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REPORT

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'One size fits all' car mechanic BOJ credibility gap

The Bank of Japan (BOJ)'s decision to punt at its October 30 Policy Board meeting has caused a huge disappointment among BOJ-watchers. Once again, the BOJ pushed back its expectation of when it would hit its 2% inflation target by another six months, to October 2016-to-March 2017. It downgraded its inflation forecast for the current fiscal year to just 0.1%; back in 2013, it had expected to achieve 1.9% by now. It lowered its expectation for fiscal 2016 from 2.0% to 1.4%; its forecast for fiscal 2017 is 1.8%. Despite the failure to achieve its goals, the Bank refrained from doing what half of BOJ-watchers expected in a recent survey: announce further monetary easing measures.

Until now, most analysts believed it was just a question of when the BOJ made its move: in October or a few months later. Now, a growing number believe that the BOJ really buys its own story: that falling energy prices have simply delayed things, that it will eventually hit its goal without additional monetary ease, and that it is now content to take as much time as needed to hit that goal. The BOJ keeps pointing out that, when energy prices are stripped out, prices are rising; in August, this measure of inflation (all items other than fresh food and energy) was up 1.2% from a year ago (see top chart on pg. 2). Hence, contends the BOJ, once energy prices stop falling or stay flat, then its main measure of core inflation (all items except fresh food) will show a similar rise. Given that the BOJ appears to genuinely believe this, a growing number of analysts expect no further easing unless there is some sort of "event shock," such as a strengthening of the yen to say, ¥110-115/\$, or a big slump in real wages; or pressure from the Abe administration ahead of the July 2016 Upper House elections.

The problem is that the market fundamentally disagrees with BOJ Governor Haruhiko Kuroda. Not a single one of the few dozen economists surveyed by *Bloomberg* during Sept. 29-Oct. 2 believed Kuroda would be able to achieve his goal of 2% "core" inflation in the then-target date of six-to-twelve months from now. So far, in the first six months of fiscal 2015 (April through September), inflation has shown zero growth. We suspect upcoming surveys will show the majority of forecasters have little confidence in the new time-frame either. Japan Macro Advisors headlined its report on the BOJ decision: "BOJ And Its Road Mirage Inflation Goal."

How many gallons of gas?

We have doubts that Kuroda can reach his 2% goal even with more monetary ease unless other steps beyond the purview of the BOJ are also taken. One is wage increases to fuel consumer spending. In a

speech to Osaka business leaders on Sept. 28, Kuroda complained that business investment and wage hikes have been "lackluster in light of record profits." (See pg. 4.)

A second necessary measure is fiscal stimulus. The most important influence on the rate of inflation is the level of unemployment. The last time Japan's inflation reached 2% was in the early 1990s when the unemployment rate was 2.3%. Today, unemployment is at 3.4%. The quickest and surest way to lower unemployment is via the right kind of fiscal stimulus, e.g., consumer-oriented tax cuts and/or the right kind of spending programs. Kuroda's railings against fiscal stimulus are self-defeating (more on this below).

Kuroda believes that monetary ease is both necessary and sufficient to restore inflation to 2% in a relatively short timeframe. We believe monetary largesse is necessary, but not sufficient. Kuroda is like a car mechanic who tells you that, since cars need gasoline to run, he's going to put 30 gallons of gas in your 15-gallon tank. "But, Kuroda-san," you say, "The transmission is also broken." In that case, he says, "I'll make that 60 gallons."

Abe did not press Kuroda

The Abe administration seems to have put no pressure on the BOJ to ease further. Last week, Finance Minister Taro Aso absolved the BOJ from blame, saying that, "Prices aren't rising in Japan not because of a lack of money, but because of a lack of demand. The economy is fine, but looking at inflation, the effect of a halving of oil prices has been pretty huge." A week before the BOJ Policy Board meeting, Aso had said in an interview with NHK TV, "Probably the Bank of Japan will not undertake additional monetary easing right now."

Beyond that, the Abe team fears that another round of massive monetary easing could cause a further ratchet downwards of the yen. Abe is said not to desire this for two reasons: 1) opponents of the Trans-Pacific Partnership (TPP) in the US Congress would use yen depreciation as another argument against ratifying TPP; and 2) yen weakening is unpopular in the rural districts that are critical in the July 2016 Upper House elections. That's because it raises the prices that households and small firms pay without raising their income.

The yen and 'bad inflation'

To the extent that Kuroda's monetary ease has worked, one of the main channels was the 30% depreciation of the yen since late 2012.



During 2005-15 there was a high 77% correlation between the year-on-year change in the yen and US-style core inflation (i.e., all prices except food and energy) about 12 months later (see bottom chart). So, that might be considered a success for Kuroda, except for two things.

Firstly, it is not the yen's *weakness*, but its process of *weakening*, that raises prices. So, if the yen depreciates and then stays flat at that lower level, all that happens is a one-shot hike in prices, not ongoing inflation. If past is prologue, then the yen's flatness in recent months should put downward pressure on inflation going forward (unless we have another big bout of yen depreciation).

Secondly, the weak yen has brought the kind of "cost-push" inflation otherwise known as "bad inflation." A weaker yen raises the prices Japanese firms and consumers have to pay for imports ranging from energy and food to smartphones and clothes. That means a transfer of income from Japan to foreign producers; it also means a drop in real incomes and thus weaker consumer purchasing power.

That cost might be worth paying if the yen were boosting real exports, but that has not happened.

Unemployment and inflation

Over the past quarter-century, the biggest single factor influencing deflation/inflation has been the unemployment rate. This overwhelms the impact of monetary ease or the

yen rate. If the BOJ's monetary ease were the cause of falling unemployment, that could be a success, but instead, the unemployment rate is simply going down as the economy slowly recovers from the 2008-09 global recession.

Taking a gander at the top chart on pg. 3, we can quickly see the following key points:

- During 1991-2012, the unemployment rate has been able to explain an extremely high 93% of the ups and downs of deflation and inflation. (That is the meaning of R-squared in the chart.)
- The last time inflation hit 2% was back in the early 1990s, when the unemployment rate was 2.3% and below. Today's unemployment rate of 3.4% corresponds to an inflation rate of around 0.5%.
- Finally, the white circles show the weaker relationship between unemployment and

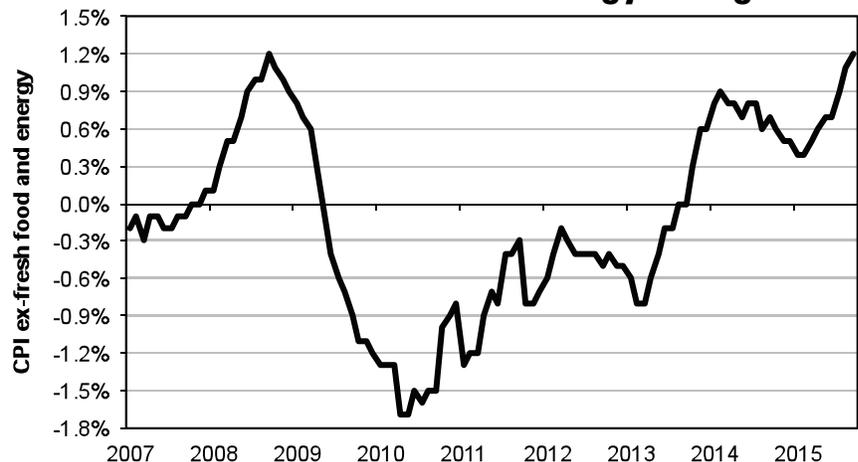
inflation since 2013 when Prime Minister Shinzo Abe returned to power. If Kuroda's monetary ease were really making a big change in inflation trends, then the white dots would mostly be above the trend line. In reality, almost half of the white dots are on or below the trend line. Most of those above the trend line belong to the period in 2013-14 when the year-on-year depreciation of the yen was quite large.

Monetary ease adds little to inflation

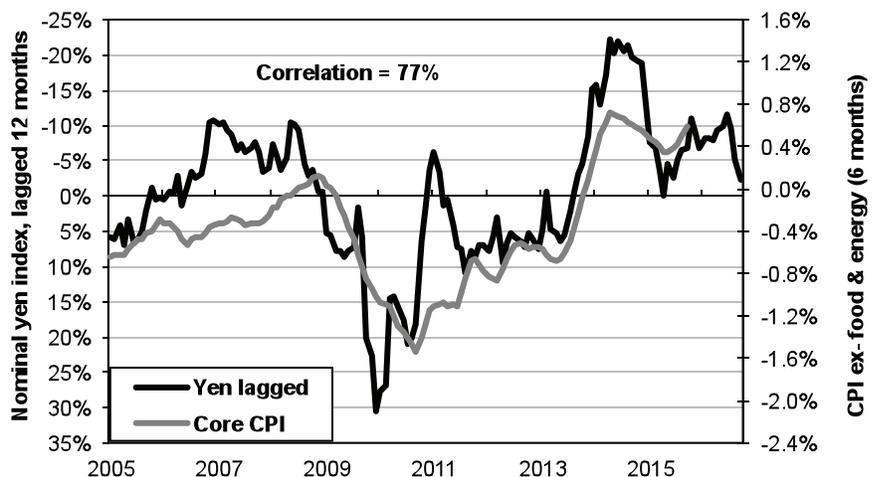
Wait a minute. Aren't we going to give Kuroda credit for reviving inflation, even if it's at a lower level than he had promised? Certainly, 0.8% core inflation is a lot better than deflation. If what he has done so far has had an impact, wouldn't doing even more of it have additional impact?

