcoming even one of these dilemmas would be a major foreign policy accomplishment for any leading world power. Overcoming all three is a long shot, particularly for the Obama administration, which has few substantive international successes so far in view of deteriorating conditions in Afghanistan and

Iraq, Russia's uncertain direction, and questions about America's long-term role in Asia.

While North Korea's moratorium is certainly desirable if it sticks, the president and his top aides should resist the temptation to oversell a surprising but ultimately very tentative step.

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,

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

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

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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.[1]

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.[2]

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

[2] 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.

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^3 per year, but it is expected transport as much as 30 billion m^3 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.[3] 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.

[3] *Ibid*.

October 31, 2011

POLICY PROPOSAL

Japan's Security Strategy toward China

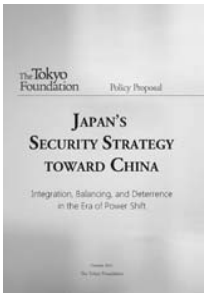
Integration, Balancing, and Deterrence in the Era of Power Shift

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 views 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 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

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

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.

The 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

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 Councillors 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

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.

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

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-

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

(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

specified 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-

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.

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).

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.

Thank 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.

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

Ishinomaki. 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 boasts. 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.

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.

***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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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.

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 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

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.

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.

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-

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 constrains, 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.

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,

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 himself. 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 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 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, 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 Akihisa 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, multiseat 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 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 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 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.

April 2, 2012

Haiku and Noh: Journeys to the Spirit World

Madoka Mayuzumi, Noboru Yasuda, and Satoshi Tsukitaku

Haiku poet Madoka Mayuzumi spent a year in Paris from April 2010 to March 2011 as a cultural envoy under a program sponsored by the Japanese Agency for Cultural Affairs. In February 2011 she took part in two symposiums in Paris, held at the Maison de la culture du Japon à Paris and Association Culturelle Franco-Japonaise de Tenri, titled "Noh and Haiku: Arts of Omission" with two noh performers: waki *actor Noboru Yasuda and flutist Satoshi Tsukitaku. Their comments at the symposiums are as follows*

MADOKA MAYUZUMI: Since spring 2010, I've been living in Paris, traveling around France and neighboring countries to promote cultural exchange and to introduce the world of haiku to people in Europe. In explaining the distinctive conventions used in haiku,[1] I've gained a renewed appreciation for the important role played by "form" [*kata*] and "omission"—the thoughts and feelings that are left unexpressed—in this very succinct poetic form.

This process of compaction is not unique to haiku; in fact, one can see it in many other aspects of Japan's traditional culture. I think that the classic stage art of noh, in particular, has many parallels with haiku. Today, we're fortunate to have two guest speakers who can eloquently describe this rather vague concept.

Mr. Yasuda belongs to a school of *waki* actors, who perform in supporting roles. When most people think of noh, they assume that actors all wear masks. But masks are worn only by *shite* actors, who play the lead characters. *Waki* are also very important, however, as Mr. Yasuda will now explain.

Madoka Mayuzumi *Haiku poet.*

Noboru Yasuda *Noh actor,* waki *role (Shimogakari Hosho School).*

Satoshi Tsukitaku *Noh flutist (Morita School).*

[1] The haiku follows a five-seven-five metric pattern and must contain a *kigo,* a word or phrase denoting a particular season. These two rules are the most fundamental aspects of the haiku form (*kata*).

Between Two Worlds

NOBORU YASUDA: Ms. Mayuzumi has just mentioned the two types of actors in noh: *shite* and *waki*. One meaning of the term *waki* is "supporting role," as was just explained, and people generally assume that's the only definition. But there's another, older meaning of the word: It is the seam along the side of the kimono that separates the front of the garment from the back. I'll come back to this point a little later.

In a typical noh play,[2] a *waki* actor comes on stage first, often in the role of an itinerant monk and frequently accompanied by other monks. Coming upon an unusual tree, flower, or rock, he recites a poem, which triggers a sudden and strange natural phenomenon, such as a downpour or a darkening of the sky.

