



# Asia Pacific Bulletin

EastWestCenter.org/APB

Number 277 | August 19, 2014

## Economic and Security Reform in Japan: Harder Than It Looks

BY H.D.P. ENVALL

The major ally of the United States in the Asia Pacific, Japan, has undertaken repeated reforms since the end of the Cold War and especially since the collapse of its economic “bubble” in the early 1990s. These have spanned the country’s electoral, administrative, educational, and security sectors. Although some of these changes have been potentially transformational, many have been largely transitional. Cautious incrementalism has largely won out over bold renewal.

**H.D.P. (David) Envall**, Research Fellow at the Department of International Relations at Australian National University, writes that “Overextending national security reforms could undermine the government’s popularity and thus damage its capacity to undertake difficult economic changes.”

But what needs reforming in Japan? The country’s politicians could choose any number of problems to fix—from ameliorating the impacts of demographic change to developing new policies to deal with the country’s energy problems since the triple disaster of the March 2011 earthquake, tsunami, and nuclear meltdown. Under Prime Minister Shinzo Abe—since late 2012—the Japanese government’s drive for reform has become particularly pronounced. Two components have especially characterized this government’s efforts—economic and security reform. In these two areas alone, the latest round of reforms, if fully enacted, has the potential to be the most transformational to the character of Japan and its place in the Asia-Pacific region. Yet it is important not to underestimate the many impediments that remain in the way of Japan changing its economic model or international security role. Achieving reform may be harder than it looks.

Economic reform is required if Japan is to overcome its past two “lost decades” and remain competitive in a region increasingly dominated by the economic might of China. Accordingly, the Abe government has developed a comprehensive policy approach that has come to be known by the moniker “Abenomics.” The plan has been to address the Japanese economy’s weaknesses through three broad mechanisms, or “arrows” to use Abe-speak. The first arrow, led by that Bank of Japan, has been a much looser monetary policy that is designed to re-inflate the economy. The second has been a fiscal policy directed both at boosting Japan’s economic growth through stimulus spending but also at rebalancing the books through tax reform, notably by increasing the consumption tax from 5 percent to 8 percent this year, with a further increase to 10 percent anticipated for 2015.

The third and final arrow is structural reform. This policy is aimed at increasing the country’s global competitiveness and reducing the costs on the working population of increasing numbers of (mostly elderly) non-workers. To mix metaphors, this third structural arrow is viewed as the “long-term linchpin” of Abenomics. And on this front the government’s ambitions have been big. Proposed structural reforms have included increasing female participation in the workforce, instigating energy, environmental and health care reform, undertaking further tax and pension reform, as well as liberalizing uncompetitive sectors of the domestic economy such as agriculture and healthcare.

Yet it has become apparent, as 2014 has progressed, that actually implementing these structural changes is likely to prove immensely difficult. Indeed, the roadblocks are considerable. The lobbying groups that have traditionally influenced Abe’s Liberal

The East-West Center promotes better relations and understanding among the people and nations of the United States, Asia, and the Pacific through cooperative study, research, and dialogue. Established by the US Congress in 1960, the Center serves as a resource for information and analysis on critical issues of common concern, bringing people together to exchange views, build expertise, and develop policy options.

**“There is much to suggest that the government will need to scale back its ambitions and stick with transitional rather than transformational reform.”**

Democratic Party (LDP), such as the *nōrin zoku* or “agriculture and forestry tribe” within the party, are opposed to key elements in the structural reform agenda. These groups remain powerful even if they are in decline. They have, for instance, been influential in shaping Japan’s approach to negotiating the Trans Pacific Partnership (TPP) and the recent economic partnership agreement with Australia. In particular, they have been seeking to minimize concessions in any negotiations on the “sacred five” groups of products that Japan has traditionally sought to protect the most, namely rice, wheat, beef and pork, dairy products, and sugar.

Abe’s other major reform area has been national security. For some years, the Japanese government has been trying to reform its security policies and make Japan more of a “normal nation” (*futsū no kuni*). Much of what the government is trying to achieve, it must be said, would not be controversial elsewhere. But security reform in Japan raises any number of diplomatic, historical, strategic, territorial and, obviously, legal problems.

Indeed, Japan and Abe approach national security issues carrying considerable historical baggage. The country’s conduct in the Second World War still complicates its relations within the region, especially with China and the Koreans. Abe himself is seen as an historical revisionist and has caused controversy by questioning the accuracy of evidence relating to Japan’s treatment of “comfort women” from around the region during the war. Abe’s visit to the Yasukuni Shrine in December 2013 did considerable damage to the country’s image abroad and even raised tensions within the US-Japan alliance. Yasukuni controversially commemorates a number of convicted Class A war criminals amongst the war-dead it honors. In response, China and South Korea have played the “history” card as part of their long-standing policy of keeping diplomatic pressure on Japan. Yet by not recognizing that these prime ministerial visits to Yasukuni, along with historical digressions, are diplomatic “free kicks” for China and South Korea, Japan only hurts itself.

The central pillar in Abe’s defense reforms has been constitutional reform, particularly on the issue of collective self-defense. For much of the post-war period, the Japanese judiciary has left the role of interpreting the Constitution in national security matters to the government, which in turn has offered the interpretation that Japan could exercise the right to (minimum) self-defense but not collective self-defense. Now, however, Abe is changing the government’s stance so that Japan will be able to come to the defense of an ally. This appears to be a transformational moment, both for Japan and for the region.

Still, as with Abe’s economic reforms, implementation is proving less straightforward. Abe’s reinterpretation will be less sweeping than originally envisaged. Abe has been forced to drop his aim of revising the constitution and settle, instead, for “reinterpretation.” Even so, the changes are controversial amongst the Japanese public and have been watered down after negotiations with the New Komeito party, the LDP’s coalition partner. Japan will not, for instance, be engaging in UN operations as recommended by the expert panel advising Abe. Finally, a number of constraints will be imposed on the exercise of collective self-defense: Japan’s survival must clearly be at risk; there must be no alternative courses of action available; and only the minimum necessary force can be used.

Reform of these key issues in Japan, therefore, remains incomplete and contested. On economics, the risk is that any number of domestic interests could play spoiler and block moves to liberalize the economy. Overextending national security reforms could undermine the government’s popularity and thus damage its capacity to undertake difficult economic changes. On the diplomatic front, China is now even less likely to compromise over the Senkaku/Diaoyu islands dispute. Typically for Japan, there is much to suggest that the government will need to scale back its ambitions and stick with transitional rather than transformational reform. On security this may be sensible, but on economics it could well lead to the collapse of the whole Abenomics project. In either case, implementation is proving far harder than vision.

The *Asia Pacific Bulletin* (APB) series is produced by the East-West Center in Washington.

APB Series Editor: Dr. Satu Limaye  
APB Series Coordinator: Alex Forster

The views expressed in this publication are those of the author and do not necessarily reflect the policy or position of the East-West Center or any organization with which the author is affiliated.

Dr. H.D.P. (David) Envall is a Research Fellow at the Department of International Relations at Australian National University (ANU). He can be contacted at david.ennvall@anu.edu. This article is part of the *America’s Asian Allies: Managing Competitive and Cooperative Pressures* project being undertaken by ANU and the East-West Center, Washington, D.C. office, with support from the John D. and Catherine T. MacArthur Foundation.