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Reinventing Japan

Gerald Curtis Weak opposition a cancer in Japan's political system

Kazuo Ueda Has Abenomics fizzled out?

Naomi Koshi Can embracing diversity solve population problems?

Hideo Hayakawa Achieving the inflation target still a distant goal

Amy King Tensions dampen Japanese business hopes in China ... **and more**

ASIAN REVIEW – Evelyn Goh: Will China get what it wants in East Asia?

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From the Editors' desk

To remain a wealthy, peaceful, high-tech advanced society, business as usual in Japan will not do. Japan needs reinventing.

A shrinking and ageing population has made priorities of two issues—maximising the potential of women in the workforce, and the need to have a serious debate about immigration. After a period of political uncertainty, the Abe government has brought political stability, but in the absence of an effective opposition, the health of the political system is under question. Japanese companies need new dynamism and innovation to re-establish themselves as global corporate leaders. Japan needs a serious China policy that contributes to regional security and prosperity.

This issue of the *East Asia Forum Quarterly* explores these questions about Japan's future direction. Japan's Northeast Asian neighbours will be watching Japan closely to learn how to deal with a demographic super crunch. Other advanced economies will be watching to see how successful Japan is in escaping deflation. And everyone will be watching to see whether Japan can introduce its reinvented self to the world at the Olympics in 2020.

Japan's lost decades since the bubble burst in 1990 have not been a disaster. But a couple more lost decades would mean living standards that fell well behind the richest countries. That will bring bigger challenges. In this *EAFQ*, prominent Japan specialists and scholars propose ways forward. To effect the changes that are needed will require Super Mario strength and determination (see cover).

How East Asia should respond to the collapse of global trade, how to think about happiness and wellbeing, China's ability to influence its neighbours and the flow of people across Asian borders are the subjects of our *Asian Review* section.

Shiro Armstrong and Kay Kitazawa

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COVER: Game on: Japanese Prime Minister Shinzo Abe appeared as Nintendo character Super Mario when Tokyo accepted responsibility to host the 2020 Summer Olympics during the closing ceremony of the 2016 Olympics in Rio de Janeiro. PICTURE: STOYAN NENOV / REUTERS.



Democratic Party leader Katsuya Okada shakes hands with a voter during a walk-around in Tokyo on the final day of the 2016 upper house election.

Weak opposition a cancer in Japan's political system

GERALD CURTIS

FOR close to 40 years after 1955, the Liberal Democratic Party (LDP) dominated Japan's competitive party system. Opposition parties were not able to mount a successful challenge to LDP rule at the national level, but they had an important impact on policy and the political process. Japan had one dominant party but not a one-party system.

The opposition was strong enough to prevent the adoption of many policies for which the LDP fought hard—constitutional revision, government financial support for the controversial Yasukuni shrine, the

reintroduction of morals education and other features of the prewar education system, to mention just a few. Broad popular support for the Japan Socialist Party's (JSP) positions on rearmament and on defending the liberties enshrined in the constitution made it impossible for the LDP to implement key policies it espoused in its initial party platform in 1955.

Half a century later the LDP is again pushing these policies forward with renewed vigour. Prime Minister Shinzo Abe's desire to 'overcome the postwar order' (*senjo rejimu no dakkyaku*) means freeing Japan from the political order sustained by the competition between the LDP and the

opposition parties.

Polarised party systems in which there are deep ideological divisions and profound policy differences between the parties tend to undermine political stability. But in postwar Japan the tug and pull between a right-leaning LDP and a left-wing opposition dominated by the JSP created a dynamic tension that had the effect of keeping the system towards the centre. Over time the LDP—which started out determined to overturn many of the political reforms adopted during the American Occupation and write a new constitution—downplayed its revanchist goals and made retaining political power its overarching

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objective. Emphasising a pragmatic approach, the LDP became the preeminent party of the centre.

The socialists, though, did not make a comparable adjustment in their political orientation and moved to the left. Doing so led elements on its right wing to break off to form the Democratic Socialist Party and also made room for Komeito, which was formed in 1964, to occupy space that had opened up to the left of the LDP and the right of the JSP.

In the 1990s the demise of the JSP seemed to be leading to a reordered political party system centred on competition between the LDP on the centre-right and a newly formed Democratic Party of Japan (DPJ) on the centre-left. It appeared that the political party system was being reinvented. It seemed possible that an alternation of power between two dominant parties might become the new normal. That view seemed to be confirmed when the DPJ enjoyed a landslide victory in the 2009 lower house election and took over the government.

But it was not to be.

The three years the DPJ held power proved to be a disaster for the party and a godsend for the LDP. Many factors contributed to the DPJ's failure, among the most important being the ineptitude of prime minister Yukio Hatoyama, the effort by Ichiro Ozawa to control the party in the style of his mentors Tanaka Kakuei and Kanemaru Shin, a bureaucrat-bashing approach, the Tohoku earthquake and the nuclear disaster at Fukushima. It looked as though the party might be getting its bearings under prime minister Yoshihiko Noda, but by then it was too late.

Since losing power to the LDP in 2012 the Democrats have been at a loss as to how to recover public

The alternative to be hoped for is a system that cleaves toward the centre

support. Under chairman Katsuya Okada the Democratic Party, as it is now known, has opted to define its goals not in terms of what the party stands for but what it stands against. It is against collective defence, against the classified secrets act and against constitutional revision.

Public opinion is critical of LDP policies on these matters but the kind of intensity that led people to demonstrate in large numbers against the LDP years ago is simply not there anymore. Okada's effort to make opposition to constitutional revision the key issue in the 2016 upper house election campaign gained little traction. Prime Minister Abe downplayed the constitutional issue and emphasised the importance of sticking to his economic strategy. Okada and other Democratic Party leaders never articulated an economic policy of their own.

Now that the LDP is no longer being pulled to the centre by parties on the left, the party's more conservative members are demanding that the party return to its roots and fulfil the vision of its founders. The changing dynamics of party politics in Japan has set in motion the LDP's rightward shift.

Those on the party right reject the centrist line that has characterised the 'conservative mainstream' (*hoshu honryū*), represented by prime ministers Hayato Ikeda, Masayoshi

SEEKING STIMULUS

Has Abenomics fizzled out?

Ohira, Kiichi Miyazawa and others, as an unprincipled betrayal of the party's ideals and goals. Prime Minister Abe, for example, in a dialogue with the novelist Naoki Hyakuta, complained that the LDP had become a 'party to maintain power' rather than seeking to fulfil its original platform. Abe has left no doubt that he believes he has a responsibility to give priority to the party's primary goal as set out by his grandfather, prime minister Nobusuke Kishi, in the late 1950s.

As far as the LDP's opposition is concerned, there is no future for a party that defines its *raison d'être* in terms of what it opposes and that avoids taking clear positions on difficult issues of national security policy. The sad truth is that never in Japan's postwar history has the political opposition been as enfeebled as it is now.

Japan's political party system will be reinvented, one way or another. It is possible that reinvention will leave the LDP so strong and the opposition so impotent that Japan evolves into something similar to a one-party system in which the checks and balances essential to democratic governance are drastically weakened. The alternative to be hoped for is a system that cleaves toward the centre. This would require the presence of a catch-all centre-left party that offers the public a realistic alternative to the LDP and by doing so pulls the LDP itself toward the centre.

The burden is on the leaders of the Democratic Party to reinvent their party. The future of Japan's political party system and its political democracy depends on how successful they will be. **EAFQ**

Gerald Curtis is Burgess Professor Emeritus of Political Science at Columbia University.

KAZUO UEDA

IN AN attempt to combat deflation, the Japanese government recently announced a fiscal policy package exceeding 28 trillion yen. The Bank of Japan (BoJ) joined the effort by easing monetary policy further on 29 July. This comes after more than three years of Abenomics. It is almost an acknowledgement that the stimulus so far has failed to work.

Relative to the 2 per cent inflation target, the actual consumer price index (CPI) inflation rate (excluding energy and foods) is running at 0.4 per cent as of June 2016. This is despite an almost tripling of the monetary base over the past three years. The growth

rate of real GDP averaged a meagre 0.7 per cent over the 2013–15 period. Worse still, labour productivity growth remains stagnant.

Demographic trends undoubtedly present the most serious long-term challenge for the country. Given Japan's reluctance to accept large-scale immigration, the average Japanese person will have to work more efficiently to raise output. But the rigidity of the labour market poses a major obstacle to achieving this end. Without more flexible movement of workers within and across firms, attempts at reforming corporate governance will have limited efficacy.

To be fair, the Japanese labour market has become more flexible over



Prime Minister Shinzo Abe as he appears in Abe Pyon, a smartphone app developed by the Liberal Democratic Party to appeal to young voters. Japan needs specific plans to develop young talent.