The *shite* then appears, quite often a young woman or old man. As the characters speak, their conversation turns to the past—a story from a literary classic or a local legend. The *waki* begins to suspect that he is not speaking to an ordinary human being. He asks why the *shite* is so familiar with this particular episode and calls on the *shite* to identify him- or herself.

The *shite* hints that he or she is actually the protagonist of the tale and disappears. As evening falls, the *waki* spends the night there—or if he is a Buddhist priest recites sutras—and waits to be revisited by the *shite*, typically in the *waki*'s dream. The *shite* reappears, recounts his or her tale, and often performs a dance before disappearing again with the approach of dawn.

I'm sure that all of you have visited places of historical significance—a medieval castle, for example. Each locality has its own "story" that is part of the district's collective memory. But rarely will you meet a "ghost" who appears to recount the past. That's because ghosts inhabit a world different from ours.

The *waki* is someone who stands at the edge of the two worlds, similar to the seams along the sides of a kimono. The front of the kimono can be likened to the world of living humans and the back to the abode of spirits. The two worlds usually don't mingle, but since the *waki* has his feet in both, it's not unusual for him to meet visitors from the beyond. His role is to make the invisible world accessible for the audience.

MAYUZUMI: I recall Mr. Yasuda making a very interesting comment that the

[2] Most noh plays are categorized as *mugenno,* in which the leading character is not a living human being but an otherworldly figure who recounts a tale from the past. It is the *mugenno* form that gives noh its distinctive quality. Plays featuring living humans are called *genzaimono*.

key quality enabling *waki* characters to mingle with spirits is the passive nature of their psychic orientation. They don't go out to win nature over; in fact, nature reaches out to woo them.

This is quite similar to the experience of writing a haiku, as nature is an integral component of the poetic form. It's through trees, flowers, and stones that the poet communes with entities that are not visible. A haiku is a kind of greeting, a short note asking if all is well.

And just like the *waki*, haiku poets don't go hankering after their subjects; we wait for them to approach us—a state of mind that might be called "waiting proactively." Verses of five, seven, and five syllables per line are offered as a greeting, and we wait for a "reply" from the subject to complete our poems.

YASUDA: Encounters with trees, flowers, and stones aren't possible through prose. To communicate with the world of spirits, you have to use verse, which in Japanese has traditionally meant metered lines of five and seven syllables.

Prose is the language of us humans, inhabiting a world that may, quite literally, be described as prosaic. Poetry is what is spoken in the world of spirits. It's through language we don't normally use—through verse—that we're able to commune with those spirits.

MAYUZUMI: To compose their verses, Matsuo Basho[3] and other poets often traveled to famous or ancient sites that are collectively referred to as *uta-makura* or *hai-makura*, about which many verses have been written in the past. Often, poets allude not just to the spectacle before their eyes but also to the many earlier poems that have been written about it.

It's as if you're picking up a letter that someone has left there and adding one's own comments, perhaps to be read later by someone else. Through a blooming flower or the moon, trees, and other natural phenomena, you're paying your respects to the spirits there and the poets who wrote about them long ago.

Basho's *Narrow Road to the Deep North* is a good example. In embarking on a journey to the interior of Japan, Basho was retracing the steps taken in the late Heian period by poet-monks Saigyo and Noin[4] and paying his respects to the

[3] Basho (1644–1694) created a new poetic form called haiku by taking the first three lines of a much longer, collaborative genre called *haikai no renga* and turning it into a stand-alone work.

[4] Saigyo (1118–1190) and Noin (998–?) are poet-monks who were constantly on the road. Their lifestyle had great appeal for Basho, and he frequently refers to the two in his *Narrow Road*.

spirits they no doubt also encountered. For Basho, the medium of communication with such spirits was the haiku.

YASUDA: Basho also has strong ties to noh. Before I talk about that, though, I'd like to say that the *waki* does not act alone in beckoning the spirits. An equally important role is played by the musicians—collectively called *hayashi*[5]—and particularly by the flute. I wonder if Mr. Tsukitaku can speak about that.

Crossing Over

SATOSHI TSUKITAKU: I was fascinated by Mr. Yasuda's description of the passive nature of the *waki*'s interaction with the spirit world. *Hayashi*'s involvement, by contrast, may be described as actively creating a communication channel with this realm.

