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The Incremental Revolutionary: Japan after 8 Years of Shinzo Abe

<https://www.e-ir.info/2020/09/21/the-incremental-revolutionary-japan-after-8-years-of-shinzo-abe/>

CARLOS RAMIREZ, SEP 21 2020

After 8 years in power, the longest of any postwar Japanese Prime Minister, the legacy that Shinzo Abe leaves behind will no doubt shape the country for years to come. As Yoshihide Suga assumes the leadership of Abe's Liberal Democratic Party (LDP), he also simultaneously becomes the Prime Minister, as the party holds a large majority in parliament. Suga will be extraordinarily busy with much unfinished business left behind by his predecessor. This is largely the consequence of forces that resisted and constrained the retiring Prime Minister's often controversial agenda. When all is said and done about Abe's tenure, the most salient feature of his record will be the new policy paths blazoned by his administration and yet the very short distances travelled. Many of Abe's ideas were beyond reform, some would say even radical in nature, yet the actual implementation and progress were, in the end, incremental at best. The main reason, as will be argued in this review and evaluation of Abe's time in power, is that he allowed his ideology to color and permeate his policy throughout his term bequeathing numerous economic and domestic challenges to his successor and the country.

When Abe became Prime Minister for the second time in 2012, he had full intention of carrying out the sweeping changes to Japan's security policy that he had begun during his first stint as Prime Minister from 2006 to 2007. That effort was cut short by the same illness (chronic ulcerative colitis) forcing his current abrupt retirement. The principle objective both then and now has been to bury the Yoshida Doctrine once and for all. The Doctrine has been at the bedrock of Japan's politics, economy and society since the end of the Second World War. Under its terms, Japan relinquished much of its security and defense policy to the USA as per Article 9 of the post-War Constitution. Article 9 stipulates that Japan renounce both the right to wage war and to retain a standing army with such a capability. Secure under the American defense umbrella, Japan could in turn focus its resources on rebuilding the war-ravaged economy. By the end of the 1960's, Japan became the world's second largest economy and America's staunchest ally in the region. Abe's ultimate goal was to revise the Constitution and Article 9 to allow for a more assertive and muscular foreign policy buttressed by a "normal" armed forces. From the outset, he did not shy from showing his ideological inclinations with a visit in 2013 to the controversial Yasukuni Shrine, infamous for honoring war criminals and thereby enraging China and the Koreans.

The Ideological Period

Among his major security reform accomplishments since 2012 was the passage of a state secrecy law; the formation of a national security council; new legislation that permitted for the first time the exercise of collective defense; the acceleration of the move of the Futenma, Okinawa Airbase to the north of the Prefecture; and efforts to enhance regional security through partnerships such as the yet-to-be formalized Quad which includes Australia, India and the USA. Many of these successes were achieved early on in his tenure from 2012 to 2015 when he was at the peak of his electoral strength, having won again landslide elections in 2014. His electoral support derived not from any popularity arising from his security agenda but from his economic policies. Indeed, he received considerable pushback from a skeptical public against the new collective defense legislation. There were street demonstrations and large rallies not seen since the 1960's. Business interests were also concerned with his excessive antagonism of China and applied pressure on Abe to temper both his rhetoric and actions. Externally, the Obama administration was concerned that Abe's positions toward China could lead to America's entrapment in an unwanted conflict with

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Japan's large neighbor.

Abenomics under Stress

Abe learned during his term in power that without a credible economic platform, he could not expect to sustain public support for his government and his pet security policies. His newfound focus on economics was also born out of his admiration for the old 19th century Meiji-era refrain of *fukoku kyohei* – rich country, strong army. Abe understood that Japan could not keep a rising China at bay with only a reinvigorated security posture. A robust and competitive economy was also necessary to underpin his new assertive defense and foreign policies. For Abe, a prosperous economy was a stepping stone towards Japan's re-introduction to global society as a major political and military power.

Under the rubric of Abenomics, his administration embarked on a three-pronged strategy, known as the three arrows, of monetary expansion, fiscal enlargement and structural reforms. Abe's monetary policy, overseen by his appointed central bank chief, Haruhiko Kuroda, will likely be the most remembered by economists and the general public. The Bank of Japan's foray into quantitative easing at a scale never seen before, followed by interest rates controlled through the yield curve, were unprecedented actions that will be studied by experts for some time to come. These two main policies were at the heart of Japan's economic stability, low unemployment rates and longest unbroken period of economic growth since the 1980's. Notwithstanding these achievements, timid policy in the fiscal field and corporate reforms resulted in persistent bouts of deflation. The economy was never able to attain an annual 2% inflation rate goal. This combined with low economic growth and minuscule rises in wages has left the economy in a precarious condition. It must be with great regret that Abe now retires with the economy at roughly the same size as it was when he took power in 2012.

