



UPPER HOUSE ELECTIONS & POLITICAL STABILITY IN JAPAN **ABE'S NEXT STEPS**



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The ruling coalition of the Liberal Democratic Party (LDP) and New Komeito of Japan swept to a convincing victory in the House of Councilors election on 21 July, a triumph that has sealed an end to the divided Diet.

The coalition alliance has earned a majority in the 242-member Upper House, reducing the opposition camp to a minority and enabling the LDP-Komeito coalition to control both Diet chambers. The opposition camp made a disappointing showing, the first to be held since the LDP-Komeito alliance recaptured power in House of Representatives election.

I POST ELECTION POLITICAL STABILITY & ABE'S CONTROL OVER BOTH HOUSES

The election tally clearly indicated voters' desire for political stability. This gives Abe control of both houses of the Diet for the first time in six years. The result was an endorsement of his economic reforms, as he seeks to end long-term stagnation. The deadlock in the Diet has been seen as a key factor in Japan's recent "revolving door"

of prime ministers.

The ruling coalition's electoral success reflected voters' overall support for Abe's economic and other policies that have been introduced since he returned to power in December 2012. The LDP-Komeito coalition gained resounding electoral gains following its success in snatching power from the DPJ-led administration in December 2012. Abe rode to power vowing to drag Japan out of 20 years of stagnation.

Should the LDP see the electoral victory as a carte blanche and enjoy a free rein in enacting laws without consideration of other factors? The answer has to be in the negative as the voter turnout was 52.61 per cent this time as against 57.92 per cent in July 2010 Upper House election. Also votes cast for opposition forces were divided among many opposition parties this time than in 2010. On two important election issues – nuclear power generation and constitutional revisions – public opinion is divided.

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the entire 242 Upper House seats in the July 21 election. The LDP will be unable to initiate a process for revising the Constitution although these parties already occupy more than two-thirds of the Lower House seats. Article 96 will not allow that to happen. Of the 121 seats that were up for election, these parties gained 81 seats, just two-thirds of the 121 seats but still short of two-third majority in the 242-member House.

People will watch Abe's moves on revising the constitution closely as LDP's coalition partner the New Komeito will check his moves since the party is cautious about weakening Article 96. While the LDP won a record 65 seats, one seat more than the LDP's record in the 2001 Upper House election when Koizumi Junichiro was prime minister, the DPJ suffered a great setback by garnering only 17 seats, fewer than half of the 44 seats the DPJ held among the 121 seats up for election and a record low in the party's history.

II ELECTIONS: A POSITIVE VOTE FOR THE ABENOMICS?

As a part of the Abenomics, Abe launched a risky and aggressive fiscal and monetary stimuli plan, the first two components of Abenomics. These were designed to push down the value of the Japanese yen against the US dollar and boost exports. These also led to the concurrent surge in the Japanese stock market, in line with the government's objectives. Since late May, however, the Japan rally has faltered, and the dollar has paused in its upward trajectory against the yen. The implication is that financial markets have already priced

in the fiscal and monetary measures and are now waiting to see what progress can be made with all-important structural reforms, which will take longer and difficult to implement.

Despite periodic hiccups, the first two measures appear to be working. But now comes the hard part. With a majority in both houses of the Japanese legislature, Abe will now have a chance to implement the third and most important part of his "Abenomics" program of experimental economic stimulus: long-term structural reform. To keep Japan growing, Abe must implement painful and unpopular structural reforms, raise taxes and open Japan's economy to more competition.

The LDP-Komeito alliance hoped to win a total of 63 or more seats to be combined with the two parties' uncontested upper house seats-50 and nine, respectively and by doing so, the parties wanted to retake a majority in the upper chamber, consequently putting an end to the divided legislature, in which the Lower House was dominated by the LDP-Komeito coalition but the Upper House was controlled by the opposition camp. As it finally transpired, the ruling parties' gains exceeded their pre-election targets.

