

AUSTRALIA TO JAPAN
28 July to 6 August 2002

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Introduction

The eleventh delegation visit to Japan occurred some fifteen months after the accession to power of Junichiro Koizumi. Looking back at the report from the tenth delegation one can only wonder what has happened in that fifteen months to quell the sense of energy, drive and optimism with which Koizumi took power and was set to change Japan. Many commentators talked of Koizumi's accession as signalling a new era in politics in Japan, an end to political patronage and the emergence of a new dialogue between politicians and the public – one not filtered through the many layers of the bureaucracy. In this new dialogue the changing role of politicians and the emergence of new policy actors such as community groups and non government agencies is seen as providing a much stronger system for the development of public policy. Opposition parties felt their agenda for change had been pulled out from under them, with Koizumi embracing many of their policy ideals.

However, despite these hopes and the initial surge of popularity Koizumi appears to have had significant difficulty in making an impact on Japan's problems. Perhaps the expectations of Koizumi were unrealistic to start with. The hype surrounding his accession was unprecedented and the magnitude of the reforms required, more complex and difficult than first assumed.

The overwhelming sense coming from those the delegation met with was that after the hype the reality had well and truly set in. That is not to say that reform has not occurred or that there is a desire to return Japan to pre- Koizumi politics. Rather there is a growing sense that there is no magic bullet for Japan's problems - that reform will be slow and will continue to be challenged and potentially watered down by the same vested interests that existed prior to Koizumi's accession.

Whether the public and to a large extent Koizumi's own supporters can accept this and whether Koizumi survives the next six months continues to be a question asked. Most commentators say he will – there is clearly no alternative – but the general sense is that come April 2003 the pressure on his leadership will mount.¹

The program arranged by the Japan Center for International Exchange (JCIE) provided delegates with an excellent opportunity to gain insight into the economic, political and social challenges facing Japan.

Briefings and meetings were conducted with Members of the Diet from the Liberal Democratic Party, New Komeito and the Democratic Party of Japan, advisers of business, economic and financial organisations and academics. Delegates were also provided with the opportunity to discuss issues related to regional development and to experience Japanese culture and history².

Mr Tadashi Yamamoto was extremely generous in sharing his insights into the changes occurring in Japan and delegates greatly appreciated the warm welcome given by Mr Yamamoto and his wife Chiyoko in their home on our first evening in Japan. Mr Hyomo Ito and Ms Hifumi Tajima from JCIE, accompanied the delegation throughout Japan. Mr Ito's and Ms Hifumi's excellent organisation and advice ensured that the visit went smoothly.

Of the delegation only one member had spent any substantial period of time in Japan and knowledge of Japan and its politics varied amongst the members. The delegation was assisted by a briefing paper prepared by Dr Frank Frost of the Department of the Parliamentary Library prior to the visit as well as the Pre Departure Briefing arranged by

¹ Uchida, K., "Koizumi deserves more time, *The Japan Times*, Friday November 22, 2002.

² Eleventh Delegation Program appears at Appendix 1.

the Australian Political Exchange Council (APEC). Delegates also appreciated the detailed in-country briefing provided by the Hon John McCarthy, Australia's Ambassador to Japan and his staff on our arrival. Ms Sue Whisker accompanied the delegation as the APEC representative and provided invaluable advice and support.

This report will focus on the political situation and the challenges facing Prime Minister Koizumi, the current state of the Japan- Australia relationship, and the economic situation in Japan.

The Koizumi government

Koizumi came to power in April 2001 in a wave of unprecedented popularity. His accession to power signalled for many the emergence of a new style of politics in Japan.

With the LDP almost continuously in power since 1955, a malaise was seen to have settled over Japanese politics. Despite being a third generation politician like many of his predecessors and being a member of the Diet since 1972 Koizumi was not widely known before he took the leadership. Koizumi was seen to have a more populist and approachable style than his predecessors and had called for significant reforms across a number of sectors, most notably to postal services, including postal savings.

Koizumi's reform platform included: the resolution of the non-performing loans problem, cutting of public works spending, restraining the size of the government deficit, carrying out structural change to restore economic growth, tax reform and more particularly tax cuts as part of a strategy to increase consumer spending³ and reforms to the pension and health system.

Many of the commentators that delegates met with gave a mixed report as to Koizumi's actual reform achievements.