The *waki* is on the border between two worlds, and he's not necessarily keen on moving to the other side. So the role of *hayashi* is to provide the needed push.

Hayashi music is usually performed at the beginning of a noh play, or when a character enters the stage. As Mr. Yasuda explained, we don't normally meet ghosts in our daily lives. The flute, in particular, is the vehicle that can temporarily transport us to their world. Let me give you a short example. If you've ever seen a noh play, I'm sure you'll remember hearing this very powerful note. [*Performs a high-pitched note*]

That piercing shrill is called *hishigi*, which comes from the verb *hishigu* meaning "to crush" or "to tear." The role of *hayashi* is not to entertain, and so it's probably quite different from the music you normally enjoy listening. It seeks to break down the barrier separating the world of humans with that of ghosts, spirits of trees and flowers, and divinities and to make them appear before us.

MAYUZUMI: Perhaps it's better not to regard *hayashi* as music at all. It's more momentary and fleeting.

TSUKITAKU: It's not always fleeting, though. Rather, *hayashi* creates a perceptible change in the flow of time.

MAYUZUMI: I see. It creates a break with our everyday reality.

TSUKITAKU: That's right. Performing arts in Japan is said to have begun with the practice of calling on divinities to take possession of spiritual mediums. This can still be seen in Shinto rituals in Japan and in shamanistic rites around the

[5] *Hayashi* music is performed by three percussion instruments (*otsuzumi, kotsuzumi,* and *taiko*) and a flute, the flute being the only instrument that can perform a melody.

world. Divinities don't appear without a reason, and the beckoning of spiritual entities usually entails jarring, nonmusical sounds that entreat them to possess the mediums.

Noh and Basho

YASUDA: I'd like to come back to Basho's ties with noh. Let me show you an illustration. It depicts a traveling monk standing in a winter field. The man is Basho; it was drawn by one of his disciples, and the words—a poem composed by Basho—were written by the poet himself. You can see the poet's signature and seal. The haiku reads: *Tabibito to* / *waga na yobaren* / *hatsu shigure* (Let my name / be traveler / first rains). He was about to embark on a long journey, and

he surmises that people will remember him as a traveler.

MAYUZUMI: This comes from the opening section of a travel diary, known as *Oi no kobumi* [The Records of a Travel-Worn Satchel].

YASUDA: What's interesting about this drawing is that to the right of his verse are four lines of text, accompanied by a variety of symbols, which denote melody and rhythm—in other words, how the words should be sung as part of a noh play.[6] This text, again, includes the word "traveler" and is an excerpt from a noh play called *Umegae*.

In this play, the character portrayed by the *waki* encounters a sudden downpour on his travels and, finding a house, asks for a night's lodgings. The traveler then discovers that the mistress of the house is not an ordinary human being but a figure from the past. Basho's reference to this play suggests that when he set out on his journeys, he, too, was hoping to meet figures who were no longer alive.

[6] Major constituent elements of a noh play include dance, *hayashi,* and *utai,* the last making up the text, both those that are spoken and sung.

There's one more thing that the drawing implies. Composing a haiku—or any other kind of verse, in fact—is called *utau* in Japanese, which also means to sing or chant. In that sense, Basho's haiku were probably meant to be sung, not just read or recited. It might be interesting to see how it might have been performed. Let me give you a demonstration of how the excerpt from *Umegae* and Basho's haiku can be sung to a flute accompaniment. [*Performance of noh singing*]

MAYUZUMI: When Basho wrote *Oi no kobumi*, I'm sure his verses were sung in this way. In his *Narrow Road*, he writes that in Nasuno (now in Tochigi Prefecture), the sky suddenly turned dark, followed by a downpour, and he had to ask a local farmer to put him up for the night. He subsequently describes his visits to Sesshoseki and Yugyoyanagi[7] before composing his famous verse: *Ta ichimai* / *uete tachisaru* / *yanagi kana* (A paddy of rice / now planted, so moving on / the willow tree).[8]

This poem has been interpreted in various ways, but there is no questioning the fact that it was written in reference to Saigyo's own poem about the same willow, on which the noh play *Yugyoyanagi* is based. Basho is so thrilled to come upon the tree that Saigyo himself had written about that he no longer can tell whether what he's experiencing is real or just a dream. In a sense, Basho has become a *waki* and is awaiting the appearance of Saigyo's spirit, so the *Narrow Road* can be regarded as having been written in the style of a noh play.