Though Japan's upper chamber is not as powerful as the Lower House, it is able to block legislation introduced by the government. Opposition parties have had enough combined seats to control the upper chamber in recent years, leading to what had become known as a "twisted parliament". This had resulted in factionalism and multiple changes of prime minister. With the results of July 21, the LDP-Komeito coalition can now have political stability to carry out policies.

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What was the important focus of this election? The most important was voters' evaluation of Abenomics, the economic policies of the Abe administration represented by the "three arrows" comprising bold monetary easing; flexible, drastic fiscal stimulation; and a growth strategy to encourage private investment. It transpired from the LDP's big gains in the

election that many voters have a good impression of the effects of Abenomics. In contrast, opposition parties failed to convince voters that Abenomics came with risks. For instance, prices went up as expected but people's wages did not. However, such appeals did not seem to have had much impact.

Abe tried to sell the argument that the real economy is picking up as a result of Abenomics. This was an apparent rebuttal to opposition parties that emphasized the possible adverse effects of his economic policies. The Nikkei Stock Average was hovering around the 9,000 mark in November 2012 before the dissolution of the Lower House, but it has now risen to the 14,000 mark. It even briefly went above 15,900.

The thumping victory means ushering in a new period of stability for politically volatile Japan. This means both chambers will now be under governmental control, unblocking the bottleneck that has hampered legislation for the last six short-term premiers. Abe's hands will now be strengthened, enabling him to push through painful, but necessary, structural reforms aimed at dragging Japan out of two decades of economic malaise.

With elections to the Upper House over, there are no scheduled national elections for three years. If Abe is able to maintain high approval ratings, Japan can look forward to a period of stable and strong government. But this also means that the government has no more excuses not to embark on what is likely to prove the hardest bid of Abenomics, namely reforming and restructuring the economy so as to boost its medium- to long-term growth potential, i.e. the so-called third arrow.

Until now, this has remained rather ill-defined, with some heroic goals pronounced, but little in the way of concrete policies of how to get there. Ahead of the Upper House election, this was quite understandable, as reforms would have undoubtedly challenged vested interests, which Abe would not have wanted to antagonize. But with power

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consolidated, there can be no more excuses. Indeed, unless the government aggressively pushes ahead with the third arrow, the honeymoon the Abe administration has enjoyed with both voters and investors may quickly dissipate. It is no exaggeration to say that the third arrow is by far the most important of the lot.

Below is a breakdown of the election math: The LDP and New Komeito coalition needed to win 63 seats to gain a majority in the Upper House. This appeared very achievable. If the LDP-led bloc garnered more than 76 out of the 121-contested seats, it would have constituted an "absolute stable majority." This would allow the LDP to effectively control all of the major committees in the Upper House as over 50% of the committee members would come from the LDP and all major committee chairmen would also be appointed by the LDP. This coupled with the LDP-led coalition majority in the Lower House would give them an unchallenged hold over policymaking. Had the LDP won 72 seats on its own then it would have a single-party majority in the Upper House. Then, the LDP would have been less dependent on its coalition partner the New Komeito party. Finally, that did not happen. But control of both houses would give Abe freedom to push through policies that should see the yen weaken significantly further.

Since romping to power in December's vote for the more powerful Lower House, the hard-charging Abe unleashed a wave of spending and pressured the central bank to flood the market with easy money. The

moves – the first two “arrows” of a project dubbed “Abenomics” – sent the yen plunging and stock market soaring. Coupled with some feel-good figures on GDP growth, this powered 60 per cent-plus public approval ratings for the prime minister, whose disastrous first turn in the top job till September 2007, has paled in the public mind.

The third arrow of Abe’s policy programme remains hazy, but will include corporate tax breaks, special business zones, plans to boost female participation in the workplace and Japan’s participation in a mooted free trade area that encircles the Pacific. However, the farming industry is wary and uneasy about the extra competition this Trans-Pacific Partnership (TPP) would bring. Abe seems to be committed to join the TPP being negotiated by 11 countries.

Though the opposition DPJ and other smaller parties had united around one thing -- the need for Japan to graduate from nuclear power generation, a popular stance in a country badly scarred by the 2011 disaster at Fukushima, Abe’s stance is pro-nuclear, and he has vowed to switch Japan’s 48 mothballed reactors back on when they have passed rigorous new safety checks. Such a stance did not dampen enthusiasm for his economic trump card.