PICTURE: TORU HANAI / REUTERS

the past two decades with the increase in the number of non-regular workers, who now represent close to 40 per cent of the market. This is one reason why the unemployment rate has not increased significantly despite two decades of stagnation.

The increase in non-regular workers has generated a serious income inequality problem, fattening the lower end of the income distribution. At the same time, unlike in the United States, the rich have not been getting richer. Technological developments have instead seen a small number of talented individuals play pivotal roles in productivity enhancement and earn controversially high incomes. Japan's income distribution pattern suggests that both the merits and demerits of new economies are largely absent, thanks to labour market rigidity and broader cultural factors.

Japan needs specific plans to develop young talent and to effectively use both core and non-core workers. The Abe government must go beyond simply focusing on mitigating the pain of non-core workers and address the inefficiency of the core labour market.

The absence of solid growth prospects and the mountain of existing government debt also produce a fairly gloomy outlook for fiscal sustainability. Japan needs to increase taxes substantially and constrain social security spending in order to reduce the government debt-to-GDP ratio. To this end, the consumption tax rate alone will have to almost triple to at least 20–25 per cent from the current 8 per cent. Currently, neither of these options appears politically feasible.

The absence of a realistic plan to ensure fiscal sustainability has produced huge uncertainties concerning future social security benefits and taxes, which negatively affect consumption. The long period

... popular discussions of Japan's monetary policy have shifted to the possible use of so-called 'helicopter money'

of near-zero inflation has generated significant inertia in inflation expectations.

Long-term structural problems and the legacy of two decades of stagnation have become obstacles for effective monetary easing under Abenomics. Easier monetary policies have stimulated asset prices occasionally, but have had limited effect on output and prices.

Worse still, the BoJ seems to be reaching its limits. It now owns more than one-third of the Japanese government bond (JGB) market, and this is expected to increase to almost half by the end of 2017. The functioning of the market has deteriorated significantly. It is unclear how long the bank can keep buying JGBs at the current pace.

Reflecting these quantitative easing difficulties, the BoJ made a highly unpopular decision to lower the interest rate on bank reserves into negative territory in January. Given the effective zero lower bound on bank deposit rates, declines in bank lending rates as a result of sharp declines in market interest rates have lowered net interest margins to the point where banks' traditional business—taking deposits and lending them out—is no longer profitable.

The BoJ could ease further by buying more JGBs or by lowering the rate on bank reserves in the near term, but this would likely only bring forward the day of reckoning.

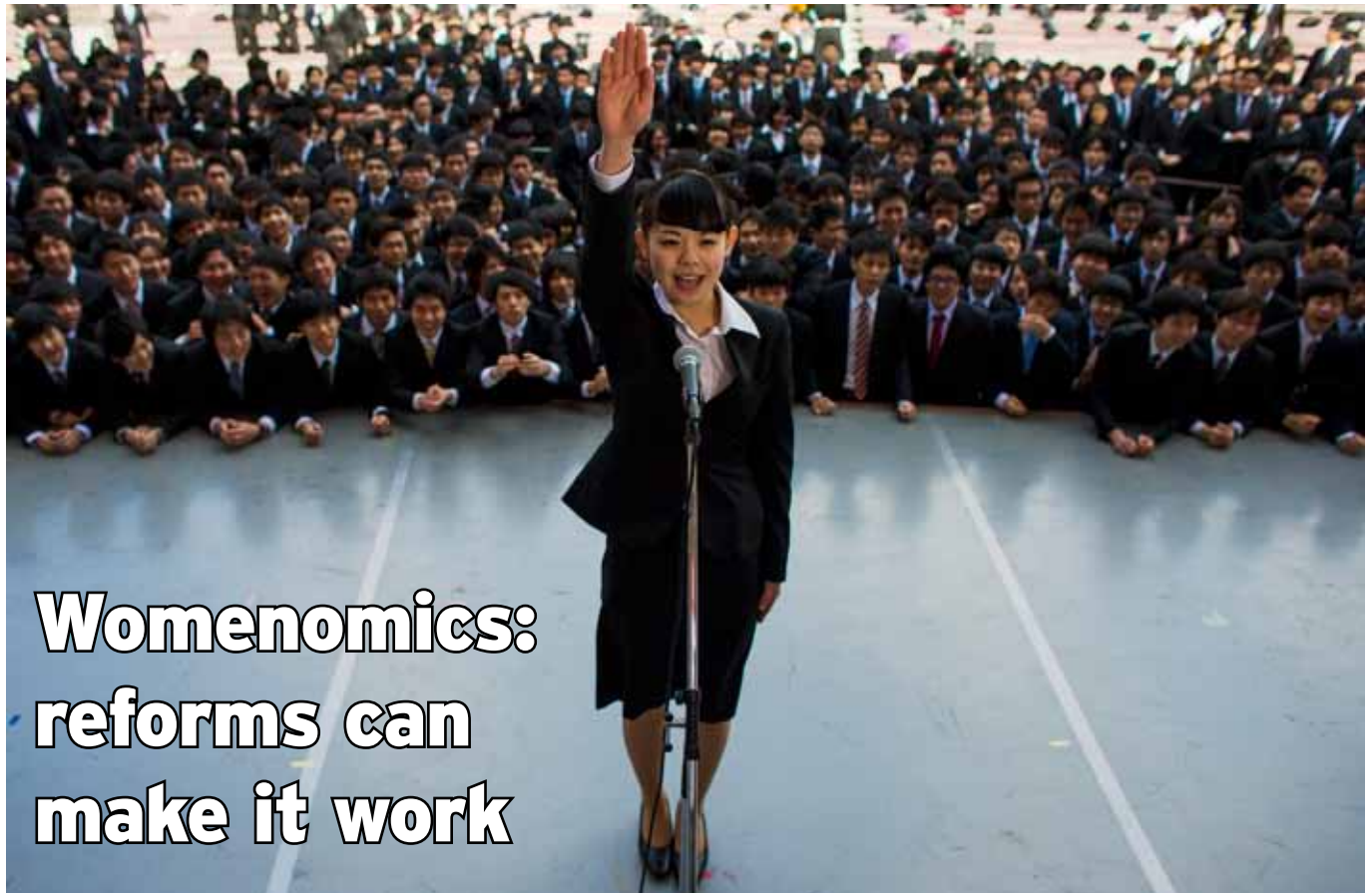
Given the technical limits of quantitative easing and negative interest rates, popular discussions of Japan's monetary policy have shifted to the possible use of so-called 'helicopter money'. Proposals vary, but realistically this must mean fiscal expansion for a sustained period.

The recently announced fiscal package is believed to be a stimulus of around 1 per cent of GDP in the near term. More extreme proposals of helicopter money have been raised, such as a large-scale swapping of JGBs held by the BoJ for zero coupon perpetuities. But this would effectively deprive the BoJ of its power to tighten monetary policy when necessary.

The joint stimulus will most likely be insufficient to raise inflation to the target. Yet if inflation does increase significantly, it may aggravate the fiscal situation. Higher inflation rates will allow the BoJ to taper JGB purchases and raise short-term interest rates. JGB yields could increase by more than inflation and the outlook for fiscal sustainability could worsen sharply.

The longer-term economic problems facing Japan are formidable but there is some cause for optimism. In the near term, a more solid expansion in the global economy, especially in the United States and Asia, would relieve pressure on the yen and the BoJ. In the medium term, a 2 per cent inflation rate, if achieved, could animate business spirits and trigger a substantial rise in investment and growth. But for now we will just have to wait and see. **EARQ**

Kazuo Ueda is Professor of Economics at the University of Tokyo.



Womenomics: reforms can make it work

NOBUKO NAGASE

ACCORDING to the latest medium-term Japanese population projections by the National Institute of Population and Social Security Research, the number of people aged over 75 is expected to increase by 5.3 million from 2015 to 2025, while the working-age population, aged 20 to 59, will shrink by 5.3 million. Government policies to increase the wage income of women and facilitate better work–life balance will be crucial to managing this demographic change.

Japan has seen some progress in increasing women’s workforce participation. The greatest progress has been made in increasing the number of women who maintain ‘regular’ or full-time positions following the birth of their first child.

The percentage of women with one child under three years old who kept regular employment rose from 18 per cent in 2002 to over 30 per cent in 2015. The percentage of female university graduates in regular employment rose to over 40 per cent in 2015. Women in non-standard employment also increased and the percentage of those out of the labour force declined.

Various policies have been instrumental in increasing the number of women in the workforce. From 2005, firms with more than 300 employees were required to develop action plans to create more family-friendly working conditions over the next two to five years. In late 2007, the government, employer associations and the National Center of Labor Unions agreed to adopt the Work and Life Balance Charter.