Well, let's look at the data. In the middle chart on pg. 3, we show both the actual

BOJ sees inflation ex-energy rising



Yen and 'bad inflation'



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REPORT

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rate of deflation/inflation over the last decade since 2005 and a forecast we made for inflation based solely on the unemployment rate and the yen rate. These two factors alone explain a very high 85% of all the ups and downs of inflation/deflation over the past decade.

Most of the model's predictive value is due to the impact of the unemployment rate, which by itself can explain 79% of the ups and downs of inflation/deflation. Adding the yen as an explanatory factor adds just another 6 percentage points. To the extent that Kuroda's monetary ease worked, it did so through the yen depreciation channel.

The operational target of Kuroda's policy is to expand the "monetary base," the small slice of the money supply that the BOJ can directly control. Kuroda's mantra in the spring of 2013 was "2-2-2": doubling the base in two years would produce 2% inflation. The base has more than doubled since he became BOJ Governor.

Now consider the bottom chart. There are some periods, such as 2013-15, when expansion of the monetary base does appear to correlate well with core inflation. But there are also periods, e.g., 2009-11, when the monetary base and inflation move in the opposite direction.

Policy implications

So, that brings us to the policy question for the BOJ: will expanding the monetary base at at even faster clip have an even bigger impact on inflation?

Monetary ease works most powerfully when it is able to lower interest rates and when that leads to more purchases of big-ticket items like houses, appliances, cars and capital investment by companies. That, in turn, helps lower unemployment. The BOJ has certainly succeeded in pushing down lending rates. A record 51% of all bank loans now charge an interest rate of less than 1% and a record 22% charge less than 0.5%. And yet, purchases of big-ticket items by households and firms alike have remained sluggish. In an era of near-zero interest rates, creating lots of money can't lower rates very much.

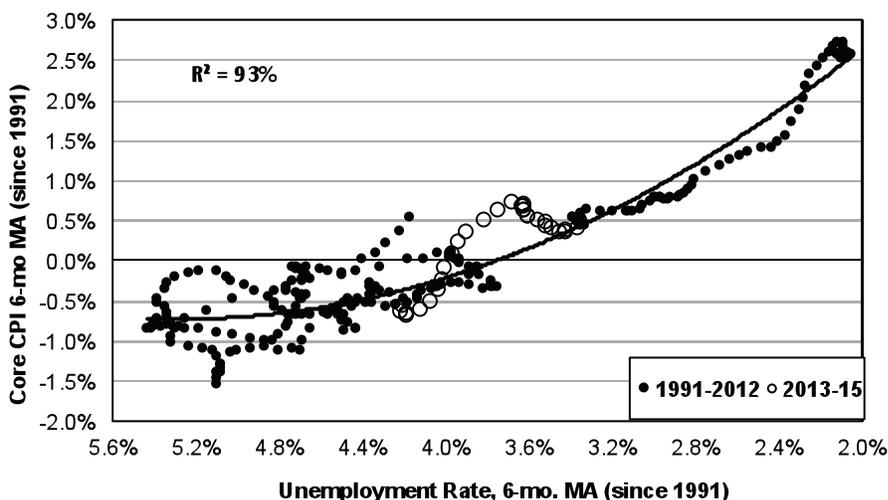
If bringing down the unemployment rate is the surest route to reviving inflation, then—in an era with virtually zero interest rates—the most powerful path to bringing down unemployment is fiscal stimulus.

In economic policy, one must not only do the right thing, but do it in the right order.

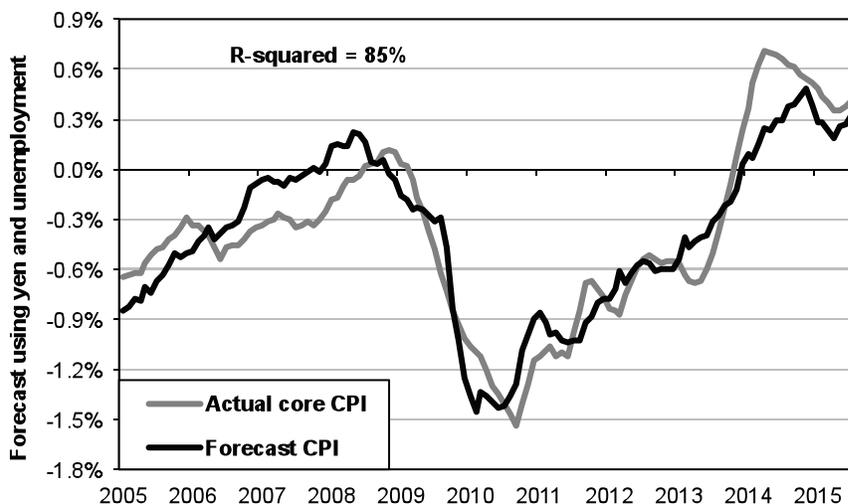
For Japan, the watchword should be: recovery first, then fiscal consolidation. Monetary

and fiscal stimulus are not alternatives, but necessary partners. (RK)

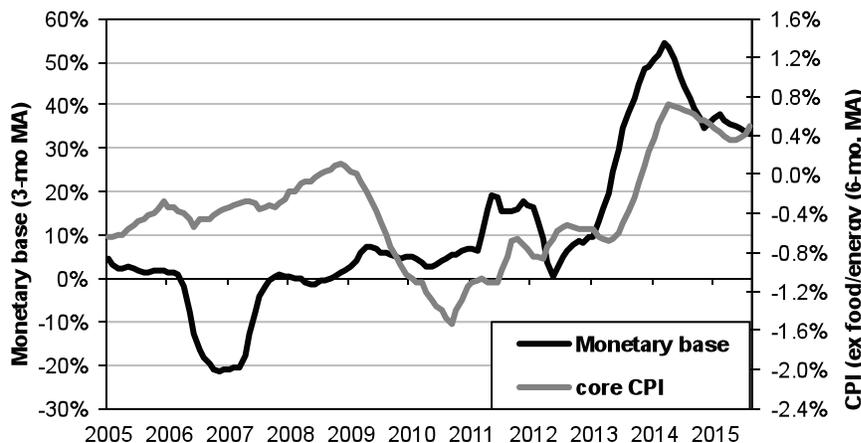
Last time inflation hit 2%, unemployment was 2.3%



Unemployment & yen good forecasters of inflation



Monetary ease poor forecaster of inflation



Source: BOJ, Statistics Bureau, Labor Force Survey Note: See text for meaning of R-squared in top two charts

Wage hikes below BOJ expectation

Addressing a gathering of business executives in Osaka on Sept. 28, Bank of Japan (BOJ) Governor Haruhiko Kuroda warned that, if companies failed to raise wages sufficiently, that could derail efforts to bring inflation back to 2%. The entire strategy rests on a “virtuous cycle” of higher profits and price expectations leading to more hiring and higher wages, thereby causing more consumer spending, and thus more profits. A broken wage link threatens the whole chain. Kuroda is right about this, but it is not sufficient to lecture firms. It is necessary to understand why wages have not risen as much as Kuroda’s strategy presumed.

Less unemployment leads to higher wages

The single biggest factor in the rate of wage hikes is the level of unemployment. When labor is scarce, firms compete to get good workers by offering higher wages. Between 1991 and 2012 (shown by the black dots in the top chart), the unemployment rate alone explains about 66% of the variance in year-on-year wage hikes (that is the meaning of “R-squared = 66%” in the chart). Yet, almost all of the white circles showing data from 2013-15 are below the trend line.

For example, at today’s rate of unemployment, 3.4%, the trend line shows that, during 1991-2012, nominal wage hikes were typically around 0.8%. But, in the last 12 months, with unemployment slowly coming down from 3.6% to 3.4%, the average year-on-year growth in nominal wages was just 0.2%. Moreover, in order for wages to rise by 2% a year and just match the BOJ’s goal for inflation, unemployment would have to drop to around 2.3%.

Why are today’s numbers so far below the trend? That main reason is that the unemployment rate is not as good an indicator of the amount of labor “slack” in the economy as it used to be. As we’ve pointed out many times, more and more people are working part-time, even though many would like to work full-time. Non-regular workers get paid less. Labor’s bargaining power is not as great as it would be under past conditions when unemployment was 3.4%. Labor markets are, in short, nowhere near as tight as the BOJ and others believe that they are. When Kuroda says Japan is at full employment, he is wrong. If there were full employment, wages would be rising at a faster clip.

