

Japan Under Prime Minister Hatoyama and The New Government – A Brief Overview of Key Players, Policies and Implications –

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I STRUCTURE AND PLAYERS

Hatoyama Profile: Between hereditary politician and bureaucratic maverick

Yukio Hatoyama, 62, is a 4th generation politician. His grandfather was Japan's first prime minister from the Liberal Democratic Party (LDP) in 1954-1956. Hatoyama was educated at Tokyo University and Stanford University, where he obtained his PhD in Engineering. He entered politics at the age of 39 after having worked at the famous Tokyo Institute of Technology.

He has been nicknamed "The Alien" for his unorthodox manners and for being something of an outsider among traditional political circles. His soft-speaking manners make him very different from former maverick prime minister Junichiro Koizumi.



Yukio Hatoyama

The DPJ victory – Frustration with LDP overwhelming reason

The figures send a clear message: In the lower house election on August 30, the LDP plummeted from 300 to 119 seats, while the Democratic Party of Japan (DPJ) increased their seats from 115 to 308 out of a total of 480 seats.

This overwhelming victory, however, was less a vote of confidence in the DPJ than the result of over-boiling frustration with the LDP. Already 8 years ago the frustration of the people was strong. But running on the ticket of maverick Koizumi the LDP could hang on for two more election periods.

During this time, the DPJ, founded in 1996, finally turned into a major opposition party and became the strongest political force in the upper house elections in July 2007. Two weeks ago, the frustration with the LDP finally gained the upper hand and not only dethroned the LDP from power but also replaced it as the strongest party in the powerful lower house for the first time in history since 1955.

Key players of the new government

In addition to Hatoyama there are four key players to watch closely:

Hirofumi Hirano, 60, is a close aide to Hatoyama and will serve as chief cabinet secretary, traditionally the key role of every Japanese cabinet. Hirano formerly worked for Matsushita Electric Industrial, now known as Panasonic.

Naoto Kan, 62, is a co-founder of the DPJ and has twice headed the party since its inception. Kan will concurrently serve as national strategy minister and deputy prime minister.

Hirano graduated from Chuo University's science and engineering faculty, Kan studied applied physics at the Tokyo Institute of Technology. Combined with Hatoyama's engineering background Japan will have its first post-war "science cabinet". As a result, logic might dictate policy, a welcome idea in a country where personal relations and vested interests too often won over business and political logic in the past.

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Two other key players are Katsuya Okada and Ichiro Ozawa.

Katsuya Okada, 56, is a former trade ministry bureaucrat. He will serve as foreign minister and is expected to put special emphasis on improving relations with Asian neighbors. A protégé of American professor Ezra Vogel and author of "Japan as No. 1", he is well-known for his proactive stance to internationalization.

Ichiro Ozawa, 67, is probably the most important player and widely regarded as a backroom kingmaker in Japan. A former LDP political heavyweight he had played a crucial role in uniting the DPJ. Ozawa will oversee the planning and running of the crucial upper house elections in summer 2010. His connections and skills are invaluable to the new government but also one of the major threats to Hatoyama as Ozawa's personal ambitions remain unknown.

The new government – Coalition for a limited time only?

Despite its overwhelming victory the DPJ's law-making will depend on the upper house where the DPJ only keeps 108 out of 240 seats. Hatoyama decided to enter a three-party coalition with the Social Democratic Party (SDP) and the People's New Party (PNP) adding 10 extra seats in the upper house but still shy of an outright majority.

It is expected that the DPJ will try to achieve a majority in the upper house election next summer. It would then be independent from its coalition partners and their political demands.

Fighting expected between DPJ and bureaucracy

Struggles between the incoming government and bureaucrats have already started and are sure to continue. One pillar of DPJ campaigning was to cut wasteful government spending. It pledged to eradicate the practice of golden parachutes or *amakudari* and called for reducing labor costs for public servants by 20%.

During decades of LDP power, ministers changed frequently to offer as many posts to as many LDP politicians and factions as possible. This allowed the bureaucracy to become the knowledge and process owners in most areas and made it the strongest link in the Japanese iron triangle of power. This might change with the new government and the appointment of Naoto Kan as head of the National Strategy Bureau. Kan will wield enormous clout over key policy matters including fiscal spending, the tax system and social security. He is known for taking a tough stance against the bureaucracy as shown in 1996 when he was health minister.

Over the short term, confusion will dominate the scene as practices and personal relationships nurtured over five decades must be replaced. This would be a Herculean task in any society but all the more so in Japan where informal and personal networks are rather the rule than exception. In the long run however, a creative change in this area is possible. Some of the country's brightest and most talented people work in its bureaucracy, a factor that no party can afford to ignore.

II DPJ'S MANIFESTO AND KEY POLICIES

Manifesto of the DPJ – 5 core areas

The DPJ campaigned with a manifesto as one of its main platforms, which did not espouse any radical political philosophy so much as offering promises that the new government would be more responsive to the people and less in thrall to the vested interests of the bureaucracy.

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More concretely, the DPJ's manifesto centered on five key policies:

- 1) Drastic cuts to 'wasteful' government spending
- 2) Significant increases in spending on child-raising and education
- 3) Complete revamping of the pension and health system
- 4) Enhancing the sovereignty of Japan's regions
- 5) Focus on new priorities in employment and economics

Policies 2 and 3 in conjunction with promises such as the abolition of highway tolls are widely seen to have most directly appealed to the Japanese people prior to the election. The long-term focus however is on employment and economics.