A university graduate promises to do her best to find work during a Tokyo job rally in 2015.

In terms of labour law, the parental leave allowance—which stood at 40 per cent of pre-leave monthly earnings in 2000—increased in 2014 to up to 67 per cent for the first six months of leave. Sick leave for the care of children was also introduced. And, most notably, a six-hour workday option for workers with children less than three years old was mandated in 2010, with a two-year grace period for smaller-sized firms.

But a shortage of day care could jeopardise these improvements. The majority of Japanese day care is subsidised by the government. Yet, since the end of World War II, the stock of day care supply has been more abundant in rural areas, where more married women work in the

home than in urban areas. Increased women's labour force participation rates are causing severe shortages in metropolitan areas.

The very slow increase in the supply of day care is a product of poor policy. The Ministry of Health, Labor and Welfare should make special regulations and budget allocation rules to improve access to childcare in urban cities where land prices are high and demand is rapidly rising. The government should also provide incentives so that spare spaces at kindergartens and elementary school premises are used for day care.

While the number of women continuing to work following their first child has increased, little progress has been made in improving work culture or income for married part-time workers. The tax and social security system favours low-earning homemakers, giving married women an incentive to limit their paid employment.

Under this system, earned income below 1.03 million yen (US\$10,276) per year is free of national income tax, but income earned over this amount will be taxed not only at one's own tax rate, but also at their spouses' tax rate by eliminating the spousal tax deduction. Spouses of wage and salary earners are also exempt from social security taxes if their income is below 1.3 million yen (US\$12,976) per year but are given full health and long-term care insurance benefits, as well as the full basic pension entitlement.

The Abe administration announced in 2014 that it would change the income tax system, which has implicitly supported the typical family model of a male breadwinner and a full-time female homemaker, but so far there has been no change in the income tax system. As for social security tax, from October 2016,

Women have long been treated as second-class workers even in full-time positions

part-time workers will be required to pay social security tax if they work more than 20 hours a week, have annual income over 1.06 million yen (US\$9980) per year and are employed at branches with more than 500 employees.

However, this social security tax reform will be made without any reform concerning benefits to dependent housewives. Financial planners in women's magazines have recommended that in order to increase their net income, housewives should earn either over 1.5 million yen (US\$14,115) or less than 1.06 million yen per year due to this social security tax change. Firms also benefit if housewives keep their income below 1.06 million yen, as they are required to pay half of the social security tax. Thus, this change in the social security law may further encourage housewives to limit their workforce participation to around 1 million yen (US\$9410) in annual income.

On the brighter side of the picture, some firms have trialled improving the spousal allowance on salaries—a salary customarily given to primary income earners who have a dependent spouse. Toyota, for example, announced in 2014 that it planned to reform the spousal allowance so as not to penalise spouses who earn over the tax limit. The National Personnel Authority is also expected to announce reforms to spousal allowances for public servants in 2016.

In order to encourage housewives to increase their earnings, the wage system also needs to be remedied.

The fundamental barriers to womenomics are the labour practices and workplace norms that separate long-term employees from other forms of employment. Japanese long-term employment is well known for high job security and good company-based training, while giving the employer strong discretion in worker placement, relocation and hours.

Women have long been treated as second-class workers even in full-time positions, with companies expecting them to quit work when they have children. Team-based work habits and long work hours have alienated workers who cannot prioritise work, causing many women to quit work when they marry or have their first child. This restricted work opportunities for women, who commonly left the workforce to take up low-paid, part-time jobs.

Government campaigns to change workplace norms to promote a better work-life balance are starting to change general attitudes towards women in the workplace but the restrictive promotion mechanisms built into the long-term employment system have been generally left untouched. The Abe administration is discussing reform to help implement the principle of 'equal pay for equal work'. If this discussion leads to new job opportunities for workers re-entering the labour market, it will provide another critical reform for women. Together, these reforms should help make womenomics work.

EAFC

Nobuko Nagase is Professor of Labor Economics and Social Policy at Ochanomizu University and Visiting Scholar at Harvard University.



Interpreter Dang Nguyen Thuc Vien, centre, the daughter of refugees from South Vietnam, helps a Vietnamese resident at a hospital in Kanagawa prefecture, south of Tokyo. If controls were relaxed, immigration could initially focus on the needs of specific industries.

Can embracing diversity solve population problems?

NAOMI KOSHI

JAPAN'S population has been falling since 2011. In 2014 Japan's total fertility rate stood at 1.42 children per woman—one of the lowest in the OECD. Population decline has led to labour shortages, decreased consumption and a related hit to the economy, with GDP growth at an anaemic 0.8 per cent in 2015. Decreased tax revenues further raise the spectre that social welfare

programs, such as social security-type benefits paid to the elderly, may no longer be fiscally sustainable in the near future. Embracing diversity is a key factor in solving these issues.

In Japan discussions of diversity tend to focus on gender. In 2015 Japan's central government passed the Act for the Empowerment of Women in the Workforce. This legislation sought both to encourage women to stay in the workforce after starting a family and to encourage businesses to

promote women to positions of power.

Around 60 per cent of Japanese women leave the workforce after having their first child. A primary cause for this labour-related exile is the state of Japan's childcare system. Restrictions on immigration have limited the number and affordability of home-based childcare providers. Most women who choose to continue working after having a child are forced to seek out a coveted spot in a nursery for their newborns.

In April 2015, some 23,000 Japanese families could not find a suitable nursery for their children to attend. This has become so common that the term *taiki jidō*, or 'waiting children', has been coined to describe the situation. Women struggle to balance work and children. This dichotomy has created a scenario in which women must choose one over the other.

Since becoming mayor of Otsu four years ago, I've focused a great deal of energy on improving childcare programs and encouraging women to stay in the workforce. To achieve this, I've increased city subsidies to private nurseries and have successfully pushed for the construction of 29 new nurseries able to accommodate around 2000 children. This objective has become even more vital as the birth rate in Otsu has recently increased and the number of full-time working mothers with children under the age of five has doubled.

Working women also face difficulties in climbing the corporate ladder. Only 7.5 per cent of Japanese corporate executives are female. To address this, the Act requires certain companies to set goals to increase the number of female managers. While it is heartening to see such action from the Japanese government, it is essential to note that only 12 per cent of national legislators, 4 per cent of governors and 1 per cent of mayors are women. When first elected mayor of Otsu at 36, I was the youngest woman ever elected mayor of a Japanese city.

The situation is the same at Otsu City Hall. Though technically speaking 22 per cent of city hall employees holding management positions are women, if nurses and kindergarten teachers are excluded the number falls to 5 per cent. To address this issue, I set up a committee to improve the work environment for women. Some

women on the committee have said that they do not want to be promoted because promotion may require them to work longer hours. Unlike their husbands, they stress that they are often also responsible for household chores, taking care of older family members and child-rearing.

In Japan, long work hours and working overtime are considered the norm. But labour productivity is lower than in many other OECD countries. To improve this, Otsu City Hall now allows overtime only two days a week. We have also been shifting the employee evaluation system from one based on hours worked to one that stresses results and efficiency.

Though women are granted legal equality under the Japanese constitution, true equality has yet to be attained in practice. It is important that women be able to stay in the workforce after they have children and that they be able to take on the same leadership roles as men in the workplace. If more women had children while staying in the workforce, the birth rate would also likely rise, further minimising the population crisis that Japan faces and addressing the ongoing labour shortage. An OECD survey indicated that granting such employment equality to women in Japan would increase GDP by an additional 20 per

Due to high costs, Japanese people rarely have home-based nannies or domestic carers

cent over the next 20 years.

Another solution to population decline is immigration. Though Japan has extremely strict immigration controls, more immigration could initially be centred on specific industries. For example, Japan currently suffers from a lack of professionals working in both child and senior care. This is a critical reason why many cities cannot provide enough nurseries for their citizens.

Due to high costs, Japanese people rarely have home-based nannies or domestic carers. The Japanese government is very restrictive in issuing visas to foreigners who intend to work as either domestic workers or nannies, and these restrictions greatly affect the cost of these services. The national government has recently begun to select several designated test cities where foreigners with special visas are permitted to do such work.

Unlike other OECD countries, a discussion on immigration has yet to begin in Japan. Anti-immigrant sentiments recently emanating from the United Kingdom and other countries in the European Union will likely further delay liberalisation of Japan's immigration policy.

Japan's population is declining rapidly, and the nation is being forced to make a choice about how to move forward. Fear of change and the consequent inaction will likely lead to a shrinking economy and cuts to public services and facilities. Japan must choose the path of diversity in embracing an inclusive society open to women, non-ethnic Japanese and many other people. Diversity is not only a human rights issue but, in the case of Japan, a key policy solution.

EAFC

Naomi Koshi is the Mayor of Otsu, Japan.