The delegation visited Japan at the close of the Diet session. At its close tax reform had not commenced, a committee had been established to examine the privatisation of the road corporation (a major consumer of public works funding) but no legislation had been introduced, the Bill to partially reform the postal service had been passed after what was seen by many as a major back down by Koizumi⁴, but the major issue of postal savings had not been addressed. A Bill had been passed to reform medical insurance which in a move highly criticised by the DPJ saw the cost of GP services to individuals set to rise by 30%, Pension Reform had not commenced, and an Emergency Defence Bill had been introduced but not passed due to disagreement (mainly between the New Komeito and the LDP) concerning Article 6 of the Constitution⁵.

In the meeting with the Democratic Party of Japan members were highly dismissive of Koizumi's achievements, arguing that despite his rhetoric Koizumi had done little to address the problems created by the very dominance of the LDP and its reliance on vested interests for re-election. They argued that this dominance had produced collusive and in some instances corrupt relationships between the bureaucracy and elected officials that made claims of reform meaningless.

³ Frost, F., 'Japan and the Koizumi Government: A Brief Survey', *Briefing Papers*, Department of the Parliamentary Library, Canberra, 2002 pp 7-8.

⁴ Pearson, B., "Koizumi's back down dents reformist credentials", *Australian Financial Review*, 5 July 2002.

⁵ Article 6 of the Peace Constitution 1947 remains as a defining concept in Japanese security with Japan prohibited from having power projection capabilities. Whilst it has not been changed since its inception there has been some interpretation. The dispute regarding the Emergency Defense Legislation has seen debate regarding Japan's desire to participate in peace keeping missions and United Nation sanctioned actions.

The challenge for the DPJ is if it is to become a meaningful opposition party it must produce an alternative reform agenda. The difficulty for the DPJ has been that Koizumi appears to have “stolen their thunder” to some extent by espousing reform in the first place. As one member of the House of Representatives put it *This is the largest challenge facing the DPJ, Japanese politics is not ideologically driven, so the notion of reform is seen as the major differentiator between the parties.*

The DPJ in challenging Koizumi’s reform record will need to come to its own conclusions about the causes of Japan’s economic, social and cultural challenges and develop their own public policy solutions to address them.

Several commentators raised the issue of a realignment in Japanese politics. These include a possible new coalition lead by the DPJ, the possible entry into the national sphere of Shintaro Ishihara, the Governor of Tokyo who enjoys strong popular support and the possible alliance between former foreign minister Makiko Tanaka and the Liberal Party⁶

Koizumi’s difficulties in getting his reform agenda through combined with Japan’s continued slow economic growth rate and the population’s first real experiences of unemployment and social dislocation is creating a climate of uncertainty in Japan and a rise in nationalism. In this context it was seen as more likely that an alliance between Ishihara, Tanaka and the Liberal Party would have more electorate appeal than a DPJ led coalition⁷. The poor performance of the DPJ in recent by-elections and mounting pressure on opposition leader Hatyama appears to lend some weight to this argument⁸. Several commentators raised concern about this arguing that the solutions to Japan’s problems do not lie in the simplistic, populist views being put forward by the Governor of Tokyo in particular.

Commentators also raised the possibility of a split in the LDP with Koizumi and those pushing for greater reform leaving. Whether the LDP needs Koizumi more than he needs the LDP is an interesting point. Koizumi has certainly revitalised what was increasingly being seen as a tired old traditional party. The LDP election result in the upper house in July 2001 was based on Koizumi’s popularity but with this waning and the lack of progress on reform Koizumi is under some pressure.

In the meantime Koizumi’s popularity which fell after he dismissed the popular Foreign Minister Mikiko Tanaka, has experienced a slight rise and there does not appear to be an immediate challenge to his leadership. National elections are not due until 2004, although there is a slight possibility that Koizumi will call an early election if he continues to struggle to get his reform proposals through.

The capacity for politicians to engage in policy debate and development emerged as a key focus for delegates. With the single shared goal of reconstruction well and truly behind it, Japan appears to some extent have suffered not just from a decade of economic malaise but also a malaise of policy ideas.

This in the eyes of some was largely seen as the result of power for policy development and implementation being concentrated in the hands of the bureaucracy. Whilst this may have been appropriate during reconstruction where there was a well defined single goal the emergence of more complex public policy issues such as: globalisation, the environment, foreign affairs, aging and subsequent pressure on health services and the decline in fertility rates, has seen the emergence of multiple and often conflicting goals. There are now a plethora of new policy actors demanding to have a say over policy

⁶ Frost, F., op.cit p 10.

