



## Japan political update

*25 September 2017*

### Overview

Prime Minister Shinzo Abe has tonight officially confirmed his plan to dissolve the House of Representatives immediately after the start of the extraordinary Diet session on 28 September to hold a general election in October. Although the date is yet to be formally confirmed, there is an emerging consensus that Prime Minister Abe will issue formal notification of the election on 10 October, and the House of Representatives election will be held on 22 October.

### Background

Prime Minister Abe's decision is likely to have been influenced by five main factors.

#### *1. Recovery of the Cabinet approval rates*

The approval rate of Prime Minister Abe and his Cabinet began to slide following the close of the ordinary Diet session in June, due to a series of scandals, most seriously, allegations relating to influence peddling at Moritomo Gakuen, a right-wing school, and Kake Gakuen, a veterinary college, both of which implicated Prime Minister Abe. The heavy loss suffered by the LDP in the Tokyo Metropolitan Assembly election on 2 July seemed to show that the Abe and LDP brands had been damaged. However, following a Cabinet reshuffle on 3 August, the Cabinet approval rate rebounded from a low of below 30% to more than 50% in the latest polls. Even so, the majority of Japanese voters consider the two scandals unresolved, expressing dissatisfaction with the explanations provided by the Prime Minister and LDP.

## *2. Disarray in the Democratic Party*

The Democratic Party (DP), the largest opposition party, is in disarray following its own heavy loss in the July Tokyo Metropolitan Assembly election, which led to the resignation of the party's leader, Renho. Although the DP has elected a new President – former Foreign Minister Seiji Maehara – his leadership is in question and embroiled in scandal. A high-profile choice for Secretary-General, Shiori Yamao, faced allegations of an extramarital affair and was forced to leave the party.

At the same time, a number of key DP lawmakers have chosen to leave for different reasons. In particular, Goshi Hosono, a charismatic former Minister of Environment and leader of one of DP's factions, announced his decision to leave the party in order to support newly formed rival "Japan First", the national equivalent of Tomin First ("Tokyoites First") led by Tokyo Governor Yuriko Koike. Hosono will head Japan First in cooperation with Masaru Wakasa, a member of the House of Representatives, who is a well-known supporter of Koike. Many other DP Diet members are expected to follow suit, leaving the future of the party in question.

One reason for the above developments is that the DP appears even more disunited than usual, with fundamental disagreements existing between its leaders on a broad range of issues, including whether the party should coordinate its electoral strategy with the Japan Communist Party (JCP).

## *3. Lack of readiness by Koike's new party*

Koike's Tomin First party secured a historic victory in the July Tokyo Metropolitan Assembly election. In the wake of the party's success in Tokyo, the momentum to form a new national political party accelerated.

House of Representatives member Masaru Wakasa fulfilled these expectations on 7 August with the announcement of plans to form Japan First. Aiming to leverage the popularity of Governor Koike and Tomin First, Japan First sought to position itself as a party based on "real policies" – free from interference of special interest groups, which the party says have wrested control of decision-making in the LDP.

However, the surprise timing of Prime Minister Abe's decision to go to the polls has caught Japan First on the hop. The new party still lacks a basic organizational structure, candidates, party workers and a policy platform setting out what it wants to achieve. While Governor Koike announced that the new party, Party of Hope, will prepare for the upcoming election, there will not be enough time to recruit new party members, select candidates, or adopt an election platform to win an election campaign.

#### *4. Political scheduling challenges in 2018*

If Abe had not decided to dissolve the Diet now, the term of the House of Representatives could, in theory, have continued until December 2018. Even so, Prime Minister Abe's second term in office as LDP President expires in September 2018, and Emperor Akihito has announced plans to abdicate in December 2018. Waiting until the summer or fall of 2018 to schedule a House of Representatives election could, therefore, have been difficult, as the political calendar was already crowded. Abe would also have been keen to avoid the possibility of real competition from a better prepared Japan First.

By calling a snap election now, Abe is hoping to maintain the LDP's majority in the House of Representatives (and ideally a two-thirds "super-majority" taken together with the LDP's coalition partner Komeito, that would allow the lower house to pass legislation even without the support of the upper house, the House of Councilors). If Abe can secure another LDP majority at the national level – which seems entirely possible – this would make his re-election as LDP President next September far more likely. As newly elected LDP president, Abe would be in position to oversee the transition of power from Emperor Akihito to Crown Prince Naruhito, and could even stay on in power until the start of the Tokyo Olympic and Paralympic Games in 2020.