Members of the Students Emergency Action for Liberal Democracy in Tokyo's Shibuya district hold a cardboard Instagram frame and placards urging young people to vote in July 2016's upper house election. Young people are more interested in politics but this is not reflected in participation rates.

Accommodating youth and women in a silver democracy

NOBUHIRO AIZAWA

A WAVE of activism has animated politics in East Asian democracies: Taiwan's Sunflower Student Movement in 2014, South Korean 2015 street protests against President Park Geun-hye's new labour law, and protests in Japan in 2015 against Prime Minister Shinzo Abe's security bills. Youth activism was common to all these

movements. Facing challenges in a stagnating economy, the younger generations have developed a deeper political awareness from a sense of marginalisation from political decision-making processes.

Despite common elements, the outcomes of these street protests have differed greatly. Protests in Taiwan and South Korea delivered a serious blow to the ruling parties electorally, but in the 2016 July upper

house elections in Japan, the majority voted to support the ruling Liberal Democratic Party (LDP). At this point street demonstrations in Japan haven't had the same impact.

One of the characteristics of political participation by youth in Japan is the contrast between a growing interest in politics and low participation on election day. The CEO of Niwango, who manages Nico Nico—a Japanese social media

giant—reports that its monthly political opinion poll consistently attracts 30,000 replies in just 15 minutes, far more than major television channels or newspapers. This suggests a strong interest in politics among the younger generation, despite claims to the contrary.

The big question is—if young people are interested in politics, why don't they vote? There is still no definitive answer, but what is clear is that there is a representation gap. This gap derives from the ageing population engendering feelings of disempowerment among the youth in a 'silver democracy'.

THIS gap between political awareness and the sense of marginalisation among certain subsets of the population is the driving force behind changes in political participation in Japan. Two other forces carry weight.

First is the top-down adjustment of the voting age to accommodate teenage voters. The July upper house election was the first national election after the Japanese government lowered the voting age to 18. Since then high schools have become the core institutions in teaching political participation strictly in terms of electoral participation.

The majority of teenagers voters voted for the LDP. According to a survey by the Ministry of Internal Affairs and Communications, a total of 51 per cent of 18-year-olds turned out to vote, a substantially higher percentage than for 20-year-olds. From the perspective of the ruling party, the top-down accommodation of youth successfully strengthened its voter platform.

The fact that 18- and 19-year-olds were granted the vote as a result of top-down reform, rather than as a

hard-fought political concession, will likely shape their voting behaviour in the longer term. They will likely be less motivated to campaign for change than if this voting reform had been the result of sustained political action by Japan's youth. For most young Japanese, their initial experience was not a vote for change, but rather to learn and to comply with the current political system. It remains to be seen how well this modified electoral system will provide a voice for those youth who do desire change and to what extent it maintains political stability.

The second new force in Japanese politics is the increasing importance of gender. Discussions about and by women in politics have accelerated through internet blogs and via Twitter. In February, a hard-hitting political phrase *Nihon shine*—'Go to hell, Japan'—went viral. The phrase originated from a blogpost by an anonymous working mother decrying the fact that her one-year-old child had been denied a place at nursery school—'My child was denied enrolment in nursery school, go to hell Japan.' The woman was driven to the verge of giving up her job.

The blog post attacked Abe's womenomics agenda—which includes policies to promote the 'dynamic engagement of all citizens,' 'countermeasures to the falling birth-rate' and a 'child allowance'—as useless. The now-popular phrase 'Go to hell, Japan' crystallised the underlying frustration shared by women across age groups. As womenomics was a key pillar of Abe's electoral platform and his policy to revitalise Japanese economy, the voice of this woman spoke to a core political concern of the government.

While the phrase 'Go to hell, Japan' was, unsurprisingly, severely criticised,

it perfectly captured the frustration many Japanese women feel at being asked to work more and raise more children without effective government policies to support them. The phrase inadvertently set an example of how to delegitimise a major political platform of government.

The blog was picked up by a parliamentarian from the Democratic Party, the main opposition party, and was debated at a Diet session. Prime Minister Abe reacted by pointing out the anonymous character of the blog and questioning the existence of such a woman. His comment that 'we cannot verify this' only increased public attention, with numerous women stating that they identified with the blogger. Since then the issue of nursery schools has been established as one of the top items on the political agenda.

WHILE opposition parties in Japan continue to be weak, the ruling party is tempted to keep its pre-election promises vague. But now, the frustrated public are increasingly using the internet as a tool by which marginalised groups—be they women, teenagers or high school students—can influence the political agenda from outside the electoral process.

Japanese leaders and political parties will be tested more by how they respond to online activism, rather than activism on the streets. The integrity of political leaders will be critically tested by their commitment to upholding freedom of speech and information. The challenge for Japanese democracy now will be to secure this emerging political space for women and young people beyond the polling stations.

EARQ

Nobuhiro Aizawa is an Associate Professor at the Kyushu University School of Cultural and Social Studies.



Smiling students look out through their schoolroom window in Thimphu, Bhutan: how do they fit into measures of gross national happiness?

What Asia's experience can teach us about happiness

MARK FABIAN

A SIA figures increasingly prominently in comparative research into happiness and wellbeing. In particular, there are three major issues relevant to happiness research which are unique to or acute in Asia. First, there is the question of how and whether rapid 'Asian miracle' income growth rates have translated into happier societies. Second, there is the impact of collectivism, as opposed

to individualism, on happiness and wellbeing. Finally, there is the gross national happiness measure used in Bhutan. Each provides some curious insights into the nature of happiness and how we might integrate happiness into measures of social progress.

Let's begin with income growth. When many people think about what would make them happier, there is an instinctive turn to income. It is also a fundamental tenet of classical economics that income growth is

welfare-enhancing. More money allows for more consumption and this leads to higher utility. In studies of numerous countries using the World Values Survey and other large data sets, there is strong evidence that income and life satisfaction have a consistent relationship.

Instances of rapid income growth have been relatively common in Asia over the past 50 years, notably in Japan and more recently China. This provides us with some useful data.

Curiously, during the boom years of Japan's economic growth, average scores on self-reports of life satisfaction were almost flat. In China, the tremendous growth rates of 1990–2010 have actually seen self-reported life satisfaction scores decline.

Japan's flat results have been put down to measurement issues. The question and scale used to survey happiness were first mistranslated and then later changed. Once we control for these issues, the expected positive relationship between income and happiness appears.

Among those who take the Chinese data at face value, the three most popular explanations for the negative relationship between life satisfaction and growth are unemployment, relative income effects (in contrast with absolute income effects) and adaptation.

Across the spectrum of wellbeing research, unemployment is consistently found to produce significant and long-lasting negative welfare effects. Being surrounded by other unemployed people weakens the effect, but it is always substantial.

Large-scale structural reforms to the Chinese economy between 1990 and 2010 resulted in substantial increases in unemployment that correlate neatly with trends in self-reports of diminished life satisfaction. This suggests that unemployment might be offsetting the gains from income growth.

A large body of research also underscores the importance of relative rather than just absolute income effects. It is not just important whether you are rich or poor in absolute terms, but whether you are rich or poor by the standards of your neighbourhood. China's contemporary urban environments confront the relatively poor, including millions of

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rural migrant workers, with the reality of how poor they are, potentially resulting in unhappiness even as absolute incomes rise.

Finally, there is adaptation, which is basically just the idea that we get used to things. At the time of a promotion, for example, we are elated. But we quickly take for granted our new income, status and responsibility, and become dissatisfied once more.

These explanations are reasonable and conform fairly well to the data, but there is another more simple explanation for the counterintuitive result that income does not produce happiness: the data are bad. The trends reported above suggest that people in China had higher life satisfaction in the aftermath of the nationwide uprisings and crackdowns of 1989 than in the next two decades of rapid growth and extensive institutional liberalisation.

So how could the data be wrong? One possibility is rescaling. Life satisfaction is typically measured on scales, such as from one to 10. Respondents are interviewed annually and asked what their overall life satisfaction is 'taking all things together'. These scores are tracked over time.

But no information is taken on the

qualitative meaning of each number on the scale. It is possible that people are getting happier but are unable to communicate this because they cannot report changes in the meaning of these scales.

A study of Tongan migrants to New Zealand provides powerful evidence of rescaling. Visas for would-be migrants are allocated by lottery, allowing randomised control methods to be used to cleanly measure the causal effects of migration.

Before the visa lottery, all applicants are interviewed about their life satisfaction, reporting an average of about 8 out of 10. Two years after migration, those who moved to New Zealand and those who stayed behind are interviewed. Both groups report still being 8 out of 10 on average. This supports the status quo view that migration has little effect on life satisfaction because people rapidly adapt to their new circumstances.