Link between inflation and wages an illusion

Kuroda’s strategy of the “virtuous cycle” was based on the premise that, if both workers and firms expected higher rates of inflation, then workers would demand larger wage hikes and firms would be willing to pay them (e.g., if the prices firms get for their products are going up 2% a year, then they would be more willing to give a 2% pay hike.)

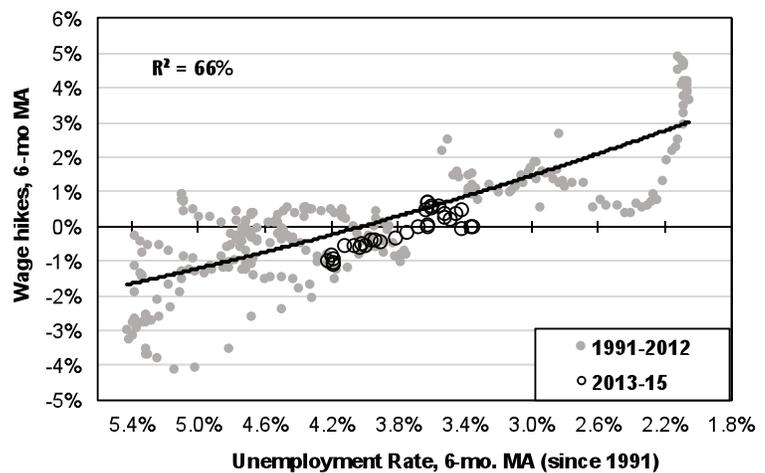
That premise appears to be backed up by the bottom chart, in which core consumer inflation appears to explain 59% of the variation in wage hikes during 1991-2012. This chart is a statistical illusion. That’s because both wages and inflation go up in tandem as unemployment goes down. The causal relationship is between unemployment on the one hand and wages and prices on the other. There is no

causal relationship between consumer price hikes and wage hikes.

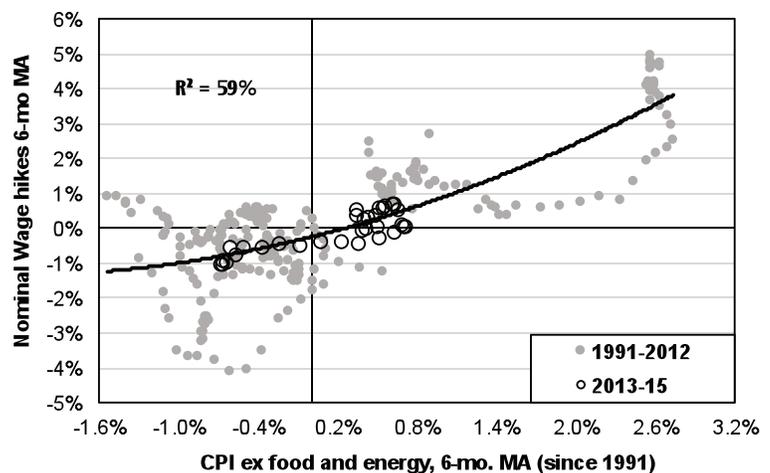
We can demonstrate our last sentence by “regressing” wage hikes on both unemployment and inflation. If we do that, the regression says that we can explain 65.5% of wage hikes. However, the equation also tells us that the inflation factor has an 80% chance of being a sheer coincidence. We can further confirm this by regressing wage hikes on unemployment alone, and dropping inflation. In that case, the equation has almost exactly the same explanatory power and is even more precise (slightly smaller errors). In short, while high levels of inflation (e.g., double-digits) can set off a wage-price spiral, that is not the case at low levels of inflation or deflation. Consumer deflation/inflation is simply irrelevant to wage hikes once we take the unemployment rate into account.

Kuroda has got cause and effect backwards. He argues that higher inflation will promote higher growth. In reality, it is higher growth and the consequent lower unemployment that leads to revived inflation.

Current wage hikes below 1995-2012 trend



Higher inflation doesn't lead to higher wages



Source: Statistics Bureau, Labor Force Survey Note: R-squared means how much of the change in wage hikes can be explained by the unemployment rate, and consumer inflation, respectively.

TOKYO INSIDELINE

by Takao Toshikawa

Axing the taxman, Diet machinations

Crafty Shinzo

On the surface, there were no particularly exciting developments in the October 7 Cabinet reshuffle, as the major members retained their posts. This minor +pruning seems to have given the public a sense of security. An *Asahi Shimbun* poll carried out on October 17-18 found a support rate for the Cabinet of 41%, 6 percentage points higher than in the last survey. After hitting bottom, following the ramming through of the security legislation, the support rate is rising again. There is no conclusive analysis as to why. Moreover, a *Nikkei* poll later in the month showed Abe's approval rating falling back again (see pg. 7).

Hangin' Ishiba out to dry

To the general public, the reshuffle seemed a non-event, but political professionals can discern crafty moves.

First, there is the appointment of Abe confidant, former Deputy Chief Cabinet Secretary Katsunobu Kato, to the newly-created post of Minister in Charge of Promoting Dynamic Engagement of All Citizens. Clearly, this is intended to hang out to dry Shigeru Ishiba, the Minister in Charge of Vitalizing Local Economy. The specific mission of this "dynamic engagement of all citizens" is yet to be seen, but it seems to overlap Ishiba's "vitalizing local economy" post. Ishiba aims to succeed Prime Minister Shinzo Abe, and on the day of Abe's unopposed reelection as Liberal Democratic Party (LDP) President, he formed an "Ishiba faction." Abe was not amused. He probably established this Minister for "dynamic engagement of all citizens" to take away Ishiba's job.

In our meeting, Kato was full of zeal as he told me, "Prime Minister Abe said he wants me to cut through the vertically-structured bureaucracy in Kasumigaseki [Tokyo's government district]. I think I'll face a harsh reality, be met with great resistance, but I intend to go all out. Of course, building a society promoting dynamic engagement of all citizens involves a broad scope of topics.

I'm in charge, so I won't hesitate to speak frankly. By next spring, I want to have the details properly arranged to present them to the public."

Taro Kono's appointment as Chairperson of the National Public Safety Commission and Minister of Administrative Reform was also well received by professionals. Kono's smooth and forthright manner of speaking is popular with the public. His father, Yohei, a former Lower House Speaker, was among the most dovish of LDP members [he issued the famous "Kono statement" on "comfort women" when he was Chief Cabinet Secretary in 1993]. Taro's appointment is intended not only to please the head of the Aso faction, Deputy Prime Minister and Finance Minister Taro Aso, but also to "confine" the younger Kono in the Cabinet and thus restrain to some extent Yohei's willingness to criticize Abe. Moreover, Taro's eloquence is expected to be useful not only in televised debates, but also in delivering powerful messages during next summer's Upper House election campaign.

Changing the LDP Tax Commission

Abe also replaced the chair of the LDP's Research Commission on the Tax System, which is sacred ground. Indignant complaints of "how far will the Kantei [the Prime Minister's office] go?" can be heard in Kasumigaseki. Raising and lowering taxes is one of the pillars of politics. The party's Tax Commission has come to be seen as having a higher status than the Government Tax Commission affiliated with the Ministry of Finance (MOF). In the past, eminent political figures have served as Chairs of the party Tax Commission, and have brushed off the MOF while exploring positions that the public can understand. Although the Chair of the Research Commission on the Tax System is below the Chair of the LDP Policy Research Council Chairman on the party's organizational chart, the LDP post has come to be much more influential. Abe dismissed long-reigning boss Takeshi Noda and replaced

him with former Minister of Economy, Trade and Industry Yoichi Miyazawa.

Noda had a reputation for being "more of a Finance Ministry bureaucrat than the Finance Ministry bureaucrats are," and criticism of his "arrogance" had been heard around the Kantei. Noda opposed the proposal from ruling party coalition partner New Komeito that food and some other goods be exempted from the rise in the consumption tax from 8% to 10%, which is scheduled for April 2017. The MOF's counterproposal called for a refund of the increase as a way of decreasing its burden. Abe's associates criticized the MOF's proposal because "a refund later is meaningless if the consumer gets no relief when making a purchase" and leaned towards New Komeito's position. Also considered as a compromise for reducing the tax burden was the adoption of a simplified tax invoice for small and medium businesses, in order to reduce their paperwork. Favoring New Komeito's position here also takes into account the party's expected cooperation in next summer's Upper House election.

Abe had planned Noda's removal for quite some time. The leading candidate to replace him was former Finance Minister Fukushima Nukaga, an insider (and unofficial leader) of the party's Tax Commission subcommittee. Former Lower House Speaker Bunmei Ibuki was also willing, but such a "demotion" from a position as head of one of the three branches of government was seen as diminishing the dignity of the Speaker's office. Nukaga is a veteran politician who has won 11 elections to the Lower House and also served as LDP Policy Research Council Chairman and Defense Agency Director-General. Miyazawa, in contrast, was a Tax Commission insider, but he was elected to the Lower House just three times before switching to the Upper. He is considered a young up-and-comer.