Freedom through Form

MAYUZUMI: I'd like to move on to the concept of *kata*, or conventionalized form. Just the other day, a French haiku poet asked me whether I didn't find the formal conventions of haiku too restricting, as poetry is supposed to encourage free expression. My response was that it was precisely form that frees you. I'm sure that form plays an important role in noh as well. Can you elucidate on this point?

YASUDA: In one sense, *kata* is a restriction. But I think that in many traditional Japanese arts, form is seen as less of a hindrance than an aid to freedom.

There are many different *kata* in noh, but I'd like to speak about just two today. The first is the fixed nature of the stage. The main performing area is a

[7] Both *Sesshoseki* and *Yugyoyanagi* are also names of noh plays.

[8] Different interpretations have been posited for who actually "moved on": local farm girls, the poet himself, or the spirit of the willow tree.

square measuring less than six meters a side.[9] In the finale of the play *Hagoromo*, for instance, the angelic lead character returns to her home in the heavens with her *hagoromo* (feather mantle). If the stage weren't fixed, her flight into the sky would probably be expressed by pulling her off the floor with a rope. This, in fact, is what is done in the kabuki adaptation of the play. Because of the noh stage's physical limitations, though, her upward spiral is expressed by the *shite* circling the stage several times. This requires the audience to imagine her ascent.

The restrictions compel people to use their imagination; many arts in Japan, in fact, rely on the audience's imagination to bring a work to life. I'm sure the same is true for haiku.

MAYUZUMI: Absolutely. And form plays a big part in drawing out people's imagination. Because haiku are so short, it's impossible to express everything through words. Terms aren't "added" together in a haiku; they're "multiplied" to create a much bigger effect.

At the same time, the brevity creates "margins" or "blank spaces," giving readers room to imagine the sentiments behind each phrase. Basho describes this as *iiosete nanika aru* (say little, imply much). If you express everything, nothing will be left to say. It is by being selective that a process of distillation and purification takes place, transforming the haiku into a experience that can lift the spirits of both the poet and reader. This, I think, is the power of *kata*.

YASUDA: Limitations posed by the human body, too, can be turned into an advantage. This is the second of the two *kata* I want to mention. In the world of noh, I'm still considered a junior performer, although I'm already 55. My teacher is 80, and when he talked about retiring due to an illness, he was admonished for thinking about such things while he was still so young!

It is when you can no longer freely use your body to express something that you begin to exude an aura that comes from having devoted yourself to years of discipline and training. That's the reason that performances by actors who are really advanced in age can be very moving. Perhaps the instrument that best embodies this concept is the flute.

TSUKITAKU: Yes, I'd agree. The modern Western concert flute, as you know, is made of metal and has many keys. This was developed in the nineteenth century to overcome the restrictions of earlier models to enable the instrument to play a fuller range of notes. With the new innovations, flutists were free to play any note they wished.

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[9] Pillars stand at the four corners, which support a roof—a remnant of the days when noh was performed outdoors.

The noh flute, by contrast, is an instrument with many physical limitations that in themselves can be thought of as constituting a type of *kata*. It appears to be a single piece of wood, but actually there's a narrow piece of bamboo embedded into a wider one, and the bore is rather irregular. This prevents the instrument from producing regular intervals in pitch but gives it a highly distinctive tone. Ms. Mayuzumi was right when she surmised that *hayashi* isn't really music. The noh flute is made in a way that it can't produce the kind of melodies that people can readily sing. This is an intentional limitation.

YASUDA: I understand that playing the noh flute is quite difficult.

TSUKITAKU: If you can play the Western flute, you'll probably get a sound out of the noh flute without much effort. But the chances are, it won't be the sound required in a noh performance. Let me show you what a noh flute needs to sound like. [*Performance*]

Someone learning to play the noh flute would begin not by actually playing on the instrument but singing the names of those notes, such as *o-hya-ra*. This is designed to familiarize the student with the use of the body before he or she learns the use of the instrument. This song, called *shoga*, can also be described as a type of *kata*.