But this study also asked respondents to reflect on how they felt two years before the lottery. Those who had to stay in Tonga say they were also 8 out of 10 at that time, whereas the migrants say they were 6 out of 10. This suggests that the scales used by the migrants have changed. Their current eight may be meaningfully higher than their previous eight, but they struggle to communicate this within the strictures of the scales.

The enormous structural changes that take place during double-digit growth could be resulting in rapid rescaling. This might explain why income growth in Asia doesn't seem to result in big changes in life satisfaction.

Another issue in measurement is conceptual confusion. It is unclear to what extent responses to life satisfaction questions are driven by the respondent's emotional state, which is short term and highly volatile, as

compared with longer-term existential considerations.

We are arguably more interested in whether we are living 'good lives' than whether we are merely in a good mood, so what we are measuring is quite important. Unfortunately, the mainstream literature on happiness has only recently started even to differentiate between emotional happiness and life satisfaction, let alone venture into the deep determinants of a subjectively evaluated 'good life'.

Still, there is a growing body of research around the importance of relationships, meaning, and mastery or achievement for holistic wellbeing. We also have some preliminary postulates on how to achieve these things.

Foremost among these postulates is the need for self-determination. This is

achieved by orienting oneself towards those activities and values for which one possesses an intrinsic motivation. On the other hand, conditions of extrinsic motivation, such as duress or extreme social pressure, limit individuals' ability to acquire a sense of meaning or achievement through their actions, because they do not value these activities.

Engaging in intrinsically motivated activities brings about the feeling of 'flow', which is the emotionally pleasurable feeling of being 'in the zone'. Flow is most common when individuals are engaged in high-challenge, high-skill tasks, like sports and hobbies. A sense of mastery and achievement naturally emerges from such undertakings.

Meaning arises even more forcefully out of the affirmation of intrinsic

values, such as in political action or principled living. Here the individual is engaged in making their life and their world more closely conform to their ethical codes, a powerfully meaningful endeavour.

What remains is the satisfaction of the human need for peer-group relatedness. How can intrinsic motivations, which are grounded in individualism, satisfy such a social, even collectivist, need?

The answer might lie in the importance of collective action for affirming intrinsic values. While intrinsic values and motivations originate in the individual, their articulation and enactment is dependent on others.

Consider the case of a vegetarian. While becoming a vegetarian is a personal decision, the process of



Victory sign: a student signals her satisfaction after taking the national college entrance exams, in Huaibei, China. A growing body of research suggests that mastery and achievement are important for individuals to acquire a sense of wellbeing.

PICTURE: CHINA DAILY / REUTERS

refining this value requires discussion with other vegetarians and contrarian omnivores, and internalising any arguments encountered along the way. Affirming vegetarianism in one's life also requires a complex network of vegetarian industries and may involve social efforts to promote such a lifestyle. All of these actions depend on others even though the original motivation was personal.

So in order to fully realise one's intrinsic motivations it is necessary to engage in collective processes within a profoundly social world. This is where individualism intersects with collectivism. The relatively more collectivist cultures of Asia provide some very important insights into these dimensions of wellbeing.

Several studies, notably a recent investigation in Bangladesh, have underlined the importance of subjective psychological processes even in collectivist cultures. Even individuals who place a strong importance on family, tribe, village and group identity nonetheless express a need for autonomy, voice and individual dignity.

Yet collectivist individuals are also likely to only be able to realise their intrinsic motivations and values within collectivist cultures. This is because their intrinsic motivations and values are oriented towards collective pursuits.

A second important finding for individualism versus collectivism comes from a comparative study of Japanese and US students. The study found that Japanese students were more inclined to accept the advice of trusted members of their social circles rather than 'find their own path'. They were able to effect an identification with the proffered advice and rapidly internalise it until it became their own intrinsic motivation.

The US students, by contrast, placed greater emphasis on making their own decisions. The implication is that the balance between individualism and collectivism in determining intrinsic aspirations can change across cultures.

How might these nascent ideas in wellbeing research be used to more efficaciously measure social progress?

Perhaps we could use something like the gross national happiness (GNH) measure of the small Asian nation of Bhutan. GNH is comprised of a battery of metrics including income, culture, environmental quality, social capital, education and health.

The drawback of GNH is that it is substantially just GDP with extra bells and whistles. It is not grounded in a theory of subjective wellbeing and remains oriented towards objective indicators of welfare. It is therefore open to the same criticisms as any wide-ranging collection of objective measures of welfare, such as the UN's sustainable development goals.

Two criticisms of GNH are particularly telling. First, it is expensive to collect data on a myriad of objective development indicators and these additional indicators are very closely correlated with income growth. It is thus unclear that there is much of a net

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benefit to these complex metrics over and above simply measuring GDP.

Second, turning a large range of metrics into a single value, as in GNH, requires the state to make value judgements about how to weight each input. This is open to political abuse. The propensity for such abuse is mitigated in Bhutan by its small population, Buddhist monoculturalism and seemingly benevolent elites. But there is little reason to believe GNH would be practicable anywhere else.

Wellbeing emerges out of psychological processes within individuals. Wellbeing research will therefore make its best contribution to metrics of social progress if we can develop a broad understanding of the subjective causes of wellbeing. This is a more effective goal than simply measuring an ever-expanding collection of objective things that are correlated with wellbeing, but do not cause it.

Psychologists are devising increasingly sophisticated survey packets for measuring emotional and psychological wellbeing on multiple metrics (not just scales) that preserve the subjectivity of experience. One promising direction might be to administer such surveys annually to a representative sample of the population.

Tracking changes on these metrics would provide some information on whether social change is helping or hindering subjective wellbeing. However, it won't tell us much about causality, so we should be cautious about drawing policy conclusions from such wellbeing data for the time being.

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Will China get what it wants in East Asia?

EVELYN GOH

EAST Asia's regional order is in the throes of a remarkable transition, but the nature and potential results of this transition are deeply contested. Are we witnessing the decline of US primacy and gravitating inexorably towards a renewed Sino-centric system? Can and does China want to dominate East Asia the way the United States has done since the end of the Cold War, or does Beijing want to exercise regional leadership in a different way? How do other East Asian countries perceive these shifts, and do their preferences and choices matter?

The current transition is rooted in the two systemic changes in recent decades that have been of the greatest significance for East Asia: the ending of the Cold War and China's remarkable entry into the global economic system. The former allowed the consolidation of a US-centric security order in East Asia, alongside a Western-centric global economic order. This condition has been favourable for all East Asian countries, not least US allies and security partners. Importantly, it has also enabled China and India to develop economically and to re-emerge as major powers.

But the arguably deeper strategic transformation has been the creation of a more distinct regional political economy resulting from China's rapid economic development. For two decades after the Cold War, regional production networks were



PICTURE: DINUKA LIYANAWATTE / REUTERS

Chinese President Xi Jinping and former Sri Lankan president Mahinda Rajapaksa, whose government actively courted Chinese investment and engagement.

reconfigured to connect component manufacturers in many East Asian countries with final assembly points in China, especially for exports of electronics to developed markets in Europe, North America and Japan.

In more recent years, as costs of production have risen within China, the Chinese government's efforts to develop a domestic consumer market and to export surpluses of capital and means of production such as steel, expertise and manpower, have similarly had a regional impact. In this endeavour, China is capitalising on its geographical position at the heart of greater Asia. It seeks to use its proximity to other rapidly developing countries and the potential for connectivity to more distant sources of energy and markets.

The political and strategic

implications of China's economic resurgence are qualitatively different from those arising from Japan's rise in the 1980s because of China's size, geographical location on the Asian continent and 'normal' military character. The tensions accompanying China's rise are especially acute because of China's latecomer position in the existing order, its often distinctive approach compared to norms championed by the United States and its allies, its sense of historical entitlement to primacy in East Asia, and its historically ambivalent relations with key neighbours, which are now fuelled by modern-day nationalism.

Continued US primacy, coupled with China's rise, creates a more variegated strategic landscape in East Asia. Regional policymakers

are being forced to get used to living with not one but two dominant powers—a challenge that Washington has had more difficulty with than most of China's regional neighbours. Neighbours have consistently tried to reap maximum benefit from China's economic growth while hedging against the strategic risks this poses by supporting the continued US security guarantee in the region.

However, attempts to separate the economic and security realms have become more problematic as China implements a more ambitious strategy towards its periphery, embodied in President Xi Jinping's 'One Belt, One Road' initiative. One important consequence is the pluralisation of the regional order, meaning more states and actors are now actively involved in shaping and negotiating this order.

These dynamics are sharply encapsulated in China's relations with the developing countries of East Asia. For instance, it has cultivated apparent patron–client relationships with small peripheral states that can still play 'spoiler' roles in regional initiatives. Cambodia and Laos, for example, played this role within ASEAN in 2012 and 2016 to forestall a collective stance on the South China Sea territorial disputes with China.