The Nukaga candidacy was just a feint. Abe used Miyazawa, who is close to Chief Cabinet Secretary Yoshihide Suga, to effectively bring the party Tax Commission under his control. The above-mentioned Kato, who long served Abe as Deputy Chief Cabinet Secretary (for government affairs), commented, "Mr. Miyazawa becoming Tax Commission Chair was well-played."

Dismissing the bungler

Abe's skill at winning over public sentiment extended even to the drama of dismissing

Hajime Funada, chair of the LDP Headquarters for the Promotion of Revision to the Constitution. During the debate on Abe's collective security legislation in the Lower House Commission on the Constitution in June, the university professor that Funada recommended to the LDP as an expert witness called the legislation "unconstitutional." That strengthened the attacks of the opposition parties and the public movement opposing the legislation. The Abe Kantei blamed Funada completely, saying that he deserves the "death penalty." His replacement by former Justice Minister Eisuke Mori was payback for his mistake. One catches a glimpse here of Abe's vindictive refusal to forgive serious errors. In the past, the late Prime Minister Eisaku Sato skillfully manipulated politicians to the point that he became known as "personnel-change Sato." Abe is approaching that level.

BOJ stands aside

Market insiders held their breath as the Bank of Japan (BOJ) held a monetary policy meeting on October 30. Further monetary easing, colloquially known as the third "Kuroda Bazooka," was voted down. This decision was made with eight of the nine committee members voting against it (see pg. 1).

With the European economy losing momentum, the slowing of the Chinese economy, and the revelation of irregularities at Germany's VW, the current direction of the global economy is opaque. In Japan, personal consumption has not recovered. The preliminary GDP figures for the July-September quarter, set to be released on November 16, are expected to be poor. Foreign investors have sold off a total of ¥3.9 trillion (\$32.5 billion) in Japanese stocks since August. That figure might be the highest since the second Abe administration took office. Foreign investors had already taken it as a given that there would be a third Kuroda Bazooka to break the market deadlock. Because, without it, the 'sell-Japan' movement will accelerate.

A certain Minister that I met with on October 21 had given me the impression that there would be no bazooka. He emphasized that next summer's election is the Abe administration's biggest concern. "An ordinary Diet session will convene after the New Year, on January 4. The first thing it will do is bring up a large supplemental budget. Then the real battle will begin. What preparations are necessary to avoid losing the

election? They have to make lists, simulate every situation, and make all preparations." My impression from this statement was to guess that additional easing would be put off beyond October, but also that the Bazooka would be fired before next summer's Upper House election.

Diet machinations

Normally, an extraordinary Diet session is held every fall to pass a supplemental budget. Not this year. The reason given was the Prime Minister's busy diplomatic schedule. It is indeed packed, with visits to five Central Asian nations and Mongolia starting on October 22; a Japan-South Korea summit in Seoul on November 1-2; a Group of 20 summit in Antalya, Turkey, on November 15-16; an APEC summit in Manila on November 18-19; an ASEAN Regional Forum summit in Kuala Lumpur on November 19-21; a COP (climate change) summit on November 30-to-December 2 in Paris, and a visit to India in mid-December.

On the other hand, there are mountains of issues to discuss. They include not only the security legislation that Abe promised to "continue carefully explaining to the public," but also an agreement on the Trans-Pacific Partnership (TPP) and the laying out of policies by the Prime Minister and the new Cabinet Members.

The view that the heavy diplomatic schedule was intentionally compiled in order to avoid convening the Diet and resuming the debate with the opposition parties over the security legislation rings true. Abe really does want to avoid the security debate that badly. Five opposition parties, including the Democratic Party of Japan (DPJ) and the Japanese Communist Party (JCP), have asked the chairs of the Upper and Lower Houses to convene an extraordinary session based on a constitutional provision: "When a quarter or more of the total members of either House makes the demand, the Cabinet must determine on such convocation." At this point, the Abe Kantei is not listening to them. According to some scholars, ignoring the request is unconstitutional.

The JCP's electoral gambit

The JCP's big transformation of its election policy, against the backdrop of the growing opposition movement against the collective security legislation, is the number one topic of conversation in Nagatacho (Tokyo's political district). It has asked the DPJ to join in

running "opposition unity candidates" in next summer's Upper House election. Previously, the JCP has always had its own candidate in each electoral district. It has retracted that policy and now says the Upper House election should be fought with a list of opposition unity candidates who can stand against LDP candidates.

When JCP Chairperson Kazuo Shii met with DPJ President Katsuya Okada, he raised the concept of a "national coalition government." In order to prevent amendment of the Constitution and repeal the security legislation, the JCP must shift from being a perpetual opposition party to a member of the government.

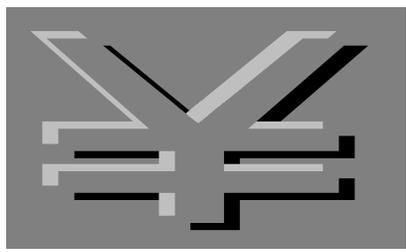
Moving towards a "better Government" as a platform before forming a Government on its own ("better" comes before "best") is a pet theory of Shii's mentor, former JCP Chair Tetsuzo Fuwa. Okada subsequently rejected the concept, saying, "Upper House elections do not form Governments."

The JCP decided not to run a candidate in the Osaka mayoral election on November 22, deciding instead to support the Secretary General of the LDP's Osaka Branch, who is running without affiliation. It is no exaggeration to call it a history-making transformation when the JCP supports the LDP candidate in a race between a candidate from current Mayor Toru Hashimoto's Osaka Restoration Association and the LDP's Osaka chapter Secretary General.

If the JCP, said to be good for 20,000 votes per Upper House single-member district, were to shift its votes en masse to opposition unity candidates, it could cost the LDP its majority of Upper House electoral district seats. However, conservatives inside the DPJ and its supporting organizations are "allergic" to the JCP, so there would be some high hurdles to overcome.

DPJ Secretary General Yukio Edano told me that there is no chance that the "national coalition government" concept will be accepted. He stated his real opinion: "In my district [Saitama No. 5], even if I got all of the roughly 20,000 JCP votes, I would lose 30,000 for carrying the JCP label." That is how strong the DPJ's allergy to the JCP is.

Abe and LDP Secretary General Sadakazu Tanigaki are the ones most unnerved by the JCP's transformation. Abe hastily called LDP Election Strategy Committee Director-General Toshimitsu Motegi to the Kantei and instructed him to consider measures against the JCP.



Economy Watch

Abe approval flat

Having fallen sharply in reaction to the collective security bills, public approval of Prime Minister Shinzo Abe recovered a bit and is basically flat. In the latest *Nikkei* survey (published Oct. 25), 41% of respondents supported him and his new Cabinet and 42% did not support him. In the last four monthly polls (July through October), approval averaged 41% while disapproval averaged 45%. This is a big change from the first six months of 2015, when approval averaged 50%, 15 points higher than disapproval at 35% (see top chart).

In the opening months of Abe's return to power, the margin of approval over disapproval soared to an unbelievably high 60 percentage points in April of 2013. Since then, the margin of approval has declined in a virtual straight line and, in the last four *Nikkei* polls, averaged negative 4% (see bottom chart).

Barring any dramatic events, Abe's ratings will probably continue to erode gradually as the economy underperforms.

SCS row to the Hague

Responding to complaints from the Philippines, The Permanent Court of Arbitration in the Hague, Netherlands ruled on Oct. 29 that it has jurisdiction to hear some territorial claims the Philippines has filed against China over disputed areas in the South China Sea (SCS). Beijing claims sovereignty over almost the entire South China Sea, dismissing claims to parts of it from Vietnam, the Philippines, Taiwan, Malaysia and Brunei.

This was a big defeat for China, which claimed that the disputes were about China's territorial sovereignty. Despite being one of the 117 members of the tribunal, which was established in 1899, China has boycotted the proceedings and rejected the court's authority in the case. The tribunal found it has authority to hear Manila's claims under the

United Nations Convention on the Law of the Sea (UNCLOS) and China's decision not to participate did "not deprive the tribunal of jurisdiction."

The US, which is a treaty ally of the Philippines and which recently sent naval ships into waters within 12 miles of artificial islands that China has built in the SCS, welcomed the tribunal's decision.

