



## Challenges Before Noda Yoshihiko

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September 6, 2011



### ***Summary***

Noda's long list of challenges includes rebuilding Japan after the devastating tsunami, the nuclear crisis triggered by it and reining in the huge public debt. But the biggest risk is that he could also end up as a short-termer like his two predecessors. The ruling DPJ has a regular leadership election set for September 2012. Noda has called for a grand coalition with the main opposition parties in order to break the parliamentary deadlock. However, such a coalition is not really necessary and all that Noda needs to do is develop a relationship with the opposition that is marked by trust. On the foreign policy front, Noda will have to ensure that Japan's relations with the United States, China, Australia and India remain on an even keel. At this critical time, Noda needs the support of his party and countrymen. If he falters, Japan's importance in the global community would be considerably diminished and it will be left with the role of a marginal power.

The political turbulence in Japanese politics ended with the resignation of Kan Naoto as Prime Minister on August 26 after 15 months in office. Japan's battered ruling party, the Democratic Party of Japan (DPJ), elected Noda Yoshihiko, the finance minister in the Kan cabinet, as the leader of the country's parliament. Noda has won majorities both in the Lower House controlled by the DPJ and in the opposition-held Upper House. Noda has some tough challenges ahead of him, not least of which is unifying his own bickering party.

Noda is a "moderate voice" in the DPJ. He has a steady temperament and a reputation for fairness in a party where loyalties have been severely tested of late. By Japanese standards, he is a conservative and his extreme humility is a political virtue. He is the country's sixth prime minister in five years or the seventh in six years. The fact that in just two years since the historic regime change, two successive prime ministers became quickly bogged down in a political quagmire and were forced to step down demonstrates the disastrous failure of politics during the DPJ rule.

### **Why did Kan Fail?**

The root causes of the present political situation are many. As prime minister, Kan pushed policy in the wrong direction. He tried to respond to the Fukushima nuclear disaster by trying to lead the nation towards a future less dependent on atomic energy. His efforts may be laudable but are not practical. His handling of plans for the unpopular proposal of integrated tax and social security involving a consumption tax hike left much to be desired. Kan's plans for forming a grand coalition failed because he was unskilled at consensus building. By not consulting his Cabinet colleagues before going public on important policy issues, Kan created a hiatus with his colleagues and lost their trust. Even if Kan had a broader perspective and greater ability to build consensus, his further continuance in power seemed untenable as the DPJ itself has been in disarray with perennial political wrangling within the party.

Kan tried to push through key policy initiatives such as the consumption tax hike and a review of the party's election manifesto but faced opposition from his own party members. Those belonging to the faction led by former DPJ chief Ozawa Ichiro frustrated Kan's initiatives. In June 2011, the Ozawa group even threatened to support an opposition-sponsored no-confidence motion against the Cabinet. This set the stage for Kan's departure from office. It was only Kan's temporary truce with his predecessor, Hatoyama Yukio, which made him survive longer than it looked possible in June.

The regime change in the 2009 elections was unexpected and the DPJ has not been able to capitalize on its victory during the past two years. This was because the "DPJ was formed as a rugged collection of politicians pursuing sharply different political agendas and approaches. It was a political alliance among a wider range of lawmakers who didn't belong to the Liberal Democratic Party .... Its principal mission was to secure electoral

victories in single-seat constituencies of the Lower House.”<sup>1</sup> In other words, the DPJ was “a mutual electoral support-group born out of the single-seat election system.”<sup>2</sup>

When the DPJ was in the opposition, its sole mission was the defeat of the LDP. After this political goal was achieved, the party’s lack of a common vision rose to the surface and it plunged into an endless cycle of infighting. Its political immaturity in governing the country has led to this phase of political instability. Unless the party reforms itself, Noda’s tenure in office would not be any different from that of his two predecessors.