Politically motivated Chinese trade deals, favourable lending and targeted investments in surrounding developing countries help Beijing to buy favour and cultivate dependence. Recently, this has taken the form of big-ticket infrastructure schemes like those in the Mekong basin, and in the revived maritime and continental Silk Road program.

These relationships intrude into comfortable assumptions about 'the end of history' after the Cold War and perpetual US dominance of the East Asian order, with only occasional

disruptions from 'rogue' states and non-state 'terrorists'. China seems to be altering the regional balance of influence by mobilising developing countries, a constituency that has been too often neglected.

What does this mean for the regional order? Most obviously, it foregrounds a set of ordering principles that are distinct from the strategic and international security-derived issues given priority by the United States, which regards its bilateral alliances as the core of regional order. In contrast, China's intensifying ties with Asian developing countries privilege their shared developmental imperative—the strong commitment to generating economic growth and development as the key means to ensuring the domestic legitimacy and therefore sustainability of the ruling regimes within these states.

CHINA'S security relations with these neighbours are therefore more explicitly nested within wider political and economic relationships. The economic relationship is also more strategically pliable, because state-owned enterprises spearhead Chinese regional investment, in contrast to US, Japanese or South Korean private investment.

In a recently published book, *Rising China's Influence in Developing Asia*, my co-authors and I surveyed a range of such bilateral relationships over the past 25 years and covering different issues. Our findings suggest five potential implications for the regional order.

First, there have not been many cases in which Beijing tries to make its smaller and weaker developing neighbours do what they otherwise would not have done. Instead, China exercises its power by leveraging

shared economic development imperatives and meeting many of these governments' demands for quick and non-transparent bilateral investments. China has also tried to persuade its developing neighbours to adopt alternative mechanisms to deal with existing problems in ways that Beijing prefers—such as joint development in the South China Sea, or selective marketisation at the border region of North Korea.

China's neighbours are reluctant to antagonise Beijing and therefore try to align their stances with China's when they do not perceive their core national interests to be at stake. The upshot is that China's influence often results in more continuity than change in observable trajectories: rather than being revisionist, China often mobilises and reinforces these developing states' existing preferences.

Second, in taking this developmentalist approach, China's broader strategic intent is to invest in its future potential influence in Asia. Since the mid-1990s Beijing's consistent aim has been to foster stability in its immediate periphery and promote economic growth opportunities to ensure the security of its regime and support efforts to recover its international position and status. Avoiding attempts to prevail over the opposition of its small neighbouring states helps China to mask the risks associated with its growing resources, and hoard goodwill as a hedge against future opposition.

Beijing has also tried to make commercial and institutional investments to insure against regime change in surrounding states where governments are friendly. These efforts have not always met with success, for example, in Myanmar after 2011 and Sri Lanka after 2015.

Third, China does not easily achieve

what it wants even with these weaker states. Instead, the extent of China's influence tends to depend on these neighbours' domestic dynamics. It can be undermined by various unintended consequences. Competing political actors and interest groups in these states can facilitate or resist Chinese interests.

Some leaders—such as the Mahinda Rajapaksa government that ruled Sri Lanka for a decade until 2015—actively courted Chinese investment and attention rather than the other way round. Others exploit Chinese resources to diversify their strategic options and yet manage to resist Chinese pressures on key national issues. For example, Myanmar's junta government under Thein Sein halted the high-profile Chinese-funded Myitsone Dam project in 2011 because of civil opposition, and Vietnam resisted many Chinese attempts to influence key wartime decisions during the 1970s.

Opportunities that narrow sectoral interests or corrupt practices afford China do not always bear fruit and may be short-lived. In the case of the Philippines, this can be seen in the controversies and reversals over Chinese investment to build the national broadband network and the 2004–2008 joint exploration agreement in the South China Sea.

Another type of unintended consequences arises when Chinese attention and investment in particular developing states attracts other great powers' attention. For example, the growing Chinese presence in Sri Lanka stimulated India to rethink its ambivalent engagement there immediately after the civil war. Likewise the perception that Cambodia and Laos are becoming Chinese clients spurred the second Obama administration to pay them

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more political attention.

These dynamics in turn widen the small state's strategic options, and can encourage them to resist Chinese preferences. The cases of Vietnam and Myanmar vividly demonstrate the correlation between the availability of strategic support from other great powers and their willingness to resist Chinese pressure in vital issues of national security.

Fourth, the systemic impact of China's growing power in developing Asia is also constrained by broader structural conditions. International institutions and rules—such as the Bretton Woods financial institutions and the United Nations—are still dominated by the West. Such constraints may be a broader phenomenon associated with the entrenched post-World War II US-led Western liberal order, which is either too attractive or too costly to replace entirely.

The final constraint lies in the way China practises its power. Chinese policymakers and analysts seem to have two blind spots in their relations with their small developing neighbours. The first is a tendency to downplay the autonomous agency of these weaker states, preferring to attribute their lack of acquiescence to the machinations of other great powers. The second is to overlook the

connection between China's more benign modes of influence and the undermining effect of its, at times, inconsistent or coercive behaviour on the very same issues.

Both these problems are especially acute in the South China Sea territorial disputes. Chinese policymakers have tended to read the toughening stances of their smaller rival claimants as having been instigated by the US 'rebalance' to Asia, rather than as nationalist responses to Chinese assertiveness in bilateral conflicts. Chinese analysts, policymakers and public opinion are thus experiencing a dissonance between their growing material power and their perceived lagging status, influence and effectiveness in the international realm.

While we are witnessing a significant shift in emphasis in China's contest for influence in developing Asia, it is by no means clear that Beijing is easily able to win over the developing countries to which it can ostensibly promise quick credit and cheap infrastructure. If power transition theories are correct, the growing sense of frustration with the 'influence gap' among Chinese leaders may foreshadow that dangerous point when a rising power is intensely dissatisfied and may challenge an incumbent. For this reason alone, China's growing strategic developmentalist agenda throughout Asia merits sustained attention, alongside the intricacies of its strategic relations with the US and other major powers. 

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Moving with the times

YUK WAH CHAN

A SIA'S tourism has experienced tremendous growth in the past decade, the outstanding feature of this growth being the rise in the number of outbound tourists from mainland China. Chinese now comprise the largest tourist group in the world, making over 100 million trips in 2015, with around 89.5 per cent of those being to Asian destinations.

China has now become the top source of non-ASEAN inbound tourists for ASEAN countries, surpassing European visitors. Chinese are also among the largest tourist groups for a number of other Asian destinations, including Hong Kong, Macau, Vietnam, Thailand, Singapore, Cambodia and South Korea.

Chinese outbound tourism has been driving the transformation and development of regional tourism in Asia. But besides evidencing growing wealth and the emergence of holiday-making as a cultural trend, Chinese outbound tourism also highlights some of the peculiar features of China's development.

The rapid increase in outbound

Chinese tourism has its origins in the reforms that have led to substantial increases in disposable income for many Chinese families. The more open Chinese economy also brought new liberty of movement, which had previously been strictly controlled by the state.

Before outbound travel came into vogue in the 2000s, the Chinese government deliberately promoted domestic tourism to boost local consumption and encourage economic development. Yet in Asia, the emergence of 'travel' as a popular leisure activity is a relatively new phenomenon. This is particularly the case in China where 80 per cent of the population was agrarian in the 1980s.

Targeted state policies have facilitated the boom in the domestic tourism market. For example, the Year of Leisure and Vacation was introduced in 1996, with the government subsequently announcing three one-week holidays throughout the year—also known as 'Golden Week holidays'. Tourism agencies have also blossomed, offering an abundance of products and packages. By the late 1990s, visiting historic sites had

Chinese tourists disembark from a cruise ship in the northern Taiwan port of Keelung.

become part of China's mass culture.

In addition to the vogue for domestic touring, Chinese people also yearned for a chance to go abroad, which is widely considered to be a symbol of status.

The reasons for the rapid increase in tourism between China's Yunnan province and northern Vietnam in the late 1990s were curiosity about Vietnam and eagerness to go abroad. This is despite the fact that 'going abroad' in that case involved a five minute walk across the border bridge and a half-day tour around the Vietnamese border town. Still, when tourists returned home they could tell others that they had gone overseas.

Outbound tourism got into full swing in 2000s, though the first outbound visits took place in the early 1980s from mainland China to its border cities, Hong Kong and Macau. This was largely to visit relatives. The 1990s saw strong growth in cross-border tourism between China and neighbouring countries such as Mongolia, Vietnam, Laos, Myanmar

and the states of the former Soviet Union. Western countries began to issue group tourist visas for the Chinese in the mid-2000s.