Regardless of the outcome, China is not

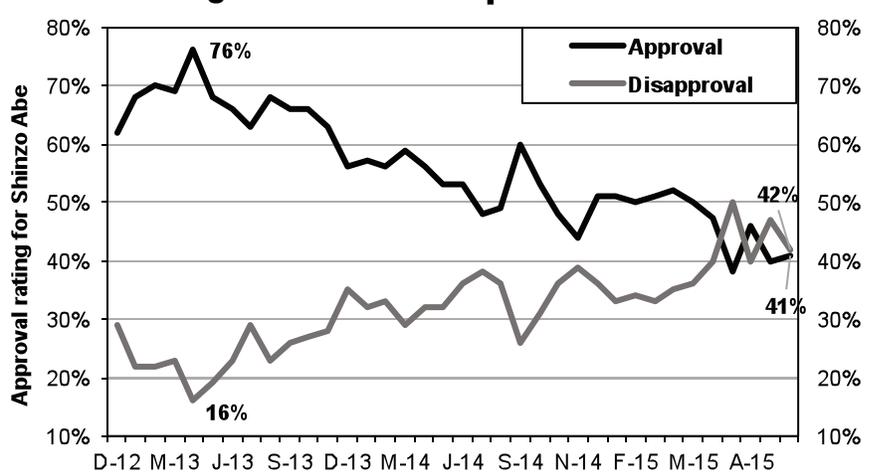
expected to accept that the Hague tribunal has any authority on the issue.

Let them eat margarine

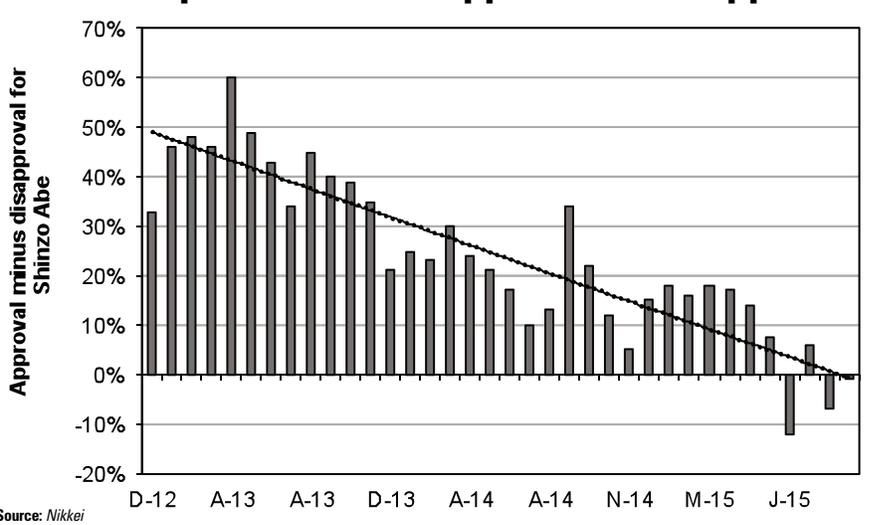
There is little question that American ranchers and other farmers in the Trans-Pacific Partnership (TPP) countries will be able to export more to Japan as a result of the pact. Japan has agreed to eventually eliminate tariffs on 81% of its 2,328 imported farm products (e.g., each category, like dairy or pork, can have lots of individual items). It will sharply lower tariffs on others, e.g., the beef tariff will be lowered from 38% to 9%.

However, there is a serious question in our minds about how much this will benefit the Japanese people in terms of lower prices. At present, Japanese households pay, on average, 1.7 times the global price for their food, and spend an average of 14% of their

Abe rating: around 40% "pro" and 40% "con"



In recent polls, more disapproved than approved



Source: Nikkei

entire household budget, compared to 9% in the UK and 6% in the US.

So, lower prices would not only increase the real income of consumers, it would also liberate a lot of money for them to spend on other items, thereby boosting real domestic demand.

However, the Abe administration has decided to pay off farmers upset at the trade liberalization by raising its subsidies to these farmers. That will not only help their income, but also make it possible for lots of small, inefficient farmers to stay in business, and may also keep the price for food in Japan higher than global prices. While foreign exporters will benefit—not only getting to sell more, but to do so at high prices—that's not what the Japanese public deserves. We await details on the size of the subsidies and their impact on prices and import volumes.

For some products, it is not even clear that more imports will come Japan's way. *Reuters* reports, "Hopes look set to be dashed that a regional trade pact could end a butter shortage in Japan which has left shelves in some supermarkets empty and prompted others to ration customers to one pack per visit." The problems include a shortage of dairy cows; anticompetitive activities by the farm cartel, Japan Agriculture, that limit how much dairy products from Hokkaido, Japan's large island in the north, can be sold in the main island of Honshu; and a quota of just 3,000 tons per year for low-tariff imports (above that amount, tariffs are 35%).

The latest butter shortage has lasted around two years, and consumers are left having to pay four times the global price—when they can get the butter at all.

One would have thought that the government would have used TPP to increase the low-tariff quota or get rid of it altogether. Instead, it merely raised the amount subject to a low-tariff quota to 3,700 tons (just 5% of Japanese consumption).

Samsung's struggles

At the beginning of this year, Samsung Electronics was considering whether to stop trying to sell its smartphones in Japan, according to a *Business Korea* article based on anonymous industry sources. The problem is decreasing market share and operating losses. Instead, Samsung decided to stick it out. However, it laid off 25% of its

400 employees in April. In addition, it sold its former headquarters in Tokyo's fashionable Roppongi district this year and moved to the less expensive Iidabashi district.

Its new Galaxy models have improved its market share from 4% early in the year to 6% during April-September. But that still puts it fifth. Coming in first is Apple, which held a 50% market share in Japan. That temporarily fell to 34% in the summer as consumers awaited the new iPhone 6. This temporary dip occurs every time Apple introduces a new model.

Japan is not the only trouble spot for Samsung. Globally, it is facing tough competition from rising low-cost producers in China. So, while Samsung is selling more smartphones globally than it was at this time last year, it is doing so by selling cheaper models.

According to Counterpoint Technology Market Research, Samsung shipped 84 million smartphones in the third quarter of 2015, 6.3% more than during the same stretch last year and more than the No. 2 and No. 3 players, Apple Inc. and Huawei Technologies (of China), combined. However, while 55% of Samsung's smartphones were priced at more than \$300 at this time last year, that high-end segment has fallen to just 40%. The other side of the coin is that phones priced \$200 or below now account for 38% of all sales, up from 30% a year ago.

The good news for Samsung, globally, is that last week it achieved its first quarter of year-on-year growth in profits from smartphone sales since 2013.

Its smartphone travails aren't Samsung's first setback in Japan. It exited from Japan's TV market in 2007.

Samsung Electronics Japan handles Samsung Electronics' smartphone operations, while a separate company, Samsung Japan, produces electronic components.

Record outbound M&A

It looks like 2015 will be a record year for acquisitions of overseas companies by cash-rich Japanese firms with little opportunity for big investments at home.

What makes the latest buying spree different is that, in the past, the merger and acquisition (M&A) activity was led by Japanese multinationals intent on expanding their already substantial international presence. This year, however, insurers and other

firms who hitherto had focused on the domestic markets joined those efforts. With growth in Japan expected to remain slow, firms feel they can only grow by going abroad.

In the first eight months of 2015, according to *Thomson Reuters*, overseas M&A deals by Japanese firms totaled ¥7.16 trillion (\$59 bil.), up 77% from the first eight months of 2014. That number already exceeds the full-year record of ¥7.13 trillion, which was reached in 2012.

Japanese companies were involved in 5.9% of all cross-border M&A activity, up from 4.5% last year.

While the number of deals during January-August was up only 3%, the value of the deals was much larger. The average deal was worth about ¥17 bil. (\$141 mil.), far more than the 2012 average of ¥9.8 bil. (\$82 mil.).

The top deal by value was the ¥1.2 tril. (\$10 bil.) invested in China's Citic by trading company Itochu and a Thai conglomerate, the Charoen Pokphand Group. Sumitomo Life announced in August the purchase of US life insurer Symetra Financial for ¥466 bil. (\$3.8 bil.). Meiji Yasuda Life Insurance is planning on buying America's StanCorp Financial. Given that Japan's population is shrinking, and with it the insurance market, these two insurance giants have to go abroad to seek growth.

Other big buyers include Japan Post, Kintetsu World Express, Asahi Kasei (chemicals), and Fujifilm Holdings (biotech).

Foreign housekeepers

Japan is dipping its toe a little bit further into the territory of hosting "guest workers" from foreign countries to fill slots where labor is scarce.

In two experimental "strategic economic zones," Osaka and Kanagawa, Japanese housekeeping services will be allowed to employ foreign workers after restrictions are relaxed within the coming year. Until now, housekeepers have been required to hold Japanese citizenship or foreign resident qualifications.

According to *Nikkei*, the new regulations are expected to mandate that housekeeping firms employing foreign workers do so directly, on a full-time basis, and that they pay wages equal to or higher than those received by Japanese employees. Companies will be able to employ foreign

workers for up to three years. Live-in service will be forbidden, and employers will be responsible for securing housing for their employees. We wonder whether these equal pay rules will be enforced when we consider that they are not enforced for Japanese women or non-regular workers.