Abe’s detractors fear Abenomics is a Trojan horse aimed at securing the hawkish premier enough power to implement his conservative social agenda. They fear this will mean a loosening of Japan’s constitutional commitment to pacifism, a boosting of the military and a more strident tone in already-strained relations with China

and South Korea, both of whom have territorial disputes with Tokyo. The hawkish leader told the voters “Let’s revise the constitution in order to create a proud country”, and the meaning of this statement cannot be lost.

Since his coalition government came to power in December 2012, the economy has grown by 4% and the stock market by more than 40%. His first two measures involved a big injection of cash by the Bank of Japan and a major boost in government spending. Abe now faces the task of driving through difficult structural changes to the economy. Trade barriers need to come down, taxes will need to rise and large parts of the economy will have to be deregulated.

One of the decisions he will have to make later this year is whether to raise sales tax next April from 5% to 8% to help reduce Japan’s national debt. Abe is also considering whether to cut Japan’s 36% corporate tax to spur growth and open up the power industry, currently controlled by regional monopolies. Abe is also thought likely to endorse several controversial policies beyond the economy. These include restarting Japan’s nuclear reactors - something many in Japan are opposed to. A possible revision of Japan’s pacifist constitution, especially a section which prohibits the use of force in international disputes except for self-defence, may also be a priority. But pursuing nationalistic policies may cause tension with neighbouring countries.

Now Abe will be emboldened to advance his conservative policy goals, including revising the country’s pacifist constitution and bolstering Japan’s military, which could further strain ties with key neighbors China and South Korea, who are embroiled in territorial disputes with Japan. Controlling both houses of the Diet was an elusive goal for Japanese governments in recent years. With a divided Diet, it was hard to pass legislation. The voters were clearly fed up with the gridlock and were willing to opt for the perceived safety of the LDP, which has ruled Japan for most of the post-World War II era.

Abe would not rush the debate on constitutional revision and seeks to "expand and deepen" discussion in order to gain public support over time. He does realize the homework he will have to do, including finalizing details of a national referendum. Abe also hinted at possibly cooperating with the New Restoration Party.

But long-term growth will depend on sweeping changes to boost competitiveness and help cope with Japan's rapidly greying population and soaring national debt. Such reforms, long overdue, are bound to prove difficult even with control of both chambers of the Diet. The Liberal Democrats' "Recover Japan" platform calls a strong economy, strategic diplomacy and unshakable national security under the Japan-US alliance, which allows for 60,000 American troops to be stationed in Japan.

III WILL ABE REVISE THE CONSTITUTION?

The LDP also favors revising the country's pacifist constitution, drafted by the US after World War II, to give Japan's military a larger role — a message that alarms the Chinese government but resonates with some Japanese people troubled by territorial disputes with China and South Korea and widespread distrust of an increasingly assertive Beijing. Abe has upset both neighbors by saying he hopes to revise a 1995 apology by Japan for its wartime aggression and questioning the extent to which Korean, Chinese and other Asian women were forced to provide sex for Japanese soldiers before and during World War II.

Revising the constitution would require two-thirds approval by both houses of the Diet, followed by a national referendum. Polls show the public is less interested in such matters than in reviving the economy and rebuilding areas of northeastern Japan devastated by the March 2011 earthquake and tsunami. Abe would not rush the debate on constitutional revision and seeks to "expand and deepen" discussion in order to gain public support over time. He does realize the homework he will have to do, including finalizing details of a national referendum. Abe also hinted at possibly cooperating with the New Restoration Party, co-led by outspoken Osaka Mayor Toru Hashimoto, in trying to reach the two-thirds majority. Hashimoto stirred up controversy in May when he said that Japan's wartime system of using Asian women in battlefield brothels was

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necessary at the time. Chief Cabinet Secretary Yoshihide Suga has said that the LDP would try to make progress on constitutional revision because it is the party's long-cherished goal. For the LDP, starting a debate on revising the constitution in order to have one of Japan's own is a realistic option.