Cross-border commerce has been one result of borderland tourism. The well-reported conspicuous consumption and seemingly endless desire of Chinese tourists to shop have prompted numerous countries to offer preferential visa application processes. In just a decade's time, Chinese tourists have surpassed the Japanese and the Germans to become the biggest tourist spenders in Asia and in the world.

While some Chinese tourists are obsessed with consuming internationally recognised luxury brand items, the majority of Chinese visitors actually purchase day-to-day consumer products, such as shampoo, toothpaste, washing powder, manufactured medicine, diapers and baby food. This is the especially the case for Chinese consumers from Guangdong province and other southern areas who, through the Individual Visit Scheme, can travel solo to Hong Kong and Macau rather than with a group tour and stock up on household essentials.

But this phenomenon also indicates peculiarities in China's development, as many millions of Chinese cross borders in search for higher-quality consumer products to meet their everyday needs. Baby products, for example, have been in high demand ever since the melamine-tainted dairy products scandal of 2008. For many Chinese, travelling to Hong Kong or Macau is now the most time- and cost-efficient way to obtain such items. Hong Kong, which has a population of seven million, hosted more than 40 million Chinese visitors in 2015, with 60 per cent being same-day visitors.

Tourism is also closely related to

intraregional migration. Asia now accounts for most of the world's international and cross-border migration. Many visitors cross the border not for 'tourism' but for short-term work, to tap into overseas investment markets or educational opportunities.

People from less-developed countries tend to seek work and education opportunities in more advanced Asian economies and states, such as the millions of Indonesians entering Malaysia or mainland Chinese going to Hong Kong or Singapore to study. Yet entrepreneurs from advanced and expanding economies are eager to exploit cheaper production resources in less-developed countries, such as Laos, Vietnam, Cambodia and Myanmar.

Many Chinese outbound tourists, for example, are seeking overseas investment opportunities. At the China–Vietnam border, tour agencies often entertain groups composed of Chinese entrepreneurs and merchants. China's new rich also flock to South Korea to secure their investments in the real estate market.

CHINA has a significant cross-border relationship with Hong Kong. Over 40,000 mainland Chinese typically travel to Hong Kong each year for family reunion alone. And, of this group, most conducted multiple temporary visits to Hong Kong over a period of a few years to more than ten years before they could obtain the appropriate resident permit.

Since 1997 an increasing number of Chinese students have enrolled in Hong Kong universities. There are a number of reasons for this trend, including Hong Kong's proximity to China and relatively low fees. Another incentive is Hong Kong's preferential policy which entitles

mainland Chinese graduates of Hong Kong universities to work in Hong Kong regardless of the year that they graduate. Many mainland students also consider Hong Kong a stepping stone for other opportunities abroad. These substantial outflows of talent from China have become a serious concern for the Chinese government.

Vibrant flows of visitors and migrants also spark debates in relation to security, competition with locals, and population quality and dynamics. Migration politics in the region has led to the promulgation of immigration policies that differentiate the status of different kinds of migrant, privileging some (such as mainland Chinese students in Hong Kong) while undermining others' basic human rights (such as migrant domestic workers).

Migration and mass tourism also complicate the dynamics of ethnic relations within destination countries. Increased human flows and intensified interactions across borders, either in the form of migration or tourism, have led to new tensions, both among and between ethnic groups.

Asian mobility encapsulates the entangled relationships between mass tourism, cross-border commerce and trade, and migration. Both source and destination countries will have to develop long-term strategies and policies to better manage these increasing flows of people. Asian populations also need to prepare for the rapidly changing population dynamics of their own territories, and the ever-shifting human landscape from short and long-term cross-border people flows. **EAFQ**

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Time for East Asia to push trade deals

EUIJIN JUNG

SINCE the financial crisis in 2008, international trade has entered a period of long stagnation. The WTO has announced that global merchandise trade volume (exports and imports in adjusted dollar terms) rose by just 2.8 per cent in 2015 with the same growth projected for 2016. Global merchandise trade in terms of current values dropped by 13 per cent from US\$19 trillion in 2014 to US\$16.4 trillion in 2015. It seems less and less likely that we will recapture the pre-crisis glory days when global trade increased by an average of 6 per cent each year.

The global trade slowdown demands a re-think by Asian economies on how to reset their trade strategies. What has caused the trade doldrums? Trade experts have advanced three distinct explanations of what is going on. The Peterson Institute's Caroline Freund reckons that slow trade growth is a symptom of secular stagnation—the adverse effect of low investment and high savings on economic growth in developed countries. As population growth and technological progress slow down, investment also declines. Since investment requires imports of goods and services, a drop in investment slows down exports and imports, resulting in timid growth of global trade.

A second argument suggests that the contraction of global supply chains is the cause of trade growth slowdown. The pace of the expansion of global supply chains, including production

fragmentation, affects global trade growth. Global supply chains mean that the production process is divided globally. For instance, a Japanese firm might create the key designs or technology behind a product. The intermediate goods for the product may be produced in South Korea from raw materials sent from Malaysia, and those designs and parts may be sent to a Chinese factory where the final product is assembled and exported to the global market.

In an IMF Working Paper, Cristina Constantinescu, Aaditya Mattoo and Michele Ruta find that global trade increases rapidly when the expansion of global supply chains accelerates. They point out that United States and China were major players contributing to production fragmentation in the 1990s.

Stagnant trade growth is also seen as the outcome of less liberalisation and more protectionism in the world.

Asian economies are heavily dependent on global trade and China itself has become vulnerable to changes in the global trade environment

Gary Hufbauer and I have suggested that relatively small net gains in trade liberalisation have contributed to sluggish trade growth. The WTO Doha Round is still in a stalemate while the Uruguay Round, which entered into effect in 1995, remains the most recent successful round of global free-trade pacts. China's accession to the WTO in 2001 played a large part in rapid global trade growth, though this effect has waned over the last 15 years.

Since the financial crisis, liberalisation has been via bilateral or plurilateral rather than global agreements. At the same time, targeted protectionist measures in both developed and developing countries have proliferated. These measures aim to support domestic industries in competition with foreign goods and come in the form of tariffs, regulations on foreign direct investment, differential treatment of foreign suppliers and anti-dumping actions.

One pervasive type of non-tariff barrier is local content requirements—obligations to purchase domestically produced or supplied goods and services. In 2010, local content requirement measures were estimated to reduce global trade by US\$93 billion. The accumulation of small but burdensome trade barriers over time has taken a toll on world trade.

Trade plays a major role in boosting national productivity by increasing competition in goods and industries, and improving the quality and variety of intermediate goods. Those economies which rely heavily on global



Old media, new media: a roadside vendor in Delhi browses through a newspaper while waiting for customers for his electronic goods.

trade are particularly sensitive to the current stagnation. That includes most of Asia.

Most East Asian countries have relied on export-driven policies for economic development. Initially resource-rich countries like Indonesia and Malaysia have exported raw materials such as lumber and oil, while labour-rich countries like China have concentrated on selling manufactured goods abroad. When demand in the advanced countries was robust, export driven policies provided an effective boost for Asian economies.

East Asia has attained a high level of economic integration via participation in global value chains pivoting on China. China's accession to the WTO in 2001 was symbolic of the pursuit of export-driven economic growth. Chinese outward-driven growth was

associated with the acceleration of production fragmentation in Asia. East Asian raw materials and intermediate goods headed to Chinese factories where final products were assembled and then shipped around the world. In short, Asian economies are heavily dependent on global trade and China itself has become vulnerable to changes in the global trade environment.

For Asia, the rising protectionism explanation of sluggish trade growth rings true. Growing protectionist measures in the United States and the European Union suppress the export performance of East Asian countries. The Global Trade Alert Report for 2016 shows that the number of protectionist measures imposed by G20 countries increased sharply over the past two years. The United States,

Russia and India are identified as the top three most frequent offenders in 2015.

According to this report, China's trade has been most affected. But China too has been raising regulatory barriers against imported goods—and much of the damage done is to other East Asian exporters.

The shift in Chinese strategy away from an export-driven economy towards a consumption-driven economy is also likely to slow trade growth. The Chinese government will encourage domestic consumption to boost its economy, substituting imported goods with locally supplied goods, deterring the growth of East Asian trade.

An IMF study from May 2015 predicted that East Asian countries, which rely on exporting intermediate

goods or raw materials to China, particularly Taiwan and South Korea, are likely to see a continuing decline in exports.

What can East Asia do about shrinking global trade? Continuing trade liberalisation is a necessity. East Asian countries have to open their markets for goods and services more widely. Each East Asian country can reach out to non-Asia Pacific countries as trade partners. As a front runner in promoting trade liberalisation in Asia, South Korea has begun bilateral trade negotiations with Israel (June 2016), Ecuador (January 2016) and Central America (including Panama, Costa Rica, Guatemala, Honduras, El Salvador and Nicaragua in September 2015).