⁷ “Japan: poll defeat further undermines Koizumi”, *Oxford Analytica*, 1 May 2002.

⁸ “Hatyama may quit as DPJ Leader”, *The Japan Times*, November 26 2002.

direction and the bureaucracy is no longer able to position itself as the sole determiner of what is in the public interest.

Japan and Australia

Japan is of central importance to Australia. Japan is one of Australia's most significant trading partners⁹ but it became increasingly clear during our visit that while the Japan-Australia relationship is strong, Japan's major focus is with the United States and in developing a relationship with China and North Korea.

Many commentators including those from the Ministry of Foreign Affairs and our Department of Foreign Affairs talked of the Japan-Australia relationship as needing new energy and as having gone stale.

Koizumi's visit to Australia in April 2002 was a step towards reinvigorating the relationship and his speech in Singapore in January 2002 was seen as a signal that Japan was interested in working in partnership with Australia in the development of an East Asia 'community'.

Japan has been an advocate for the inclusion of Australia and New Zealand in ASEAN however, other ASEAN partners have a different view and little progress has been made. One commentator pointed to the relationship between Australia and Indonesia as being critical to progressing our inclusion in ASEAN.

In almost all the meetings delegates raised the issue of a Free Trade Agreement with Japan. The notion of a Free Trade Agreement had received some press back in Australia, although had not been emphasised strongly during Koizumi's visit to Australia. A group of Australian officials were due in Tokyo during the delegation's visit to commence preliminary discussions on the process by which such an agreement may be developed. A number of key obstacles to a Free Trade Agreement between Australia and Japan were raised during discussions these included:

Agriculture and the difficulties Japan would face in liberalising this market. Australia, clearly has an interest in gaining access to the Japanese agricultural market however the argument was continually put to delegates that agriculture and in particular rice production is intrinsically bound up with the cultural life of Japan i.e. Rice is Life. Opening up this market was seen as potentially damaging to the fabric of Japanese culture. An argument that was understandable but difficult for delegates, who had witnessed the significant restructuring of Australian agricultural production and its subsequent impact on rural communities, to accept.

Japan's preference to remain within the multilateral framework of the WTO rather than pursue bilateralism. Some commentators argued that it was not in Japan's interests to move too far down the path of bilateral agreements whilst the Doha round of WTO talks were underway.

Most discussion regarding an Australia- Japan FTA appears to centre on the possibility of a partial FTA, excluding agriculture and the notion of a new Comprehensive Economic Agreement within East Asia. Japan has recently concluded an FTA with Singapore, with the key areas of agriculture excluded, and is pursuing an FTA with Mexico.

The issue of Australia not signing the Kyoto Protocol was also raised with one commentator questioning Australia's close relationship with the United States on this issue.

⁹ Frost F., op.cit p 14. Exports: \$A 23.719 billion in 2001. Merchandise imports: \$A 15.259 billion in 2001. Services \$A 3.544 billion in exports and \$A 1.1911 billion in imports in 2001.

The Japanese Economy

Up until the 1980's there appeared to be no stopping the Japanese economy. Seen as the model for other economies to envy, the Japanese economy through the 80's experienced strong growth and Japan's wealth continued to rise. By the 1990's the Japanese economic bubble had well and truly burst.

Japanese economists appeared to consider the 90's downturn as cyclical so continued to rely on pump priming to prop up the economy. In so doing it is argued that they failed to put in place reforms to assist the economy to respond to the major trends of globalisation¹⁰.

With the past decade described by commentators as "the lost decade" Japan continues to show signs of economic stagnation and high public debt. Although economic growth has risen to 1% this growth is based on exports and is highly vulnerable to a downturn in the US economy.

There was however, no sense of impending crisis in the commentators delegates spoke with. Rather commentators viewed a number of recent signs as highly positive in indicating a recovery in 2003.

These included, Japanese expansion into Chinese and Korean markets happening at a faster rate than predicted, the continued strength of some of Japan's major industries, significant reforms being undertaken in the banking sector, government reforms regarding non-performing loans and high levels of private savings and wealth.