However, Abe is cautious. He does not want to rush to anything that is risky. For the present, Abe wants to stay focused on efforts to revive Japan's moribund economy and to not aggressively pursue his goal of amending the pacifist Constitution, even though his LDP-New Komeito bloc now controls the Diet. He realizes that it is not easy to steer Japan out of 15 years of deflation so soon, but at the same time knows that without a strong economy, Japan cannot have a sound welfare system, national security or diplomacy. Abe's first priority will be to flesh out his economic growth strategies during an extraordinary Diet session slated to start in October, and aim to pass bills that aim to improve industrial competitiveness by drafting corporate tax breaks to expedite capital investment.

Together with the 11 seats won by New Komeito, the ruling bloc now has a majority of 135 seats in the 242-seat chamber, allowing it to appoint the heads of all standing committees, dealing a further blow to the opposition camp. The ruling coalition however could not get a two-thirds majority, which it would need if it planned to revise any clause in the Constitution before an amendment is put to a national referendum, as stipulated under

Article 96. Abe aims to revise the article so it only requires a simple majority of 51 percent, ultimately enabling him to attempt revising the war-renouncing Article 9 with a simple vote. Also in the LDP agenda is lowering the voting age for national referendums to 18 from 20, as the LDP lacks enough public support.

Abe needs to get two-thirds in both the houses of the Diet to move an amendment. The election results did not give the LDP the strength to pursue the constitutional revision. And New Komeito, backed by the pacifist lay Buddhist group Soka Gakkai, opposes watering down Article 96 as that step could make it much easier to amend sensitive Article 9. Nippon Ishin no Kai (Japan Restoration Party), which supports Abe's view on the Constitution, has only nine seats in the lower chamber. Your Party, which now has 18 seats, originally backed Abe's goal but now refuses to cooperate with the LDP, saying that there are other priorities. Abe is expected to expedite talks on allowing Japan to engage in collective self-defense, a goal he pushed during his first stint as a prime minister in 2006 but is restricted by Article 9.

Recent polls show that people who oppose revisions of Article 96 and the war-renouncing Article 9 of the Constitution number more than those who support revisions of these articles. In the election campaign, the LDP, the Japan Restoration Party and Your Party called for changing Article 96 so that the process of amending the supreme law can begin with a concurring vote of a simple majority of all members of each House of the Diet, instead of the two-thirds or more required at

present. There is a view that makes compelling argument that weakening of Article 96, a mechanism to prevent an imprudent revision of the Constitution, is a dangerous move because it will make it easy to weaken or even gut the constitutional principles of sovereignty resting with the people, pacifism, freedom of thought, speech and expression, and freedom of assembly and association. In a clever move, during campaigning, Abe hardly mentioned constitutional revisions, a policy on nuclear power generation and Japan's entry into the Trans-Pacific Partnership free trade arrangement, but may soon revisit his strategy after putting the country's economy back on track.

While putting all his energy on the third arrow of Abenomics, Abe's immediate focus will be to introduce tough measures of structural reforms in order to revive Japan's moribund economy and not aggressively pursue his goal of amending the pacifist Constitution, even though his LDP-New Komeito bloc now controls the Diet. Since the LDP returned to power in the Lower House election in December 2012, Abe has been pounding away at his "Abenomics" plan of traditional fiscal spending, radical monetary easing and reform promises to get voters to help it end the opposition camp's hold on the Upper House.

The LDP-New Komeito bloc secured a majority in the chamber but not the two-thirds majority it will need to revise any clause in the Constitution before the agenda is put to a national referendum, as stipulated under Article 96. Abe hopes to revise the article — if he can garner enough votes — so that only a simple majority would be needed to amend the national charter. It would be interesting to watch how Abe is going into address to these contentious issues and what measures he adopts to build up consensus domestically.

IV

ABE'S VICTORY: WHAT DOES IT MEAN TO INDIA?