I play the noh flute exactly as I was told to by my teacher. That's all I'm capable of doing, but this "limitation," in fact, gives me the freedom to perform any type of noh play, in any language.

MAYUZUMI: I think that the importance of *kata* is much clearer now. Rather than hindering free expression, *kata* gives us the tools to enable us to express ourselves freely.

Many people, when they begin writing haiku, feel that there are too many restrictions. The haiku is so short, the lines must follow the five-seven-five metric pattern, and a seasonal *kigo* must be included. But it you keep working at it, after ten or twenty years, you suddenly realize how liberating such rules can be.

YASUDA: A span of ten to twenty years may seem long, but that's not necessarily the case in Japanese traditional arts.

Kokoro versus Omoi

MAYUZUMI: Rather than being an unnatural imposition, form can be one of the most natural of human desires.

YASUDA: For me, *kata* is the channel I use to go beyond surface appearances to arrive at the core, inner aspects of human nature.

Usually, a noh actor doesn't think about the feelings of the characters he

portrays. Rather, we faithfully perform the *kata* as we've been taught by our teachers.

This is related to the difference in meaning of two Japanese words: *kokoro* and *omoi*. The former refers to feeling or emotion, and is also the word for "heart." This is very fickle, changing from one moment to the next. The person we were in love with last year, for example, might no longer be the one we're fond of now.

MAYUZUMI: That's very straightforward. I think we're now very clear on what *kokoro* means.

YASUDA: The word for something deeper and unchanging, on the other hand, is *omoi*. The object of our amorous desires might change, but there's an urge in us that compels us to always be in love with someone! *Omoi* lies behind our fleeting emotions. In noh we don't deal with *kokoro*; we're concerned with *omoi*. If *kokoro* had been our chief interest, I don't think noh would have survived for 650 years. An art form dedicated to something that is always changing would surely have become outdated by now.

The actors expressing this *omoi* on stage, though, are living humans, so we're full of capricious *kokoro*. In a role requiring the expression of love, for instance, it's easy to fall into the trap of drawing on our shallow experiences.

There are moments in our lives, though, when we tap into something bigger, particularly after a traumatic or shocking event, such as when you lose all your possessions, your social status, or your lover.

Around 650 years ago, when the noh theater was founded, the playwrights and actors no doubt created the *kata* to express such *omoi*, enabling it to be preserved and handed down from generation to generation—as if in a deep freeze. It's the job of living noh actors to "thaw" or "extract" the *omoi* and bring it back to life with each performance. Once it manifests itself on stage, the *omoi* might then resonate with members of the audience, who, together with the actors onstage, awaken to something that ordinarily goes unnoticed.

So *kata* is not just outward form. It has its roots in emotions so deep that we don't even realize they're there.

MAYUZUMI: Since I teach haiku writing, I frequently come across instances of people attempting to compose their very first verse. The motive for such an attempt is not infrequently a death of a family member or a broken heart. It's at such moments—when something one has taken for granted is suddenly lost—that people are suddenly confronted with their deepest and most personal emotions. And to come to grips with such *omoi*, there seems to be an innate longing for form, for *kata* that they know won't betray them.

One might say that the changing and enduring aspects of our affective lives, as represented by *kokoro* and *omoi*, have a parallel existence. *Omoi* lies deeper, while *kokoro* is on the surface. Haiku, too, is a tool for connecting with our deepest nature, rather than a depiction of our fleeting whims.

Omoi often can't be put into words, so we use metaphors like scenes of nature. The real message is to be found not in the words but in the omissions, the blank margins in between. Nature is the medium we used to arrive at our *omoi*.

YASUDA: *Omoi* isn't a personal matter, so it doesn't take a subject—there's no first person. If I say, "I'm in love with Ms. Mayuzumi," for instance, the "I" is there. Someone else might say they dislike Ms. Mayuzumi. That would be a rude thing to say [*laughs*], but the "self" would still be there.

In noh, however, our love for our spouses, children, lovers, or even food is all transformed into *omoi*. While we're portraying a specific character, at the same time we're also expressing everyone's *omoi*, including those of people in the audience. And so the "I" naturally disappears.