New priorities in employment and economics

It is here that possible answers concerning the future of Japan as an economy but also as a society may be found – and a core interest area for most foreign observers. Concrete pledges include supporting small- and medium-sized enterprises (SMEs) by lowering their corporate tax rate to 11%, introducing a higher minimum wage, banning manufacturing industries from using temporary staffing, and assisting job-seekers with a massive job training system.

In addition, the DPJ will focus on technology innovations in environmental areas. Hatoyama even reiterated recently to cut CO2 emissions by 25% from 1990 levels. This would make Japan a leader among industrial nations, but affected industries immediately protested against it.

It is a fairly bold package of promises that generally point in the right direction but major questions remain whether they are realistic. Funding and public debt is one major issue, especially with regard to the pledge not to raise the consumption tax from the current level of 5% over the next four years.

Observers also point to a paradox in some economic policies. On the one hand, the burdens for SMEs will be reduced, but the new tougher emissions goal will hurt them more than the larger firms who have more resources for such capital investments. Likewise a prohibition to dispatch temporary workers to the manufacturing sector might point to higher job security but would rob smaller and larger firms likewise of flexibility in responding to economic trends.

Foreign relations – Shift from the U.S. to Asia

Foreign relations did not feature prominently in the manifesto which was aimed at domestic voters. It is however an area of crucial importance and one which attracted a great deal of attention in the West with Hatoyama's bold statements expressed in his essay "A New Path for Japan," published in the New York Times on August 26.

It is worth reading the entire original as it clearly describes Hatoyama's thinking. He criticizes market fundamentalism as a U.S.-led movement and suggests that U.S. unilateralism may come to an end. At the same time, Hatoyama reiterates that the Japan-U.S. security pact will continue to be the (not just one) cornerstone of Japanese diplomatic policy, a realistic assessment that for sure will guide foreign policy.

He also acknowledges that the Chinese economy will overtake Japan's in the not too-distant future. Consequently, he postulates deeper Asian regional integration for the sake of Japan and the entire region. This new focus on Asia does not mean a departure from the U.S. but it does resonate well in the region. The rise of China (and India) call for a new balancing force in the region. Japan can and should be this natural countervailing force. Hatoyama is Japan's first prime minister who is actively acknowledging and promoting this role.

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Japan's psyche and reestablishment of trust in future

Probably the most valuable impact the new government will have is on the psyche of the Japanese people. Few countries have undergone the extreme changes Japan has. It is a nation that aspired to become the world's No. 1 economy, a phase that was followed by the burst of the bubble economy in the early 1990s, and then capped by two lost decades of nearly zero growth and the steady deterioration of most social institutions. Gone are not only lifetime-employment and the seniority system, but also the myth of Japan as a middle-class society where older generations are taken care of by their children. Instead, most Japanese are experiencing a rapid change to an individualistic, performance-based society that is in the process of losing its No. 1 status in Asia to its long-time rival, China.

It is too early to judge whether the DPJ policies offer the right remedy to spur domestic consumption, rebuild the economy and society, and recreate a healthy self-confidence in Japan. But it seems clear that the LDP was no longer able to do so and that such a repositioning is probably the largest benefit a new government can bring.

III IMPLICATIONS FOR FOREIGN POLITICS AND BUSINESS

Governments and multi-lateral organizations

Confusion and irritation will prevail over the next months as the bureaucracy and the DPJ need to get accustomed to each other. Do not expect quick decisions on any major projects or ongoing negotiations. The interesting question is: Can the international community handle a more confident Japan with a mind of its own?

Much has been said about the concept of soft power and Japan's potential in this area. Manga and anime had been heavily promoted by former prime minister Aso. The new Japanese government will likely go further, supported by the fact that there were never as many Japanese in high-profile positions in international multilateral organizations as now, such as Yukiya Amano's recent appointment as head of the International Atomic Energy Agency.

In regional terms Japanese interest will not focus on China or the Asian region exclusively. Europe's experience with regional integration will face an ever higher attention under the new government than before. Relations with Russia might benefit from Hatoyama's son Kiichiro, 33, who is lecturing at Moscow State University.

Foreign companies

Overall the election result is good news for foreign firms doing business with or in Japan. Of course, the situation differs from sector to sector but some statements apply to most firms. First of all, domestic consumption is likely to recover in the mid-term if – and it is a big 'if' – the new policies succeed in fostering real change and reinstate the vision and belief that Japanese people have in their future.

Some sectors such as environmental technology, IT, bio-tech or nanotechnology will benefit from the new emphasis on this area. Large and small foreign firms likewise will not only find a huge market in Japan and increased budgetary support for R&D, but also more interest and willingness on the Japanese side in joint projects and other forms of cooperation. E-Mobility is just one of many examples attracting attention in industrialized countries where players from traditional competitors such as Japan and Germany now talk to each other more than ever.

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In sectors that traditionally favored U.S. firms such as defense or aircraft, the new government does not mean an automatic shift to suppliers from other regions such as Europe. But these long-term business relations will be scrutinized more closely in the future likely creating a more level playing field for other companies as well.

New role for strategic communications

Japan is changing. Following a period of some confusion over the next months there will be likely more fundamental change in the mid- to long-term. This environment demands from all players involved a rethinking and reformulating of their specific positioning. Hatoyama set a noteworthy example here. He was the first incoming prime minister ever to strategically use foreign media, i.e. the New York Times, for positioning his new foreign policy. He thus increased the bargaining power of Japan and its government a great deal. His bold announcement on reductions of CO2 emissions last week has followed this line.

Likewise for business in and with Japan, companies and other players should rethink their messages and – more importantly – how to get them out clearly to customers and business partners. Japan is still the world's second largest economy and many of its firms are among the leaders in their respective industries. There has never been more willingness and need in Japan to listen to new ideas and concepts than there is today.

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