Closer to hand, US President Donald Trump has announced plans to visit Japan from 4-6 November. The two leaders are to discuss North Korea, East Asian security (particularly, how to respond to China's activities in the South and East China Sea), negotiations with Russia on the return of the Northern Islands, and bilateral trade issues. Prime Minister Abe would like to demonstrate Japan's full commitment to US foreign policy in the Far East.

## ***5. North Korean issues***

North Korea's repeated launch of ballistic missiles over Japan, as well as its most powerful nuclear weapons test to date, has clearly increased geopolitical tensions across the region. Prime Minister Abe has been diplomatically hyperactive, winning him credit for the firm positions taken by both President Trump and – in the form of toughened sanctions regime against the North – the United Nations. The prospect of further provocations by North Korea, such as the launch of additional missiles during the election campaign, could have the effect of boosting Prime Minister Abe's position. At the very least, North Korea's antics been very effective in moving media attention away from the Moritomo and Kake Gakuen scandals. However, this scenario also comes with political risks, as it would invite voters' criticism towards Abe for disregarding the public interest by scheduling "unnecessary" elections at such sensitive time, solely for political gains. This is one of the reasons why the Prime Minister appears eager to keep the election campaign period as short as possible.

### **Prospects for major policies**

#### ***Constitutional reform***

Amending Japan's Constitution, including the war-renouncing Article 9, is one of Abe's key political goals. Currently, the ruling coalition does have a two-thirds majority in the House of Representatives, the level needed to initiate the process for constitutional amendment. However, the LDP-Komeito coalition could lose its two-thirds majority in this election. This could force Abe to seek alliances with the Japan Innovation Party and/or Japan First in the hope of forming a multi-party coalition backing constitutional reform. Abe might even agree to one or more of the pet policies of Governor Koike and her allies, such as making education (including universities) free-of-charge in exchange for her support for official recognition for the existence of the Self-Defense Forces (SDF) in the Constitution or expanding the scope of the SDF's permitted activities.

#### ***Consumption tax hike***

Before taking power, the government promised in a three-party agreement (LDP, Democratic Party of Japan, Komeito) to raise the consumption tax from 5% to 10%,

as one of the key measures to put Japan's public finances on a more sustainable footing. The first step in the consumption tax hike took place in April 2014, when the tax was raised from 5% to 8%. The second step was supposed to take place in April 2017, but was postponed until October 2019.

Originally, Prime Minister Abe promised to use the extra 5 trillion yen (US\$50 billion) in revenues raised to support increasing demands on social security spending. However, in search of viable elections issues since raising the prospect of general election, he appears to be proposing new ways to use the increased revenue, such as the provision of free education. This provides him with a valid public interest purpose for scheduling the election now, while at the same time allows his party to appeal to younger voters by redefining "social security spending for all generations", not just for the elderly.

### *Public finance*

As Prime Minister Abe has announced that most of the extra revenue from the consumption tax increase will be used for free education, the government's professed goal of achieving a surplus in the primary balance by 2020 looks ever more distant, despite this being considered an "international commitment." The Japanese government has put a cap on social security spending, pledging to keep it to the extent of its 'natural' rise (i.e. the rise caused by Japan's aging society) of 500 billion yen (US\$5 billion) per year. Even so, the government is struggling to contain the growth of social security costs, even at this level.

Currently, social security spending accounts for one-third of the 97.5 trillion yen national budget (FY2017), while servicing the national debt (bond redemption) accounts for a further 24.1%.

Already 35.3% of revenue on the general account in FY2017 has to be covered by the issuance of new government bonds (put another way means that the tax raised only covers around 65% of government spending.) Japan's gross national debt now stands at about 250% of annual GDP and is still rising.