## Tasks Ahead of Noda

The lack of effective leadership has been Japan’s biggest handicap. “The DPJ tenure has been a slow-motion train wreck, and “Japanese leadership” continues to be an oxymoron.”<sup>3</sup> Lack of leaders capable of bridging partisan groups in a bicameral legislature has been Japan’s biggest problem. Holding the folks together with a common stance on policies announced in the party’s manifesto would be the single biggest challenge for Noda. The promises in social security, child care allowance of 26,000 yen per child, etc. made in the manifesto without a proper plan for raising funds to meet the costs of the programmes dented the images of his two predecessors. Any alteration in the declared policy, if needed to be made, must have support within the party.

## Domestic

Even as Japan continues to struggle with a stagnant economy, deteriorating demographics, growing security threats from China and North Korea and fading international influence, neither the LDP earlier nor the DPJ now have been able to display the vision or ability to govern Japan effectively. Focusing more on politics and less on policies has been Japan’s current political culture. “They are like two punch-drunk fighters bludgeoning one another to score points but unable to deliver the knockout punch. The result is political stalemate and policy gridlock.”<sup>4</sup>

The DPJ has a history of partisan politics driven by the power of numbers. When Ozawa led the DPJ and the party had a majority in the Upper House, he made things tough for the LDP-New Komeito coalition government to pass bills and frustrated the government’s efforts to select its nominee for the governorship of the Bank of Japan, thus keeping the

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<sup>1</sup> “DPJ needs to reinvent its political future”, *The Asahi Shimbun*, editorial, August 27, 2011, available at <http://www.asahi.com/english/TKY201108270197.html>.

<sup>2</sup> Ibid.

<sup>3</sup> Bruce Klingner, “Japan’s revolving door at the top”, *The Los Angeles Times*, September 1, 2011, available at <http://www.latimes.com/news/opinion/commentary/la-oe-klingner-japan-20110901,0,38759>.

<sup>4</sup> Ibid.

post vacant for a while. At that time, Ozawa's strategy worked and the government was pressured into dissolving the Lower House. In the ensuing elections the LDP was dethroned from power.

Now the LDP is playing the same tricks against the DPJ that Ozawa had used against it. If the DPJ is keen to remain in power, Noda has to ensure that Japan outgrows such old-fashioned politics and move towards a new era of politics. What both the ruling and the opposition have to do is "find common ground through serious and constructive policy debate."<sup>5</sup>

Noda's long list of challenges includes rebuilding Japan after the devastating tsunami, the nuclear crisis triggered by it and reining in the huge public debt. But the biggest risk is that he could also end up as a short-termer like his two predecessors. The ruling DPJ has a regular leadership election set for September 2012. Noda has called for a grand coalition with the main opposition parties in order to break the parliamentary deadlock but his idea has received only a cool reception from the opposition. The fact is, a grand coalition is not really necessary, since about 80 per cent of government-sponsored bills have already been passed in the current Diet session without such a coalition.<sup>6</sup> What the Noda government has to do now is immediately draft a third extra budget to finance the various construction measures.<sup>7</sup> And what Noda needs is a "trusting relationship with the opposition."<sup>8</sup>

The revolving-door leadership has hampered effective economic strategies to deal with the public debt which is now twice the size of the \$5 trillion economy. Noda has the reputation of being a fiscal hawk, and is criticized as being too much under the thumb of the finance ministry bureaucrats. But he is willing to defy political convention by raising taxes to haul back the country's debt and pay for the post-tsunami reconstruction.<sup>9</sup> He has supported a plan to double the five per cent sales tax by mid-decade to fund bulging social security costs of an ageing society and as a way of reigning in the debt crisis. Recently, however, he has turned cautious and clarified that the country needs both growth and fiscal reform. The bond markets welcome Noda's ideas as he has been consistently calling for Japan to face painful reforms to contain its debt.

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<sup>5</sup> "DPJ needs to reinvent its political future", note 1.

