

A 'New Era' for Japan's Global Engagement and the U.S.-Japan Alliance

BY YUKIO TADA

NOTE FROM THE AUTHOR:

I was invited by Project 2049 Institute to join a public-private policy dialogue on the U.S.-Japan Alliance in Regional and Global Affairs in Washington, DC in early January 2013. My topic was economics, representing the Japanese business community. I tried to convey Japan's new positive and upward sentiments to break bad orthodoxy before talking about lessons learned. The new economic grand plan, "Abenomics," focuses on lifting the Japanese economy to recovery and consists of "three arrows".

However, the majority of the American counterparts in attendance were rather skeptical of the plan and new sentiments, due to the decades-long economic doldrums, and the different Prime Minister every year for past 6 years. Even after steady progress in the initial stages of Abenomics, cautious remarks have repeatedly been heard from the neighboring countries, which are also echoed in Washington.

Therefore, as a follow up, I would like to emphasize here that this time is different. Despite the skeptics, Japan has both the momentum and the political leadership to tackle the necessary structural reforms, and if we succeed, Japan's reform process will provide a roadmap for international public good for rest of the stagnated global economies.

Prime Minister Shinzo Abe's return to the pinnacle of Japanese politics has ushered in a "new era" for Japan's global engagement. The 58-year old prime minister, hailed by Japan-watchers and media pundits as the 'comeback kid' of Japan, was sworn in on December 26, 2012, following the Liberal Democratic Party's (LDP) landslide victory in the 2012 general election. This was only the second time a prime minister was re-elected back into office – PM Shigeru Yoshida made the historic comeback 60 years ago.

Few people noticed that on the day after his inauguration, PM Abe posted his first article on his second administration's foreign policy, entitled "Asia's Democratic Security Diamond," on the Project Syndicate website – an influential online magazine. Abe's new policy was further elaborated in his speech, "The Bounty of the Open Seas: Five New Principles for Japanese Diplomacy," which was to be delivered in Jakarta but could not be due to a change in his itinerary.¹ It was unfortunate that the new values-based principles could not be shared with Japan's counterparts at the beginning as intended.

In his prepared speech for Jakarta, PM Abe called for a 'new foreign policy' to reinforce his economic initiatives. PM Abe's political leadership in the foreign policy arena, coupled with Japan's steady economic recovery, would help to enhance Japan's ability to engage globally and strengthen the utility of the U.S.-Japan alliance at a time when the U.S.

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administration is emphasizing a pivot toward the Asia-Pacific and facing draconian defense budget cuts due to Sequestration.

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There have been a series of efforts to convey Japan's new position to the policy makers in Washington, DC by PM Abe and his key ministers including the Feb 23rd CSIS event, "Japan is Back". In his address, PM Abe stated, "Japan is not, and will never be, a Tier-two country. I should repeat it by saying, I am back, and so shall Japan be."²

At an April 19th CSIS event, Deputy PM Aso delivered a speech, "I AM BACK, too". Deputy PM Aso covered "What is Abenomics? Current and Future Steps of Japanese Economic Revival."³

At a May 3rd Brookings event, "STREET" with Minister of Economy, Trade and Industry Toshihiko Motegi, his topic of discussion was "Economic Growth, Energy, and Economic Partnership: Japan's Current Obstacles and New Opportunities."⁴

Prime Minister Abe's re-ascension is also complemented by a series of positive economic indicators that suggest Japan may finally be on the cusp of a steady and perhaps permanent recovery. The devastating effects of the 3-11 disasters were the last trigger to break a political orthodoxy.

This trend line may be explained by the convergence of 'positive' political momentum with proactive economic policies on the part of Tokyo. This bodes well for the revitalization of Japan's global

engagement and the U.S.-Japan alliance, particularly at a time when the Obama administration appears to be putting its pedal to the metal on trade and economic issues as a key fulcrum of its pivot to Asia strategy.

Setting the huge National Debt aside, there had been six key challenges for the business community, – some of which were clearly accentuated by the 3-11 disasters – which stand in the way of Japan's full recovery:

- 1) Excessive Strong Yen
- 2) High Corporate Tax
- 3) Delay of Free Trade Agreements
- 4) CO2 regulations
- 5) Energy Instability
- 6) Rapidly Aging Population

Indeed, PM Abe's triumphant return to political power came along with a pledge to move forward with tough macroeconomic reforms, and reverse deflation. The Yen's fair adjustment was a side effect and was not originally targeted.