These positive signs were balanced against: domestic consumption continuing to be weak, continued nervousness on the part of investors, companies shedding workers and subsequent high (by Japanese experience) rates of unemployment and the slow rate of reform particularly in relation to public sector debt.

Koizumi's challenges are threefold. First having promised to reduce public sector spending to a cap of 33 trillion Yen he is under significant pressure to increase spending beyond this and to continue to pump prime the economy, particularly from LDP politicians who have traditionally relied on public works as part of their re-election platforms. His inability to move forward with reforms to postal savings and potentially open this source of capital for domestic investment continues to be a challenge.

Second, having promised tax cuts to lift consumer-spending rates he is faced with the challenge of how to fund these given the imperative to reduce public debt. Japan's public debt problems are seen as a significant impediment to economic recovery. Third in introducing significant reforms to the economy and focusing on the promotion of an efficient industry sector, there is likely to be a continued growth in unemployment and continued uncertainty on the part of consumers.

Maintaining political popularity for his reforms in this context is proving somewhat difficult.

While recent growth has given some hope to political and business leaders that Japan's economy is set to slowly recover, external commentators are not convinced that enough has been done to reform Japan's political and institution systems for long term recovery.

Whether Japan's economy will undergo further decline or whether it will continue to muddle through is a point of some contention but certainly on the delegation's visit

¹⁰ Frost, F., op.cit p 3.

there were few signs that Japanese commentators believed they were facing an imminent economic crisis.

Conclusion

Japan is clearly undergoing significant change. After decades of stable political, economic and social cohesion, Japan is facing many of the challenges that western economies had to grapple with throughout the 1980's.

Many external commentators appear pessimistic about Japan's future growth however internally there are positive signs, education reforms, changes to the electoral system, the emergence of a new style of politics and new policy advocates and Japan's capacity to work towards shared goals, as evidenced through the period of reconstruction, mean that Japan is clearly capable of grappling with the challenges it is facing.

Tadashi Yamamoto in particular pointed out the emergence of new change agents in Japan as a positive step. The emergence of the notion of a civil society, the impatience and emergence of young people as a political force, the increasing role of women across many sectors of Japanese society, the influence of foreign trained Japanese and foreigners working in Japan and the potential being exercised by municipal governments were cited as examples.

The core issue is whether those who see the need for reform can do so in time and continue to hold power in a political system dominated by its history and powerful vested interests.

We were privileged to visit Japan in a time of great upheaval and delegates benefited from the intensive program organised by JCIE.

Mr Yamamoto's tireless work and passionate belief in the importance of international relationships in improving the world, is an inspiration.

Appendix 1

Program**TOKYO****Friday, July 26**

08:45am –	Pre Departure Briefing
5:00pm	Australian Political Exchange Council The Griffin Hotel, Canberra, ACT
17:00pm –	Reception hosted by the Japanese Embassy
18:00pm	The Griffin Hotel, Canberra, ACT

Sunday, July 28

06:40	Arrive at Narita Airport on QF021
11:30	Tour of Tokyo Imperial Palace Ryogoku-Fukagawa Edo Museum Asakusa Sensoji Temple
18:30	Dinner Hosted by Tadashi (and Chiyoko) Yamamoto President Japan Center for International Exchange (JCIE)

Monday, July 29

0:900-10:00	Program Briefing "Japan at the Crossroads" Tadashi Yamamoto, President JCIE
10:00-11:15	Briefing "The Current State and Future Prospects of the Japanese Economy" Takashi Kiuchi, Economic Adviser, Shinsei Bank
14:00	Meeting with Takenori Kanzaki, Representative, New Komeito
15:30-17:00	Briefing " The Australia-Japan Business Relationship: Prospects and Challenges" Kazuyuki Kinbara, International Economic Affairs Bureau, Japan Business Federation (Nippon Keidanren)
17:30-18:30	Briefing at the Embassy of Australia
19:00	Dinner Hosted by the Australian Ambassador to Japan, The Hon John McCarthy

Tuesday, July 30

08:00-09:15	Breakfast Meeting Kenji Kosaka, Member House of Representatives Delegation Leader, The Eighth Japanese delegation to Australia Hiroyuki Sonoda, Member of the House of Representatives Delegation Leader, the Ninth Japanese Delegation to Australia Ichiro, Aisawa, member if the House of Representatives Delegation Leader, The Tenth Japanese Delegation to Australia
10:00-11:00	Briefing: "The Present State of Japan's Diplomacy and Its Future Agenda" Koji Watanabe, Senior Fellow JCIE Executive Adviser, Japan federation of Economic Organisations, Former Japanese Ambassador to Russia
11:15-12:00	Meeting with Yokio Hatoyama, Chairman, Democratic Party of