<sup>6</sup> Masami Ito, "Kan's exit seen as boon for unity", *The Japan Times*, August 29, 2011, available at <http://search.japantimes.co.jp/cgi-bin/nn20110829x1.html>.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> "New PM swims against the tide", *The Australian*, August 30, 2011, available at <http://www.theaustralian.com.au/news/features/new-pm-swims-against-the-tide/story-e6frg6z6-1226124825191>.

Reining in the relentless surging yen is the other major challenge facing Noda. Though the federal bank intervened in the currency market and eased monetary policy by boosting the central bank's asset buying programme on August 4, these measures have had only a limited effect in stemming the yen's rise. As finance minister, Noda had vowed to act, including through intervention in the market, to stem excessive rises in the yen and will likely stick to that stance. The soaring yen is crushing Japan's export income. Though Noda has sought the cooperation of the central bank in dealing with the strong yen, he has refrained from pressuring for additional easing steps and has respected its independence – unlike other candidates.

On the energy security front, Noda has a different position from that of his predecessor Kan. He has distanced himself from Kan's vision of a nuclear power-free society and has said that trust in nuclear power needs to be restored. He wants to ensure a stable power supply by restarting halted reactors but after confirming they are safe. It is unclear however if local authorities and residents will agree. So far only one regional government has approved the restarting of a nuclear reactor that had stopped operation as a result of the quake.

The indirect effects of the disaster are no less daunting. The triple disaster knocked out the supply lines of many manufacturers, thereby denting Japan's GDP. The country is experiencing a shortage of power. Though efforts have been made to restart mothballed fossil fuel plants and reducing demand through power saving, besides shifting factories to weekend production, these measures are inadequate. Noda faces the huge task of crafting a compromise that allows the safest plants to resume operation in a reasonable timeframe. The top most item in Noda's menu would be to create a new energy policy that works both practically and politically.

Though Kan's shift in focus towards renewable sources of energy propelled companies such as Sharp and Softbank to flag large new solar projects, Japan will find nuclear energy to remain indispensable at least in the medium term. While selling a compromise to his party and the Japanese people to ensure that the country's high-tech export drive remains intact, Noda also needs to focus on alternative energy, while at the same time ensuring that another Fukushima does not happen.

Noda inherits a party that is bitterly divided. He won with support from the critics of Ozawa. However, Ozawa's influence cannot be discounted despite him facing trial in a funding scandal. Noda needs to deal with this group carefully. It seems unlikely that Ozawa and his backers will be openly against Noda in the immediate future but their considerable influence could still undercut Noda's efforts.

The opposition's control of the Upper House will continue till 2013, when elections would be due. The opposition LDP and its ally New Komeito would not hesitate to block legislation for political ends if the DPJ indulges in any misdemeanours. Therefore, the

destabilizing threats through no-confidence motions would continue to threaten the Noda administration. This fact also may bring together the different factions within the DPJ to save the government whenever such an eventuality arises.

## Diplomacy

On the foreign policy front, one task before Noda is to tighten ties with the US. Before the DPJ took power in 2009, Hatoyama had strained relations with the US by articulating the policy of ‘equidistance’ from the US, implying thereby undermining the alliance relationship. Even the relocation of the Futenma base was a bone of contention. Noda has said that maintaining the alliance relationship with the US will be at the core of Japan’s diplomacy. Japan remains the world’s third-largest economy and America’s most important ally in Asia. Noda supported the 2006 agreement between Japan and the US to relocate Futenma farther north on Okinawa Island. However, he is likely to resist if the US puts additional pressure to increase Japan’s financial commitments towards maintaining the base.