MAYUZUMI: And of course, haiku have no first person either.

TSUKITAKU: The discussion about *omoi* is very interesting. My personal take on this is that it represents the moment when we transcend the self and reach a new level of consciousness. Physically speaking, it's the moment when our energy becomes focused here, in the lower abdominal area.

MAYUZUMI: Hmm, then maybe *kokoro* is something we feel in our chest. *Omoi* is a little lower, an area called *tanden* in Japanese, below the navel. That's the place where we focus our breaths when doing yoga or zazen. Is that also the case when you're playing the flute?

TSUKITAKU: Yes, exactly. This area becomes very active. And we practice moving the energy around when singing *shoga*, the names of the notes, as I mentioned earlier.

MAYUZUMI: In haiku, too, we're often taught not to compose poems with our heads. The inspiration has to come from deeper down, I suppose, from around our *tanden* area.

Sound of Silence

MAYUZUMI: There's an indescribable richness to the empty intervals, called *ma*, between the notes performed by a flute or the words spoken or sung by an actor. I was speaking recently with an *ikebana* [flower arrangement] artist who explained that her art, too, places great importance on *ma*—in her case, the empty spaces between the flowers. In fact, she claimed that she doesn't look at

the flowers at all; she's not arranging the flowers so much as using them to design the spaces in between. The aesthetic underpinnings of the spatial and temporal "margins" in *ikebana* and noh, respectively, seem to have much in common.

YASUDA: Let me take this notion of *ma* one step further. In noh, there are intervals that everyone perceives. You can hear the pauses between the notes. But there is another type of *ma* that isn't so obvious. I wonder if Mr. Tsukitaku would first explain the more easily perceived type of *ma*.

TSUKITAKU: I talked earlier about the flute's role in calling spirits onto the stage. The noh stage is fitted with a long corridor called the *hashigakari*;[10] this is a passageway linking the world of living humans—that is, the main performing area—with the spirit realm, on the other side of the curtain.

In a special rendition of the play *Kiyotsune*, the lead character enters the stage along the *hashigakari* to the accompaniment only of the flute, pausing every time the flute stops. There is a rather long silence—*ma* that everyone in the audience perceives—broken when the actor starts moving again and the flute resumes its refrain. This is repeated several times before the actor reaches the stage. No sound is produced during the pauses, but in many ways, the silences speak louder than the notes. They're very rich and condensed moments.

YASUDA: You're not actually looking at the actor as you play, are you?

TSUKITAKU: No, I'm not. The length of the *ma* is measured by the number of breaths. This enables the actor and the flutist to break the silence at more or less the same time, without having to look at each other. The *shite* and flutist are positioned far apart from one another, but we know what the other is doing because we share our *ma*. [*Performance*]

MAYUZUMI: How should such long pauses be interpreted? Or rather, how can they be fully appreciated by the audience?

TSUKITAKU: The ideal situation would be for members of the audience to breathe along with us.

MAYUZUMI: The audience, in effect, also becomes the *shite*.

YASUDA: Synchronizing our breaths means that everyone in the theater is inhaling and exhaling as one. When our breathing slows down, we tend to get drowsy, and you often find people in the audience nodding off . . .

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[10] The bridge-like corridor has railings on both sides and extends from the left rear side of the main stage at an angle to the *kagami-no-ma,* from when actors enter and exit, separated by a curtain. The *hashigakari* is not just a passageway but also an important part of the performing area.

TSUKITAKU: But that's not the same as going into a deep slumber. People become half-asleep.
MAYUZUMI: I suppose that in this state, the audience can also enter into that realm where the boundary between the physical and nonphysical worlds becomes blurred.

Simplicity as the Ultimate Goal

MAYUZUMI: We talked earlier about there being no "self" in an *omoi* and that this is also a feature of haiku. Writing a haiku is like depicting a scene without injecting our subjective feelings.
YASUDA: An interesting example of how the self is discarded in noh is the flutist's relationship with his instrument. The flute used by Mr. Tsukitaku is about 300 years old, but he claims it's relatively new.
TSUKITAKU: Other flutists use much older instruments, so the one I'm using now wouldn't be regarded as being very old.
YASUDA: It's been passed down from generation to generation. But just because it's been used so long doesn't mean that it's easy to play.
TSUKITAKU: This flute used to belong to my teacher, and the first time I played on it, I couldn't get it to sound right. Only gradually, over more than 10 years, have I been able to get it to play the way I want. But people have told me that I now sound more like my teacher. So perhaps the flute hasn't adjusted to me; I've adjusted to the flute.