- 14:00-14:30 Japan
Meeting with Keiji Furuya, Senior Vice Minister of Economy, Trade and Industry
- 16:30-18:30 Discussion followed by Cocktail Reception
Former Delegation Members of the Australia- Japan Young Political Leaders Exchange Program
- 19:30 Dinner with JCIE staff and policy staff from the Diet

Wednesday, July 31

- 09:30-11:30 Briefing: "Australia-Japan Cooperation for the Future of Asia Pacific"
Yasuhiro Takeda, Professor, Department of Social Science, National Defence Academy
Takeshi Mori, Professor of Economic, Dokkyo University
- 12:00 – 14:00 Visit to the Diet
Lunch hosted by Member House of Representatives Ichiro Aisawa, Secretary, the Japan-Australia Diet Members League
Final Plenary Session of the 154th Diet Session
- 15:-16:00 Briefing: "Australia's Expected Role in Asia – A Japanese Perspective,Tasuku Takagaki, Senior Adviser, The Bank of Tokyo Mitsubishi
- 17:00 Meeting with Mr Abe, Cabinet Secretary at the Prime Minister's Residence
Tour of Prime Minister's Residence
- 19:00 Dinner hosted by the Ministry of Foreign Affairs

Thursday, August 1

- 10:30-11:30 Briefing: Mr Mizumo and Ministry of Foreign Affairs Officials
- 12:00 – 17:00 Arrive Miyazaki Prefecture
Tour of Prefecture Art Theatre

MIYAZAKI PREFECTURE

Friday, August 2

- 10:00 Meeting, Ryoichi Suzuki, Deputy Govenor of Miyazaki Prefecture
- 10:20 Meeting, Deputy Chairman of Miyazaki Prefecture Assembly
- 12:00-13:00 Lunch hosted by Oji Paper Company
Masanori Kitagawa, Mayor of Michinan City
Hiroshi Idogawa, Chairman of Nichinan City Assembly
Shizuka Tanaka, President of the Nichinan Chamber of Commerce
Yoshihisa Nakano, Oji Paper Company, Nichinan Factory Manager
Naoyuki Nozaki, Oji Paper Company, Nichinan Executive Manager
- 13:00-14:30 Tour of Oji Paper Company
- 14:45-15:05 Tour of Aburatsa Port
- 15:45- 16:30 Tour of Komura Museum and Obi Castle

Saturday, August 3

- 08:50- 17:40 Tour of Saitobara Burial Mounds
Lunch hosted by Miyazaki Prefecture
Tour of Akiyama Corporation

Tour of Teruha Bridge
Tour of Seagaia

KYOTO**Sunday, August 4**

14:00 – 17:00 Tour of Kyoto
Nanzenji Temple, Heian Jingu Shrine
19:00 Dinner hosted by the Australian Political Exchange Council
Tour of Prefecture Art Theatre

Monday, August 5

09:50 – 17:00* Tour of Kyoto
Nijo Castle, Kinkakuji Temple, Sanjyusangendo Temple,
Kiyomizudera Temple

* Delegation Leader visit to Inagawa Sister City to Ballarat – meetings with, Mayor Sonada and Chairman Inagawa Assembly, Visits to aged care facility, recreation centre, library and local learning centre.

Tuesday, August 6

Depart Japan

Appendix 2

PARTICIPANTS

Delegation Leader

Ms. Catherine King MP (Vic)
Federal Member for Ballarat

Liberal Party

Mr Chris Pearce MP (Vic)
Federal Member for Aston

Mr Michael Keenan (ACT)
Adviser to the Federal Minister for Family and Community Services

Dr John Paul Langbroek (Qld)
Chairman of Surfers Paradise Branch

National Party

Mr Andrew Bibb (Qld)
Campaign and Policy Manager, Qld National Party

Australian Labor Party

Ms Rita Saffioti (WA)
Principal Policy Adviser to the Premier of Western Australia

Mr Brer Adams (SA)
Adviser to the South Australian Minister for Environment and Conservation

Australian Political Exchange Council

Ms Sue Whisker