Abe is a good friend of India and looks at India with hope. Under Abe, India-Japan

Abe has a full agenda without including the constitutional revision and he has three years to achieve his right-leaning policy goals. While addressing to the economic issues, Abe will gradually start discussions on amending the Constitution. With majority in both the chambers and grant of political stability, his strategy would be to calmly deepen the debate.

relations is likely to see an upswing in four key areas. First, in the service and farm sector, India is likely to increase its presence in Japan. Second, the civil nuclear pact is likely to be clinched soon as both countries are committed. Third, Japanese investment is likely to increase. Fourth, defence and military cooperation will be strengthened further, particularly in maritime security.

Abe has a full agenda without including the constitutional revision and he has three years to achieve his right-leaning policy goals. While addressing to the economic issues, Abe will gradually start discussions on amending the Constitution. With majority in both the chambers and grant of political stability, his strategy would be to calmly deepen the debate. He needs the cooperation of the opposition camp, namely Nippon Ishin no Kai (Japan Restoration Party) and Your Party, because his coalition partner New Komeito, opposes his quest to revise Article 96 as this would make it easier for him and the LDP to amend the war-renouncing Article 9.

Another strategy that Abe might adopt is trying to break up the DPJ by getting some of its members to support a constitutional revision. This is because though the DPJ opposes revising Article 96, it does not have a unified stance on Article 9, which bans the use of force to resolve international disputes. DPJ lawmakers such as former Prime Minister Noda Yoshihiko were once called the LDP Noda faction, as their views are very similar to the LDP's, especially on the Constitution and on collective self-defense. Abe may try to split the party by bringing the constitutional revision to the table.

True, Abe has seen his party win two landslide election victories in a row, in December 2012 and July 2013, yet he faces an uphill battle in tackling key economic issues, including keeping momentum in his economic policies dubbed "Abenomics," deciding whether to raise the consumption tax next spring and steering the negotiations for the US-led TPP trade pact. Any one of these issues could threaten his power base and his support rate, which is around 60 percent now. There are instances

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in the past when there is internal power struggle within the LDP, the support rate for the Cabinet begin to plummet and then pressure builds up to replace their leader. The issue of hiking the 5 percent consumption tax to 8 percent April 2014 as proposed could be one move that might backfire on Abe & Co. Abe's government is wise enough to wait to make a judgment in October on whether to raise the levy when the extraordinary Diet session is held. Abe has said his administration will base its decision on economic indicators, but hiking the tax, which many see as needed to ease the national debt, could anger voters.

When the tax was introduced for the first time in 1989, the LDP was in control and when the levy was hiked to 5 percent in 1998, the party suffered at the hands of voters. The late Noboru Takeshita at the helm then in 1989 lost the Upper House majority after he introduced the then-3 percent tax - Japan's first such levy. The party lost its Upper House majority again when the late Ryutaro Hashimoto ushered in the hike to 5 percent in 1998. Abe would be naïve not to remember these precedents.

The TPP is another tricky issue that may unnerve Abe. The TPP is a minefield for the LDP because of its perceived threat to Japan's farmers, historically a major voting force for the LDP. Abe may have committed not to unconditionally scrap tariffs on agricultural staples, including rice, wheat, sugar, pork and beef, but the US has ruled out any exceptions before Japan joins the negotiations. This is another challenge for Abe to contend with.

By implementing the two of the “three arrows” of Abenomics - big fiscal spending and aggressive monetary easing – Abe has sent the message that he can revive the moribund economy. But foreign investors, who account for more than 50 percent of Japanese stock trades, have doubts if Abe can achieve deregulation as he is likely to face stiff resistance within his party. Foreign investors will be watching how fast and how hard Abe tries to make big structural and regulatory changes that will really open up the economy to new kinds of domestic and foreign competition.

Abe must be basking in glory that his electoral success have brought political stability, but it effectively ended the two-party system of the LDP and DPJ that was envisioned with the introduction of the single-seat constituencies in the 1996 Lower House election and culminated with the DPJ’s victory in the 2009 Lower House race that ousted the LDP from power. Such a situation does not bode well for a democracy as a weak opposition might encourage the ruling dominant party to usurp power that may go against national interests.

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