These unsatisfying outcomes are not entirely Abe's doing – the coronavirus pandemic is at the root of the sudden economic shrinkage. Yet, his inability to rebuff the financial mandarins' requests for hikes in the consumption tax in 2014 and again in 2019, reaching a final figure of 10% from the original 5%, meant all the work on the monetary side was being negated by the fiscal tax side. His corporate structural reforms while quite novel for Japan were also characterized by their lack of implementation. They included changes to corporate governance, agricultural reforms to improve competitiveness and efforts to reduce cross-shareholding practices within Japan's famed conglomerates. However, his most noteworthy structural reform was his push to expand female participation in the workforce. In aggregate numbers, it has been a success with the prime age rate of working females reaching 78.9%, surpassing the USA. Yet, most of these women – 55% in 2019 – were in part time or contract positions while 70% (2019) of this irregular workforce was comprised of females. The exceedingly insecure situation of employed women has been laid bare during the pandemic with women taking the brunt of the crisis as corporations shed mainly female jobs.

Most disconcerting about Abenomics was the failure to address the three most pressing long-term challenges facing Japan: debt, deflation and depopulation. Despite some analysis about the bleak outlook on Japan's debt – the highest debt-to-GDP ratio in the world at 238% – it is not as bad as it seems for two reasons. First, the debt is owned by the Japanese themselves and not owed to foreign investors. This would allow for a more managed solution if markets began to question the credit trustworthiness of the government and the Bank of Japan. The Japanese could negotiate among themselves questions of refinancing and debt forgiveness. Second, the actual national asset to liability ledger is much healthier than perceived as net debt, in contrast to the above gross net figure, is at a sustainable 60% of GDP.

To be sure, taking on debt is necessary during recessions, as per Keynesian economics. For now, as in other countries, generous fiscal spending will need to continue indefinitely to cushion the economic blow of the pandemic. Yet, prolonged periods of excessive public borrowing to fund deficits in Japan have had an adverse impact on productivity, wages and demand. Low interest rates, monetary expansion and fiscal largesse have kept afloat a vast number of what many economists term zombie companies. These have delayed making initially expensive capital outlays to upgrade their technologies in order to improve their long term growth prospects. Instead, these firms have relied on low-wage labor markets to maintain profitability. At the center of these markets are women who have become the reserve army of labor for the Japanese economy employed at minimum wage levels and then completely

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disposed of during recessionary conditions. The end result has been stagnation in income and wealth among many households that is in turn responsible for low consumption, diminished long-term demand and ultimately deflation. Low-wages have also been a barrier to Abe's efforts to improve the social status of women. Indeed, this low productivity/low wage trap has resulted in a childbearing boycott by Japanese females as depressed incomes and financial insecurity weigh heavily on women's decisions to marry and bear children. Abe has not helped himself in failing to proffer adequate childcare policies such as drastically increasing the number of daycare centers. Abe's successor will need to address all of these issues or Japan's aging society and population shrinkage, one of the fastest in the world, will proceed apace.

One of the most immediate tasks for the new Prime Minister will be to implement a set of deeper structural reform policies that address low industrial productivity that is caused by corporate over-utilization of labor. This will need to take place within a context of ample fiscal spending, low interest rates and quantitative easing which are all at the root of business over-reliance on low-wage labor. Reform policies will no doubt need to include a rise in the minimum wage, improvement of job security in labor markets and strengthening of equal pay for equal work legislation. These issues are especially important for women given their marginal status in the workforce. Women have long complained of being paid at a much lower wage level than their male full-time counterparts even though their job responsibilities are virtually the same.

The Turn to Pragmatism

With much of his security agenda stalled from 2016, it wasn't until the second half of his tenure that Abe began a slow transformation from ideologue to pragmatist. Business interests, the public, China and the Obama administration were all losing patience with Abe's ideology-infused security and foreign policy. However, it was the emergence of Donald Trump on the political scene that accelerated Abe's policy pivot to moderation. Troubled by Trump's campaign musings in 2016 about the costs of American military bases in Japan, Abe proposed to then-President Obama a visit to Pearl Harbor to pay his respects to the War dead following Obama's ground-breaking trip to atomic-struck Hiroshima. Acknowledging the warming of relations between the two leaders, Obama quickly accepted. Obama was also hoping to signal president-elect Trump the importance of the Japan USA relationship.

Abe's greatest achievements in the post-2016 period came in the trade portfolio where he almost single-handedly saved the liberal international trading system and its corresponding norms by bringing to a successful conclusion two of the largest trade pacts in history: the Trans Pacific Partnership (TPP) and EU-Japan Trade Agreement. In the case of the former, Abe's statesmanship was on full display as he transformed Japan into a global rule-maker from a global rule-taker. After Trump withdrew the USA from the pact, Abe coaxed and cajoled the remaining skeptical members to sign it.

Despite Abe's efforts to endear himself to Trump, it is not clear they have born any fruit. Japan remains under steel and aluminum tariffs while the threat of auto tariffs is still real and looming. On security, many in Japan viewed Trump's abrupt shift on North Korea from a "fire and fury" stance to "a great friendship" with Kim Jung-Un as risky and worrisome, bordering on betrayal as it has left Japan exposed to North Korea's expanding short range nuclear arsenal. Furthermore, Trump's demands to quadruple the price of hosting American forces in Japan to \$8 billion or face their withdrawal is also weighing heavily on US-Japan relations. Given these concerns, it is certainly fair to ask whether a different approach to President Trump (see Canada under Trudeau or France's Macron) may have produced better results. The only area in which Abe showed genuine independence and frontal resistance to Trump was in the trade file as outlined above. Japan under Abe was able to fill an economic and security vacuum in Asia left behind by the USA after its departure from the TPP. The specter of being overwhelmed by the Chinese economic juggernaut was impetus enough for Abe to reverse his original negative position on the pact. By forging a coalition of the willing in trade, Japan ensured that regional economic and political governance would retain its liberal character.