For three centuries, then, there's been a generation after generation of flutists who've worked to keep the sound alive. For me, this was a very liberating thought. I no longer felt separate from the flute. I melted into it. In effect, the "I" disappeared.
YASUDA: When Mr. Tsukitaku first received this flute, it still carried the breath of his teacher, who had used it for years. But after a while, it adapted to Mr. Tsukitaku's breath, and at the same time, he conformed to the "breath" of the flute as well. This is a process that's been ongoing for three centuries, and the chances are it will continue for another 300 years. The flute adjusts to each new musician, and vice versa, so the sound continues to evolve. Performing on such a flute precludes any notion of self.
TSUKITAKU: Said another way, it's gone through so many "selves" that it's impossible to make it your own. [*laughs*]
MAYUZUMI: Mr. Yasuda also has an interesting interpretation of Basho's famous haiku: *Furuike ya* / *kawazu tobikomu* / *mizu no oto* (A still, quiet pond / a

frog leaps in / the sound of the water). It's a very novel interpretation that surprised me. He claims that Basho is not watching a frog jumping into a pond from its banks; rather, he *is* the pond. There is no "I" that is witnessing this event.

YASUDA: The poem has three basic components, namely, the pond, the frog jumping into it, and the sound of water. I think that anybody who writes haiku or poems of any kind would immediately identify the sound of water as being the crux of Basho's experience.

He might have composed this verse as he was walking, having heard something fall into a roadside pond. But after hearing a plop, the frog was nowhere to be seen. So as far as he was concerned, it could have been a rock or a carp, rather than a frog. The only way he could be certain that it was a frog is if he was the pond itself.

Zeami, who along with his father Kan'ami in the late fourteenth and early fifteenth century elevated noh into a highly refined dramatic art form, said something very similar. There is a much larger universe beyond the visible world. Even something as simple as extending my right hand is a very complex process involving the coordination of muscles and neurons. Since I'm Japanese, the raising of my right hand might have particular cultural implications. A very simple physical act isn't so simple when you consider all the factors that are associated with it.

Before the hand actually moves, moreover, there is a trigger that sets the process in motion. Zeami notes that three factors are involved behind each movement: the broad invisible world, the trigger, and the actual motion. The audience sees only the last of the three, but the actor needs to be aware of the other two as well. They must be attuned to the invisible world and recognize the subtle changes that launch the movement. From this viewpoint, Basho's haiku is not just about the sound of water but the events preceding it, namely, the motion of the frog, and the setting of the pond.

The unperceived elements can also be thought of as *ma*. Such an "interval" is neither spatial nor temporal but comprises the vast "emptiness" from which everything is born.

MAYUZUMI: Romanian-born sculptor Constantin Brâncuși was an admirer of Auguste Rodin and initially created very realistic works. But over time his sculptures grew simpler. He said that as one approaches the "truth" or "essence" of objects, one ultimately arrives at simplicity.

Haiku, as a poetic form, is simplicity itself. It's been pared to its essence, and the *kata*, the structure, couldn't be simpler. And by using this form over the years, it's possible to reach the core. The approach is perhaps the reverse of

Brâncuși, since you're already starting with simplicity, but the final result is the same.

In Japan, the *kata* comes first. The *kata* is the result of a long evolutionary process, of course, but once created, they can lead you, through years of practice, to the essence. I think this is a characteristic seen in many Japanese arts.

YASUDA: That's certainly true with noh. You have to work with *kata* for years with faith in your teacher and unwavering devotion to the art. Mastery is a long and arduous process that doesn't come until you perhaps reach the age of 80, 90, or even 100.

MAYUZUMI: Thank you for your fascinating comments. I'm afraid our time is up today. Thank you very much for attending this forum.

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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

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,

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.

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