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PM Abe's first order as Prime Minister was to implement a series of 'bold' recovery strategies, euphemistically dubbed "Abenomics." PM Abe initiated several key macro-economic policies including the first arrow, bold monetary easing; as there are now signs that Japan's long-stagnant economy is waking from its long slumber.

Japan's GDP in the 1st QTR 2013 rose an annualized 3.5 percent. Private consumption, comprising 60 percent of

GDP, contributed 2.3 percentage points to the jump. Furthermore, although there was some volatility in the adjustment process, the Nikkei 225 has risen to its highest closing level since late December 2007. The index gained more than 40 percent this year, supported by PM Abe's growth policies and the Bank of Japan's aggressive monetary easing.

Japan's progress, to be sure, is not without cautionary tales, some of which are already apparent. Japan posted a record monthly trade deficit of \$17.43 billion (¥1.629 trillion yen) in January.⁵ This trade deficit problem is being fuelled in part by Japan importing more oil and gas to make up for energy shortfalls after the shutdown of nuclear power plants due to the March 2011 earthquake.⁶ Indeed, the cost of a weaker yen is higher import costs, reflected by a ninth straight trade deficit in March.⁷

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Yet, at the same time, Japan's current-account surplus rose in March to the highest level in a year. The March current account was \$12.5 billion (1.251 trillion yen) in surplus, almost reaching its recent high of \$13.1 billion (¥1.307 trillion) a year earlier. The currency's depreciation is also strengthening Japan's income from overseas investment at a solid pace.

PM Abe's political resurrection along with the country's economic recovery unveils a 'new era' for Japan's global engagement and enhances the U.S.-Japan alliance at a time when the Obama administration appears to be putting greater focus in the Asia-Pacific along with efforts toward negotiating the Trans-Pacific Partnership (TPP).

Despite the anticipated political difficulty, PM Abe daringly announced Japan's intention to join the TPP on March 15, which has stepped up the momentum of negotiations for the trans-oceanic trade and investment arrangement.

PM Abe's TPP strategy is overcoming domestic division via reform and economic expansion through "challenge, open, and innovation." PM Abe was re-elected with the hope that the country's economy can finally break free from years of sluggish growth under his leadership. "Abenomics," with the first two arrows already underway, earned widespread support and helped raise his public approval rating to around 70 percent even after 150 days in recent polls.

There have been already "many 'firsts'" in the Abe 2.0 administration. With continued political leadership and bold economic initiatives on both sides, there is now a historic opportunity to help get the U.S.-Japan alliance back on the right track.

This Futuregram is an adapted version of a presentation given at The Heritage Foundation on January 8, 2013. To watch the event video, please click here: <http://www.heritage.org/events/2013/01/japan-project-2049>.

NOTES

1 Abe, Shinzo. 2013. "The Bounty of the Open Seas: Five New Principles for Japanese Diplomacy." Speech that was to be given in Jakarta on January 18.

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3 Aso, Taro. 2013. "What is Abenomics? Current and Future Steps of Japanese Economic Revival." Speech given at the Center for Strategic and International Studies (CSIS) in Washington, DC on April 19. <http://csis.org/event/statesmens-forum-his-excellency-taro-aso-finance-minister-japan>.

4 Motegi, Toshimitsu. 2013. "Economic Growth, Energy, and Economic Partnership: Japan's Current Obstacles and New Opportunities." Speech given at the Brookings Institution in Washington, DC on May 3. <http://www.brookings.edu/~media/events/2013/5/03%20japan%20economic%20partnership%20motegi/minister%20toshimitsu%20motegi%20remarks.pdf>.

5 Obe, Mitsuru. 2013. "Japan Posts Record Trade Deficit as Weaker Yen Hits Imports." *The Wall Street Journal*, February 20. <http://online.wsj.com/article/SB10001424127887323549204578315553800488488.html>.

6 "Huge trade deficit would be problem for Japan-finmin." 2013. Reuters, February 21. <http://www.reuters.com/article/2013/02/21/japan-economy-aso-idUST9N0B501F20130221>.

7 Mayger, James. 2013. "Japan Current-Account Surplus Climbs as Abenomics Sinks Yen." Bloomberg, May 9. <http://www.bloomberg.com/news/2013-05-10/japan-posts-biggest-current-account-surplus-in-year-as-yen-falls.html>.