### *Integrated resorts*

As a part of a strategy to increase Japan's in-bound tourism, the Japanese government passed the Bill for Integrated Resort (IR) Promotion in 2014 (enforced in 2016). The law required the establishment of a separate IR "implementation" bill to design the regulation of IR expansion in Japan. However, as there are strong sentiments, negative public comments and numerous concerns with regard to gambling addiction, the government resorted to first introducing countermeasures, by passing a bill aiming to mitigate the risks of dependence on gambling. The bill will be discussed in the next ordinary Diet session starting in January 2018.

### *"Work-style reform"*

Prime Minister Abe positioned his program of "work-style reforms" as one of his most important policies in the (soon to be cancelled) extraordinary Diet session. Under the current trend of decreasing population, the Japanese labor force is expected to shrink. According to National Institute of Population and Social Security Research (IPSS), the national labor force is due to decrease by 44.2 million by 2060, to a number that will be about half of its peak level in 1995. In response, the government is seeking ways to raise workers' productivity, for example by improving Japan's long working hours culture to achieve higher productivity and growth. Under the banners of "*Dynamic Engagement of All Citizens*"<sup>1</sup> and "*Revolution in Human Resource Development*"<sup>2</sup>, the government is seeking to promote more effective ways of working. Work-style reform is a rare topic where the LDP and opposition parties agree and can work together. With the election effectively replacing the extraordinary Diet session this fall, however, scrutiny and enactment of legislation in these areas will now have to be discussed in the 2018 ordinary Diet session, after the passage of the Budget Bill, most likely in March.

### *International trade policy*

The Japanese government expects the North Korean threat to continue and sees collaboration with the US government as the best way for Japan to mitigate its

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<sup>1</sup> 一億総活躍

<sup>2</sup> 人づくり革命

negative impact on Japan's national security and the economy. Negotiations with Russia over a peace treaty, including the return of Chishima/Kuril Islands and economic cooperation between the two countries, are likely to continue as long as Prime Minister Abe is in power. On the other hand, it is hard to expect drastic change and improvement in the relationship with China, given ongoing tensions in the East China Sea and the repeated incursions of Chinese ships and aircrafts in the contested seas around the Senkaku Islands. In the short term, all high-level international trade negotiations, including discussions between the 11 remaining members of the Trans-Pacific Partnership (TPP 11) and the finalization of the Japan-EU Economic Partnership Agreement (EPA) will be de facto suspended during the course of the election.

## **Political parties**

### *Liberal Democratic Party*

The almost certain sudden dissolution of the lower house and the de-facto cancellation of the extraordinary Diet session by Prime Minister Abe have been criticized by other party leaders, who expected to use this session to seek answers to the scandals surrounding the Prime Minister. There have been numerous comments on the lack of any clear reason for holding a general election now, other than on partisan grounds.

The LDP will be affected more than other parties in this election by the elimination of ten House of Representatives seats in five prefectures, following the revision of single-member constituencies in 2016. (Most of the seats in the five prefectures are occupied by the LDP).

The most important target for the LDP is to hold on to its House of Representatives majority. More stretching will be whether the LDP and Komeito combined can hold on to their two-thirds majority, especially given the recent decline in Abe's popularity, which has not completely recovered to the levels seen before this summer (of well above 50%). There is also a risk that the LDP could lose its current level of support in the face of new scandals, or in some scenarios, if North Korea were to launch another missile towards Japan during the campaign.

### *Democratic Party*

The decline of the DP continues. If the party does as badly in this election as it did in July's Tokyo Metropolitan Assembly Election, it may be mortally wounded. The main issue continues to be the severe divisions between different leaders and groups, including along the left-right political divide, between hawks and doves, etc. Some in the party support constitutional revision, while others are against it. Still more, left-leaning members support the continuation of electoral collaboration with the Japanese Communist Party in single-member constituencies (as the JCP could contribute some 3,000-10,000 votes to the DP in different constituencies). The newly elected President, Seiji Maehara, who is more right-leaning than many of his colleagues, is the latest leader who will struggle to unify the party.

### *Governor Koike and Japan First*

As noted above, the founders of the new Japan First party appeared to be on a roll, with Hosono and Wakasa in place, success in Tokyo, and the prospect of defections from the DPJ. However, it is hard to see how the party can be ready in time.

The polls are mixed. In the latest polls, about half of voters said they do not expect much from the new party. In addition, it takes time to put together a serious policy platform and party mechanisms, let alone to recruit suitable candidates to stand, in just one month's time.

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