Japan's other main bilateral relationship, its ties with China, are also in an ambiguous state. After a rocky start that included a lengthy Chinese boycott of leadership summits with Abe, he sought to repair relations. This rapprochement was largely successful and was to culminate in a state visit by President Xi Jinping in April but has been indefinitely postponed as a result of the pandemic, the China-US tensions and Chinese aerial and sea

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incursions into the area around the Japanese-controlled Senkaku Islands but also claimed by China. To his credit, Abe has demonstrated sophisticated diplomacy by walking a fine line between the USA and China. Yet, some believe Abe's relations with China are not a genuine hedge as he remains wedded to his neoconservative instincts and distrust of his neighbor. Thus, the recent spirit of goodwill between China and Japan is nothing more than opportunistic. The disruptive and unreliable nature of Trump's diplomacy with both countries is driving the two together. A "new era" with China defined by a modicum of trust and respect will certainly be on hold for some time to come.

Abe's biggest disappointments are related to his failures to achieve any real diplomatic success with Russia or the two Koreas. President Putin has been unwilling to bargain in good faith over the Northern Territories/Kuril Islands that belonged to Japan, but were usurped by Russia at the end World War II. Once again, Abe was far too wedded to the dream of righting perceived historical wrongs to make Japan whole again. He spent far too much political capital on this neoconservative Quixotian windmill. Abe was also ineffectual in moving North Korea any closer to releasing or providing information on Japanese abducted by the North Koreans in the 1970's and 80's. On the nuclear issue, Japan was sidelined by Trump's personal diplomacy with Kim. In hewing to his ideological principles, Abe continued his hardline stance even though Trump had begun engaging the regime in Pyongyang. A less dogmatic posture of carrots and sticks with a phased approach to détente in relations with the North would have likely served him better rather to sticking to maximalist demands (North Korea, of course, could be accused of the same).

The adverse results with North Korea have been compounded by the downward spiral in relations with South Korea. After having a short honeymoon period during the past Park Geun-hye presidency when an agreement was made on the so-called war-time comfort women issue, it quickly unraveled under the new administration of Moon Jae-in. In fairness, the South Korean side is largely to blame for allowing this issue and the war-time enforced labor claims to proceed to court. If successful, the claims could lead to the seizure of Japanese corporate assets in South Korea. From a legal perspective, these issues have already been settled between the countries in a treaty in 1965. Any further compensation should be negotiated in good faith between the governments and other stake holders. It is disheartening that the Abe administration has not taken a more magnanimous position on wartime issues. Rather, in retaliation for the court claims, Japan has imposed export controls on high technology materials to South Korea. In turn, South Korea almost rescinded its participation in an intelligence sharing pact but decided at the last moment to retain it under heavy duress from the USA. It is clear that Abe's ideological blinders has impaired him from recognizing South Korea as the missing piece to Japan's security puzzle in Asia. A strong, historically-reconciled relationship based on mutual trust and respect would revolutionize security in the region.

Return of the Ideologue?

Abe has almost come full circle as he returned to his neoconservative roots in the past year perhaps sensing that the end was near symbolized by his renewed push for constitutional change. Furthermore the recent cancellation of the Aegis Ashore missile defense system has revived the debate on installing preemptive-strike capable missiles. These could destroy enemy missile platforms before missiles are launched. Such a purchase would likely be in violation of the constitution. These debates are occurring as the discussion of the possession of nuclear weapons emerges from the fringes of society with the seemingly tacit approval of the administration. Henceforth, Japan would be better served by reviewing the entire strategic environment of the region together with its alliance partner the USA to formulate a plan of shared security and each member's corresponding role. Such an approach would be preferable to the current domestic narrow discussion related solely to its own defense.

Abe began his premiership in neoconservative mode, which then evolved into pragmatism via an economic platform to sustain his domestic popularity. If only his pragmatism was at the core of his philosophy and less the product of outside forces, be they domestic or external, his achievements may have been more comprehensive and less piecemeal. In other words, there should have been more emphasis on the *fukoku* (rich country) and less on the *kyouhei* (strong army). As Abe demonstrated during the TPP negotiations, Japan is at its best when pursuing open and inclusive alliances that reinforce international norms, preserve democratic values and safeguard human rights. In these times, when the international order is leaderless, countries around the region and globe look to large middle powers like Japan to lead and fill the vacuum or lest they be at the mercy of international anarchy. Taking this mantle

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upon itself, Japan also ensures its own security. Had Abe pursued more vigorously his pragmatic side right from the outset, he would not be remembered as an incrementalist but simply as revolutionary.

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