Duskin, Japan's leading housekeeping service provider, already employs foreign students and other short-term residents as cleaning staff on a part-time basis. The firm says that it will employ foreign full-time workers to perform a variety of services,

including child care and shopping, in addition to usual housekeeping duties. It also claims that it will pair foreign workers with Japanese employees to ensure quality service.

At the beginning, the numbers appear to be very small. *Nikkei* says that Tokyo-based housekeeping provider Bears will take on about ten workers from other nations to start. It plans to set up a Philippine subsidiary within the year to handle recruitment and training. Another firm, Pasona Lifecare, will hire about 50 employees who have been

trained by Philippine human resources company Magsaysay Global Services.

The government believes the market for housekeeping services will eventually grow to ¥600 billion (\$5 bil.), six times its size in 2012. Many current housekeepers are elderly and can work only part-time. That is one of the reasons there is pressure to find new sources of labor.

If these measures meet approval in Osaka and Kanagawa, they will likely be applied nationwide and could also be spread to other jobs.

Japanese firms retreating from PRC?

by Rumi Aoyama

Rumi Aoyama is a professor at the Research Institute of Current Chinese Affairs, Waseda University. This is excerpted from <http://www.eastasiaforum.org/>

In early 2015, two of Japan's leading electronics companies, Panasonic and Toshiba, announced that they would stop producing television sets in China. The two multinational corporations' partial exit seemed to underscore an overall trend of Japanese firms withdrawing from China. On February 23, 2015, *Nikkei News* reported that Citizen Watch Company had suddenly closed down its parts factory in Guangzhou, laying off all 1,000 employees there.

This has given some the impression that all Japanese firms are on the way out of China, but that is a myth. For Japanese companies, China's role has changed from "the factory of the world" to "the market of the world," as Chinese wages and consumption trend up.

While the withdrawal of some firms occurs against the backdrop of Sino-Japanese tensions over security relations, it is actually conditions in the labor market that have been the most important factor. Since large- and medium-sized corporations alike still yield profit in the market, the withdrawal of some Japanese firms does not indicate dwindling business opportunities for all Japanese companies.

Japanese firms entered China ahead of other countries after Beijing's reform and opening-up policy in the late 1970s. According to the Chinese Ministry of Commerce, by the end of 2012, 23,094 Japanese firms had set up operations in China. The current Chinese Ambassador to Japan, Cheng Yonghua, highly evaluated these firms' investment activities in China, recently stating that, "By May 2015 Japanese accumulated investment in China had reached \$100.4 billion, making it the first country to surpass \$100 billion."

Changing circumstances

But recently circumstances have changed for many Japanese firms. Annual Japanese investment in China has decreased since 2012, when it peaked at \$7 billion. The amount in 2014 was \$4.3 billion, 38.8% lower than the previous year [The latter are Chinese figures, which include only new investments; Japanese figures, which also include reinvested profits, show a 50% decline from \$13.5 bil. to \$6.7 bil. in the same period—*TOE*]. The business model in China has also started to change. Previously, foreign firms produced goods in China using abundant and cheap local labor, and sold their products to for-

ign markets. But increases in labor costs (particularly as a result of the 2008 labor contract law) have affected profitability. A survey conducted by the Japan External Trade Organization (JETRO) shows that 83.9% of Japanese firms believe that wage increases are a significant problem for their business activities in China.

On the other hand, expectations for China as a consumer market have been rising steadily as Chinese purchasing power has increased dramatically. In 2014, the Japan Bank for International Cooperation (JBIC) raised its yearly evaluation of China from the fourth to third most promising destination for business activities in the mid-term (approximately three years in the future). Expectations for local market growth as well as current local market size were the top two reasons for the high ranking. Income growth has inevitably increased operating costs, but at the same time, Japanese firms also see such market growth as a positive factor for market expansion.

Growing sales

Japanese firms fare relatively well in the Chinese market. Japan's Ministry of Economy, Trade and Industry (METI) notes that the total amount of sales by Japanese companies in China reached ¥36.4 trillion (\$300 bil.) in 2013. Sales in 2013 for the automobile, data communication and electronics industries were ¥9.4 trillion (\$80 bil.), ¥3.9 trillion (\$30 bil.) and ¥2.2 trillion (\$20 bil.), respectively. Toyota, Nissan, Honda, Hitachi and Panasonic each sell products valued at more than ¥1 trillion in China and they expect that to grow.

Most importantly, Japanese firms believe that the Chinese market will continue to expand, and they are confident about generating profits there. In JETRO's yearly survey in 2014, 64.1% of Japanese firms replied that they expected profits from sales, an increase from 60.7% of firms on the year before.

China's rise has forced structural change within the international community, and with it deteriorating political and security ties with Japan. "Realist" political scientists argue that Sino-Japanese confrontation in the political and security realms will likely adversely affect their economic ties as well. In contrast, "liberalist" political scientists predict that mutual economic dependence between the two will eventually contribute to stability in their political relationship.

In reality, Sino-Japanese relations are not easily described by either the realist or liberalist paradigms. For now, confrontation in the security sphere continues to appear compatible with deep interdependence in the economic sphere.

by Yoshisuke Iinuma

Akihito's role in modern Japan

The Emperor's evolution

Emperor Akihito, who will be 82 years old this December 23, has recently become a more manifest presence in Japan. In contrast to the revisionist Prime Minister Shinzo Abe, the Emperor has issued messages enthusiastically promoting the Constitution and the pacifist advancements it has facilitated in postwar Japan. In this role, he has tried to draw a careful balance between issuing statements that subtly warn against revisionism and adhering to the limits placed on him as a “symbol of the nation,” rather than an active political figure, limitations in which he believes.

Akihito on WWII

On August 15, the 70th anniversary of Japan's defeat in World War II, Akihito declared that “given this opportunity, we should thoroughly learn the history of the war beginning with the Manchurian Incident, and, from now on, it will be extremely important to deeply consider the future of Japan.” The fact that he said the war began with the Japanese military's takeover of Manchuria in 1931, rather than with the 1937 “China Incident,” or the 1941 attack on Pearl Harbor, was a case of taking sides against “revisionist” views of the war.

Then, at the memorial service for the war dead (including both military and civilian victims) on the same day, he went a step further than he has in previous years. He expressed his “deep remorse” for the war, and stated that Japan has, “with the support of its citizens who have strived to perpetuate a state of peace, been able to build lasting peace and prosperity today.”

The demonstrators who surrounded the Diet building in opposition to Abe's collective security bill may have read the Emperor's comments as sympathetic to their cause. Abe, whose own remarks on the 70th anniversary were to be released on the following day, was probably extremely wary of the impact of the Emperor's comments.

Although he last visited the controversial Yasukuni Shrine—whose enshrined

souls include 14 Class A war criminals from World War II—in 2013, in the past Abe usually positioned his visits to Yasukuni to reinforce his political stance. In contrast, the Emperor has continued simply to mourn the souls of all war victims, without the bright colors of heroism and nationalism, and he has never gone to Yasukuni. Nor did his father, the Showa Emperor, once he learned that the 14 Class A war criminals had secretly been enshrined there in 1978.

This year, the Emperor and Empress visited Palau's desolate island of Peleliu, which is devoid even of hotels, to commemorate its role as the site of a fierce World War II battle. This was part of a journey that continued on to the islands of Iwo Jima and Saipan, sites of successive tragic battles, aimed at reposing the souls of all victims.

Between his time as Crown Prince (he became Emperor in 1989) and last year, he has made ten memorial visits to Okinawa, the site of the largest land battle in Japan, in which as many as one quarter of the island's residents died (100,000 to 150,000 deaths). This is in spite of an incident in which extremists hurled Molotov cocktails at him during his first visit in 1975.

The Emperor has cited four days the Japanese public must never forget: the Hiroshima and Nagasaki bombings on August 6 and August 9, the end of the war on August 15, and the conclusion of the battle of Okinawa on June 23. On those dates, the Emperor and Empress take the entire day to pray for peace and the souls of those lost.

In January of next year, in response to an invitation from the Filipino government, the Emperor plans to visit the Philippines for the first time. As the site of a military campaign that claimed a tremendous number of victims—not only Japanese soldiers, but also civilians and Allied soldiers—this visit will have deep implications in the memorialization of the war.

Devotion to the postwar Constitution

The Emperor's commitment to Japan's post-

war Constitution is strong, despite Abe having disparaged the document as “disgusting.” Since having pledged to the public in his first message after enthronement, “I will abide by the Constitution along with you,” the Emperor has mentioned the Constitution in many of his remarks.

On his 50th wedding anniversary in 2009, he stated, “With the principle that the ‘Emperor is the symbol of the Japanese Nation State, as well as the symbol of the national union of Japan’ at the bottom of my heart, I have sincerely hoped to meet the people's expectations.”