As regards Japan’s immediate neighbours, handling relations with China is going to be tough. Despite burgeoning economic ties – China emerged as Japan’s largest trading partner in 2009 and bilateral trade ballooned to \$300 billion in 2010 – bilateral ties chilled in 2010 over the Senkaku territorial issue.<sup>10</sup> China blames Japan for this and Beijing has accused Tokyo of mismanaging the relationship “without due respect for China’s “core interests” and legitimate demands for development, as well as by trumpeting a “China threat” theory for ulterior motives”.<sup>11</sup> China has lost no time in warning Noda “to carefully craft and implement a proper policy in treating Japan’s war past to soothe the resentment among the Chinese public toward Japan”<sup>12</sup> as well as “acknowledge China’s legitimate requirements for military modernization to defend its growing national interests”.<sup>13</sup>

China also does not want any Japanese leader to visit the Yasukuni Shrine, the Shinto facility and the symbol of Japan’s past militarism which honours some 2.5 million war dead, including the 14 war criminals. Noda, a self-proclaimed political conservative, stirred controversy recently when he expressed the view that Class-A war criminals were not war criminals. He further stated on August 15, 2011 that asking Prime Ministers not to visit the Yasukuni Shrine has no merit. Although it is not quite clear whether as prime minister he would indeed visit the Shrine, he should desist from doing in order not to further sour Japan’s relations with China and the Republic of Korea.

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<sup>10</sup> “China-Japan ties must rise above Japan’s political volatility”, available at [http://news/xinhuanet.com/english2010/indepth/2011-08/26/c\\_131077322.htm](http://news/xinhuanet.com/english2010/indepth/2011-08/26/c_131077322.htm).

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

While there is a need to protect the mutually beneficial economic ties with China, avoiding political differences from flaring up should also be Noda's priority. Noda is also expected to deepen Japan's economic relations with Australia, a key source of critical resource imports. With both Japan and Australia being alliance partners of the US, a political understanding between the two will help to address regional issues as well.

## India Factor

The China factor is driving some Asian countries to come together and India has an important place in this strategy. Despite not so strong economic ties, India's political and security ties with Japan are good. The signing of the Comprehensive Economic Partnership Agreement (CEPA) and the Delhi-Mumbai Industrial Corridor are likely to dramatically transform the economic component of India-Japan economic ties in the coming years. Japan's present India policy is likely to continue. Noda is slated to visit New Delhi sometime in December 2011. He is also likely to review Japan's nuclear policy since Japan cannot do without nuclear energy. A civil nuclear deal with India is pending. It is expected that this issue will figure prominently during the summit meeting

## An Assessment

The earthquake, tsunami and nuclear disaster will occupy most of Noda's attention in the short to medium term. His immediate task will be refocusing clean-up efforts and deal with food contamination risks. Though some 50,000 temporary units have been built for evacuees, a significant numbers of families are still living in evacuation centres. Their resettlement is a priority for the Noda administration.

After Koizumi Junichiro retired from Japanese politics (prime minister from 2001-2006), no other prime minister has been able to address the country's economic woes, though corporate Japan has emerged somewhat stronger from the two decades of stagnation. The disconnect between the private and public sectors even negated Koizumi's efforts to reform, resulting in Japanese companies shifting production bases offshore. Can Noda arrest this trend and resuscitate the economy? His skills in dealing with matters of finance will be put to severe test.

Noda's election also demonstrated an end to the DPJ's traditional Troika leadership consisting of Ozawa, Hatoyama and Kan. In a country where factional politics has become an established political culture, the Ozawa-Hatoyama-Kan alliance, which represents the largest faction within the DPJ, was partly responsible for the political malaise that the country is facing. Though the Ozawa phenomena cannot be totally discounted in Japanese politics, the inability of the troika to ensure the election of its own candidate as Kan's successor means that Noda can afford to keep the troika's influence under check.

Domestic politics apart, Japan has a key role to play as a bulwark in the international economic system. Japan needs to strengthen the alliance relationship with the US to which Noda is committed. He is committed to crafting a foreign policy that is Asia-centric but also to using the US as a balancer. At this critical time, Noda needs the support of his party and countrymen. If Noda falters, Japan's importance in the global community would be considerably diminished and it will be left with the role of a marginal power.