During the courtship before his marriage, the then-Crown Prince often wrote and phoned his fiancé, Princess Shoda Michiko. In one communication, he expressed his intentions in unusually direct fashion: “Rather than the conventional style of reigning from on high, I would like to walk alongside the Japanese people, and create a new style of Imperial family that respects the Constitution. I want you to be a collaborator in this cause.” For 50 years, the Emperor has reemphasized this point in his discourse.

Liberal education

The Emperor's commitment to peace and the Constitution is not solely due to the obligation “to respect and uphold this Constitution” imposed on him, along with the Cabinet Ministers, parliamentarians, judges, etc., by Article 99 of the Constitution. The education he received during his formative years also contributed to this outlook.

He absorbed a liberal view on Imperial institutions from his tutor, Shinzo Koizumi, an economist who served for years as the President of the top-ranked Keio University (he is not related to the later Prime Minister, Junichiro Koizumi). Another strong influence was Elizabeth Vining, a Quaker who had been invited to tutor Akihito by his father, the Showa Emperor (known as Hirohito during his lifetime).

Koizumi's outlook on the Imperial institution was: “The Imperial family retains its royal dignity eternally only by remaining outside the realm of politics. The Emperor's mission is to become the center of the public sentiments of reconciliation.” Drawing on his own view of what constitutes a modern Japan, the Emperor has a low regard for nationalists proclaiming Imperial worship and movements that try to make it taboo to have debates about Imperial matters.

Preserving the Imperial dynasty

Beyond all this, Emperor Akihito realizes that, compared to the prewar Meiji Constitution, the present Constitution is much safer for the continuation of the Imperial family.

The sections in the Meiji Constitution regarding the Emperor's involvement in politics contained a fundamental defect which led to a hijacking of the state by the military, and, in the end, brought the Imperial family itself to the brink of ruin. Following Japan's defeat, in the years in which he advanced from age 11 to 15, Crown Prince Akihito had to live with the fear of seeing his father summoned to a war crimes court and the very real possibility of the end of the Imperial institution. He saw his father using all of his knowledge and might to ensure the dynasty's survival. There is no element in the current Constitution that puts the Emperor in the dangerous situation his father faced. Emperor Akihito's commitment to the post-war Constitution represents not only the idealism expressed by many of its advocates, but also has a deeper root in a realistic recognition that it provides much more security for the survival of the Imperial family.

The systemic flaw in the Meiji Constitution can be explained as follows. Promulgated in 1889, it gave strong authority to a monarchy modeled on Imperial Germany. In particular, supreme command of the military was disconnected from the government, and directly affiliated with the Emperor. In the political realm, individual ministers were defined as counselors to the Emperor, and there were no provisions concerning the actual Cabinet and the Prime Minister. The result was a very weak Prime Minister.

Only military officers were allowed to become Cabinet Minister of War or Minister of the Navy. Although retired generals and admirals in reserve were allowed to take the post during the period of 1913-1936, the regulations were once again changed to limit these offices to currently active military officers, i.e., individuals deeply committed to the interest of each Ministry. This essentially granted the military de facto veto power over the selection of Prime Ministers because the military could refuse to send their representatives to a Cabinet led by a Prime Minister they disliked.

For a certain period, in a move towards strengthening the governing ability of the Cabinet, the Meiji Constitution did operate

under an interpretation that made the Emperor no more than an entity acting under the Constitution, charged with executing the initiatives of the Cabinet (this was called "Emperor Agency Theory"). However, this interpretation came to be denounced in the growing nationalist climate of the mid-1930s. The Meiji Constitution did not, in fact, clearly delineate whether the Emperor was an actively governing monarch, or a Constitutional monarch who was meant to follow the will of the Cabinet and other governing bodies.

Showa Emperor's role in the war

The Showa Emperor was himself unsure about his proper role. He told himself that he was mostly attempting to act as a Constitutional monarch. Particularly, after the war, when so many questions were being asked about his responsibility for the war, he emphasized this idea, as if to say he had no real power when the pivotal decisions leading to war were made.

In the Manchurian Incident (the 1931 takeover of Manchuria by the military in defiance of orders from the civilian government in Tokyo) and the Sino-Japanese War (begun in 1937), the Emperor seemed to have played a role as a Constitutional monarch. While wishing to avoid an exacerbation of the situation and thereby avoid war, he nonetheless repeatedly sanctioned policies that were pushed by the military faction's expansionist ambitions. The role of the Emperor at this time is well detailed in *The Emperor Showa Annals*, which was published last year. *Annals* is a biography of the Emperor, based on official government documents, as well as unpublished documents from the Imperial Household Agency.

Whatever the Showa Emperor may have told himself or others, he also operated as an active monarch. In the winding road that led to war with the United States and Britain, he may have wanted to avoid war, but at the last pivotal moment, he agreed to support actions that led to war, and then supported all-out war in 1941 against the US and others.

As early as Japan's major defeat at the Battle of Midway, false combat reports were brought to the Emperor. Though he doubted the veracity of these reports, the Emperor's instructions and suggestions played big roles in many aspects of war, such as the deployment of army air powers in the Battle of Guadalcanal and his repeated requests for another major sea battle after the total defeat

in the Battle of Attu on the North Pacific front.

Even as looming defeat became impossible to deny, the Emperor continued to seek a more favorable end to the war by trying to deal a devastating blow to America. He thus contributed to the prolongation of the war to a certain point in time. With the crippled Japanese navy nearly annihilated, the decision to send the outdated giant Battleship Yamato on one last desperate suicide sortie in Okinawa also seems to have been based, at least in part, on the Emperor's will. This occurred in April 1945 and reportedly the Yamato was ordered to beach itself and fight until destroyed in order to resist the US advance.

The aforementioned *Annals* tend to avoid writing about the Emperor's wartime responsibility, but detailed research by historians has begun to reveal the truth. Thus, the image of the Showa Emperor has continually swung between two poles, one as a helpless vassal dragged passively into the conflict, and another as an active player issuing political and military directives.

The lessons Akihito gleaned

What Emperor Akihito gleaned from his father's experience was that the Meiji Constitution's governance system was seriously flawed. At the aforementioned 50th wedding anniversary press conference, he stated, "Viewed from the long Imperial history, compared to the role of the Emperor under the Meiji Constitution, the form of the current Constitution is actually more in line with the traditional role of the Emperor."

His view is correct. Since the mid-ninth century, only six emperors have genuinely been at the political helm. The roughly 80 years following the Meiji Restoration—which dressed itself in the garb of restoring the power of the monarchy and the current Emperor, who was known as Meiji—were actually an anomaly in Japanese history.

The reason the Imperial family was able to survive for so long in spite of its absence of direct power was due to its "soft power." This power included: the prestige of holding a traditional role for more than a millennium; the "cultural capital" of the Imperial Court being seen as the center of national culture; and its authority to grant rank within the court, i.e., the order of precedence and offices within the court, although its role in the latter became only nominal over time. With each passing change in the seat of gen-

uine political rule, the Imperial family adapted. The postwar response to the Allied occupational forces was yet another example of the family's shrewd and time-tested survival skills.

However, in the postwar era, the cultural capital of the court and its authority to grant social rank had virtually disappeared. Emperor Akihito has gone to great pains to construct a new form of soft power. This time, however, it is a stance that sympathizes with the sadness and joy of the people. The enthusiastic visits and messages of consolation delivered by the Emperor and Empress to Okinawa and to areas affected by disasters are typical examples.

The postwar Showa Emperor also made efforts to form a strong base of empathy with the people. However, having been raised as a monarch with substantial political power, his own political views would often emerge in spite of efforts at self-restraint. At a press conference in 1975 following his return from a second visit to the US, the Emperor was asked about his thoughts on the atomic bombing of Hiroshima. He responded as follows, "It was a regrettable event, but given that this happened during the war, with apologies to the people of Hiroshima, I think that it was inevitable."

Akihito, Crown Prince at the time, offered a course correction at a press conference held on his birthday later in the same year. He stated, "In cases of expediency, feelings are not always sufficiently expressed. I think His Majesty must have made the remark under such circumstances." Akihito must have inwardly hoped that the remark in question did not reflect his father's real ideas.

What kind of Emperor?

Emperor Akihito's choice not to take a strong interest in politics has been notable in its contrast to his father's posture. Immediately following the war, when the Imperial system's survival was still uncertain, the Showa Emperor formed a "united front" with Supreme Allied Commander General MacArthur in order to avoid his own prosecution and to ensure the Imperial system's survival through the war crimes trials.

Recent research also has uncovered that, afterwards, fearing the threat of Japanese Communism and possible abolition of the emperor system, the Showa Emperor played a key role in the formation of the Japan-US security system that is still

in place today. The Emperor took the bold step of bypassing even Prime Minister Shigeru Yoshida and General MacArthur, and reached out directly to John Foster Dulles, the powerful US Secretary of State at that time. The Emperor also desired the long-term presence of the US military in Okinawa, and conveyed these sentiments to Dulles, saying, "Japan will continue to grant you a long-term loan in the form of a base, even for 25 or 50 years." As a result, while the Showa Emperor desired to visit Okinawa, the citizens of Okinawa refused him. The particular fondness of Emperor Akihito towards Okinawa must include some desire to make amends for his father's actions.

Even after the structure of the postwar system had been determined, the Showa Emperor continued to obtain detailed reports on key political issues from government ministers. Such involvement with power and politics has not been reported in the case of Emperor Akihito. At the 2013 press conference celebrating his 80th year, Akihito clearly stated, "In the Constitution, it is written that 'The Emperor has no powers related to government.' I bear this in mind when performing my duties as Emperor."

The Showa Emperor was very keen on performing the ritual of worshipping his ancestors in court, starting with the goddess seen as the progenitor of the Imperial line, and he diligently observed this rite at least 20 times per year. Unlike European kings attending rites performed by priests, the Emperor himself is the highest religious authority in Japan, and thus must directly perform these time-consuming rituals. The burden of these duties became serious during his old age.

"I am not a living god"

In 1946, the year following Japan's defeat, the Showa Emperor made what is called the "Humanity Declaration," stating, "I am not a living god." When the original draft of this proclamation was submitted by the Japanese government to the Occupation headquarters, the latter revised it to say: "The idea that the Emperor is descended from God is a fictitious notion." The Showa Emperor actively opposed this revision. He had accepted that he was not himself a living god, but his belief that he was descended from one had not changed at all.

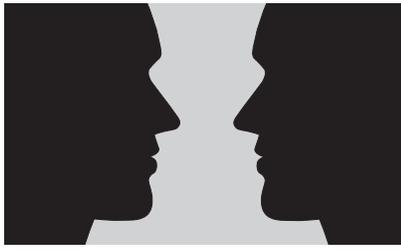
In 1945, as defeat loomed and the threat of American troops landing on Japanese

shores approached, the Showa Emperor's greatest concern was that American troops would capture two of the three treasures that are seen as symbols of the Emperor, specifically, the mirror and sword that are housed in shrines at Ise near the sea, and at Nagoya, respectively. To the Showa Emperor, defeat did not mean just defeat for the country, but also his fear of becoming the one who had lost the dynasty that had been passed down by his ancestors for centuries.

Emperor Akihito has inherited most of the rituals performed by the Showa Emperor, but these rituals did not stem from ancient times. Rather, they were started during the Meiji Era in order to glorify the Imperial family and to legitimize the rule of the modernizing oligarchs who took over the country in the name of the Emperor Meiji. The Meiji Emperor (the grandfather of the Showa Emperor) was not himself keen on performing such rituals, and often ordered substitutes to carry them out. The Meiji Emperor probably was unenthusiastic about a national policy that led to an increase in rituals. In 1894, at the start of the Sino-Japanese War, the Meiji Emperor said that, "I did not ask for this war," and refused to attend the ceremony to report the declaration of war to the ancestral gods. Such incidents of defiance of rituals were completely absent in the case of the Showa Emperor.

Quite likely, amidst advancing modernization in his time and the fading of the sensibilities of past generations, the Showa Emperor came to use these rituals for himself as a valuable identity mechanism, and they even appear to have come to comprise for him the essence of being Emperor. The succeeding Emperor Akihito has also taken to these rituals with the diligence of his father. But does Emperor Akihito have the same sense of divinity as his father? Furthermore, how is the solemnity of such rituals involved in the construction of a new way of being the Emperor as a symbolic presence? It is still impossible to glimpse the inner truth of this matter.

Emperor Akihito's aspirations for a symbolic role for the Emperor under the Constitution are fully supported by Empress Michiko. The fact that Crown Prince Naruhito also supports continuing these efforts is quite clear from his remarks at press conferences. The Imperial Household is now fulfilling its role as a part of Japan's sense of identity that could be compared to the role of the British monarchy.



by Regis Arnaud

Small Talk

Non-refugee policy

According to several lawyers dealing with refugee cases in Japan, the Ministry of Justice has granted refugee status to less than five applicants so far this year. Two months before the end of 2015, this shows how differently from other developed nations Japan behaves when it comes to refugees. “The government of Japan feels that to go under ten refugees per year would expose it to too much unnecessary criticism. So, the Ministry will probably expand that number by the time it releases its official figures for 2015,” says an expert on Japan’s policies toward refugees.

Japan is not even in the same ballpark as other developed nations when it comes to refugee acceptance. In 2014, it received 5,000 applications for refugee status, according to its Ministry of Justice. That was an increase of 53% compared with 2013, but still a far cry from the load of other developed nations. The same year, Germany received 173,100 applications, while the US received 121,200, and France 64,536.

In the end, Japan recognized only 11 cases in 2014 as authentic refugees, just 0.2% of the applicants. For their part, Germany granted refugee status to 37,640 applicants (42% of applicants); the US granted 69,987 applications (42%); and France 14,564 applications (22%). In the case of Japan, the ratio of recognition has never been so low: it was 3.2% in 2010, and has gone down every year since then.

The refugee recognition procedure in Japan is opaque and heavily influenced by diplomatic considerations. Japan has never accepted a single applicant among Kurds or Chinese applicants, for example, out of fear of irritating Ankara or Beijing. “The people who are in charge of screening the cases at the Ministry of Justice only take into consideration the negative criteria in the applications, never the positive ones,” a lawyer laments.

Most politicians do not pay attention to

the refugee issue, or are unsympathetic to the refugees’ plight. The media are mostly apathetic or downright hostile. Early this year, the *Yomiuri* ran a list of sensationalist articles reporting a network of bogus asylum seekers as front-page news.

Japan tries to make up for its extremely poor record in refugee acceptances by very generously donating to the Office of the United Nations High Commissioner for Refugees (UNHCR). In 2014, it was the second biggest donor to this institution, behind the US, at a clip of \$182 million. This year, Prime Minister Shinzo Abe pledged \$810 million for emergency assistance for refugees and internally displaced persons from Syria and Iraq.

Despite Japan’s financial generosity, the flow of refugees to Europe and the United States has risen so extraordinarily that Japan may face more pressure in the coming years to accept more refugees. Also, Japan’s renouncement of pacifism allows an involvement in armed conflicts that will probably change the nature of its international obligations. The country might feel obligated to welcome refugees that would be the product of its involvement in a war.

But this is in a very distant future. On September 30, Abe showed how far welcoming refugees is from his mind. After pledging at the UN General Assembly to provide \$1.5 billion in emergency aid for refugees and for stabilization of communities facing upheaval, he was unexpectedly asked by a foreign journalist from *Reuters* whether Japan intended to welcome more refugees. For whatever reason, Foreign Ministry bureaucrats had not thought to prepare him for that question, even though it seems like a natural one.

What followed was a prime example of improvisation in a universe that is usually very scripted: “As an issue of demography, I would say that, before accepting immigrants or refugees, we need to have more activities by women, by elderly people and we must

raise the birth rate. There are many things that we should do before accepting immigrants.”

You shrunk the trade

The success of the Trans Pacific Partnership (TPP) negotiations has had a collateral effect on the negotiations between the European Union (EU) and Japan for a similar trade and investment agreement called an Economic Partnership Agreement (EPA).

Negotiators in Tokyo had for months desired to conclude the EU-Japan negotiations by the end of this year, but had been delaying talks pending the conclusion of TPP. This priority of the US over the EU has generated a lot of frustration among the Europeans. “The EPA was seen by the Japanese side as an agreement much easier to sign than TPP. Although there has been some progress over non-tariff barriers and market opening, Japan still has a long way to go to satisfy European requests,” says Bernard Delmas, CEO of Michelin Japan and president of the French Chamber of Commerce in Japan.

Indeed, trade volumes between the EU and Japan have been collapsing in 2014. According to a recent report by the EU’s statistical agency, Eurostat (and first highlighted by Gavin Blair in the magazine *EURO-BIZ*), European exports to Japan amounted last year to just €54.6 billion (\$59.8 bil.), by far the lowest level in the past ten years.

“While Japan was among the top five trading partners of the EU in 2004, Japan is now seventh, accounting for just over 3% of total extra-EU trade in goods in 2014. Over this 10-year time period, the share of Japan in the EU’s out-of-region imports dropped from 4.6% in 2004 to 3.1% in 2014, while its share in the EU’s exports more than halved (7.3% in 2004 vs. 3.2% in 2014),” Eurostat reported. The EU now does more business with Turkey (an economy one-sixth as large as Japan’s) than with Japan.

The picture is even worse on the Foreign Direct Investment (FDI) front. “After three consecutive years of net increases in the stock of FDI between 2011 and 2013, the EU’s cumulative FDI in Japan shrunk in 2014 by €18.9 bil. (\$20.7 bil.). 2014 also marked a break in Japanese investment flows into the EU, with net investments close to zero, while significant investments were recorded the previous three years,” Eurostat reported.