Other East Asian countries can take similar steps by launching bilateral trade negotiations with countries in Latin America and the Caribbean, South Asia or Africa. Since countries in non-Asian regions often maintain high tariffs and non-tariff barriers, the elimination or reduction of such barriers through bilateral trade pacts can boost trade and foreign investment.

Another step would be to pursue integration of the regional market. Asia should secure a regional market by eliminating all trade barriers to promote free flows of goods, services, investment, capital, data, and skilled and professional workers. The European Union is seen as the most advanced model for regional integration. But there are other models that may entail fewer risks in openness. In December 2015, ASEAN launched the ASEAN Economic Community (AEC).

Some are sceptical about the impact of the AEC due to the low level of existing economic integration, the non-binding nature of the

In the absence of the United States, the TPP cannot satisfy the basic prerequisites of implementation

commitment and the economic gaps between ASEAN member states. But given the vast economic potential for a single ASEAN market (the world's seventh largest economy), the launch of the AEC should be welcomed. This will enable ASEAN to create a better environment to become the next global production base after China. A number of manufacturers have moved from the Chinese mainland to Vietnam, which is re-centering a global value chain in the ASEAN region.

A third idea is to conclude regional pacts as early as possible. While the Doha Round has not made any progress, negotiations on various bilateral and plurilateral free trade agreements have been launched in the Asia Pacific: the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP) and the China–Japan–South Korea trilateral free trade agreement (CJK FTA) are all among them. None of them have yet entered into effect.

The TPP, having aimed for a high level of liberalisation in goods, services, investment and beyond, passed the finishing line first when it was signed in February 2016. This should have provided momentum for comprehensive trade liberalisation on a large scale. Four East Asian countries—Japan, Malaysia, Singapore and Vietnam—are TPP members

and have committed to eliminate tariffs and lower non-tariff barriers to the Asia-Pacific market. And South Korea, Indonesia, the Philippines and Thailand have each shown interest in joining the TPP as part of a second tranche. All East Asian countries are also members of RCEP.

A key motivation for East Asian participation in the TPP is to avoid the trade and investment diversion that will affect outsiders while obtaining the economic gains from undergoing TPP reforms.

The implementation of the TPP is facing huge challenges, since both US presidential candidates are strongly opposed to ratifying the agreement. In the absence of the United States, the TPP cannot satisfy the basic prerequisites of implementation.

While the TPP is at risk of falling over, RCEP and the CJK FTA are still under negotiation.

Since the delay of the implementation of TPP appears to buy more time, RCEP and CJK members, particularly China, may become discouraged about pushing for a fast conclusion to each pact. Yet this is precisely the right time to pursue the conclusion of the RCEP and CJK pacts by strengthening intra-regional markets with rigorous trade reform and preventing countries from adding invisible protectionist measures that damage trade growth.

Regional efforts such as the TPP, RCEP and CJK pact need invigoration to overcome the trade downturn. Unless East Asian countries take the initiative on trade liberalisation, global protectionist trends will continue to put a strain on their prospects for economic growth. **EAFO**

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A Self-Defense Forces soldier at a battery of Patriot missiles near the Defense Ministry, Tokyo, in June 2016.

Security and the meaning of Japan's constitution

TOSHIYA TAKAHASHI

A FUNDAMENTAL revision of Japan's pacifist constitution has become possible for the first time since it was promulgated in 1947. Japanese Prime Minister Shinzo Abe now has the opportunity to pursue his long-held desire for constitutional revision after the coalition led by the Liberal Democratic Party (LDP) won the 2016 upper house election. Alongside its junior coalition partner Komeito and two conservative micro parties, Initiatives from Japan and The Party for Japanese Kokoro, the LDP now holds a two-thirds majority in both

houses of the Diet.

This new political circumstance allows Abe to propose a national referendum to revise the constitution. The LDP presented a draft for constitutional revision in 2012 and will lead the coming debate because of its strength in the Diet.

Some pro-revisionists say that the constitution was imposed by the United States and that Article 9 should be revised to allow for a Japanese military force. Others simply point to the lack of revision since 1947 and argue that Article 9, which does not refer to the Self-Defense Forces (SDF) directly, is worded incorrectly. But

this constitutional revision will affect two substantive issues which have been touched on far less in the public debate: Japan's security posture and the meaning of Japan's constitution as a higher law.

The 1947 constitution was created during the Allied Occupation of Japan. Article 9 renounces the right to initiate war and maintain a standing military force with war potential, and the Preamble declares an irreversible Japanese commitment to the non-use of force and the elimination of war in international politics. Liberal democracy and peace have become part of Japanese identity and have

guided its postwar security policy.

Constitutional revision was first placed on the political agenda in the 1950s, but to no result. The desire among part of the political elite to revise the constitution was renewed in the late 1990s. A consensus on starting the revision was reached among Japan's mainstream political parties excepting the Social Democratic Party and the Japan Communist Party. The first Abe government (2006–7) enacted a law for a national referendum but the political mood for reform disappeared after Abe's resignation. Only with the advent of the second Abe government in December 2012 did the question of constitutional revision return to Japanese politics.

The LDP's draft revisions published in 2012 reflect the party's fundamental position on constitutional revision, though some concessions might be expected in the coming debate. New articles for national responsibility for the environment, government accountability, intellectual property rights and crime victims were also included. But two contentious issues underlie this draft: Japan's strengthened military commitment and the inclusion of conservative ideology.

The 2012 LDP draft makes clear that Article 9, which lacks a direct reference to the SDF, will be considerably revised to constitutionalise a military force. Article 9(1) which renounces war will be kept intact, but Article 9(2) will allow for a wide range of exceptions under the concept of self-defence. The concept of self-defence is inherently ambiguous and historically has been used to justify a war of aggression in more than a few cases.

The LDP draft also includes a separate article for 'territorial defence,'

and its preamble asserts the Japanese people's responsibility for the defence of their country with 'pride and high spirit'. It also intends to create a military tribunal, which is prohibited under the present constitution, and to stipulate articles for national security contingencies in which the constitution could be temporally suspended.

Komeito and the main opposition Democratic Party (DP) may agree to write the SDF into the constitution directly, but they will likely have different views over the extent to which the constitution should constrain Japan's use of force.

The revision of Article 9 can clarify the SDF constitutionally, and may enhance US–Japan defence cooperation, but even this political move may be perceived by China as a message that Japan will renounce its pacifist security policy. This may worsen Chinese perceptions of Japan in the current security environment unless diplomatic efforts are made to moderate them. The revision of Article 9 should be managed cautiously because of its potential external impact, but pro-revisionists pay little attention to this security problem.

In a liberal democracy, the constitution as a higher law should

While the political elites support constitutional revision, a majority in a national referendum is also required

be above different party ideologies. But the inclusion of nationalistic and conservative ideology in the 2012 draft might challenge this notion. The draft attempts to resurrect Japanese traditional statism in political and social relations, and to weaken the liberal democratic posture of the pacifist constitution. Its preamble includes nationalistic phrases on such questions as the preservation of Japanese traditions and emperor worship. It also mentions the Japanese people's responsibility to respect the national flag and anthem, and inserts the notion of 'public order' to qualify such rights as freedom of speech.

Its drafters point to what they claim is moral degradation in contemporary Japan, and seek to restore a stronger role for the state as a remedy. But these conservative ideas are only shared within rightist groups and do not reflect Japan's present ideological map. Left-to-centre Komeito and the DP will not support this, and may seek a liberal democratic posture in line with the present constitution.

The LDP draft also seeks to lower the bar for a national referendum for constitutional revision, from two-thirds to a simple majority of both houses of the Diet. This means that any new constitution will become vulnerable to contingent political contexts and may change with the political winds.

While it is unlikely that the DP will agree to the 2012 draft, constitutional revision has gained irreversible momentum in Japan's domestic politics. Yet what supports Japan's constitutional revision is the mood among political elites, not practical needs from the public. The accumulation of different legal interpretations has bridged the gap between the written articles and Japan's practical needs. Constitutional



Protesters outside the Diet building in Tokyo on 19 September 2015 voice their objections after Japan's parliament voted to approve controversial security legislation. A majority of Japanese are positive about constitutional revision but oppose changes to Article 9, which renounces the right to initiate war.

revision is not mandatory for these purposes. The pro-revisionists, full of ambition, have a short-sighted view of the impact of changing the wording of the constitution in terms of Japan's security and the higher law.

While the political elites support constitutional revision, a majority in a national referendum is also required to amend the constitution. Abe will soon start a campaign to obtain public support. The Japanese public's attitude to constitutional revision is still ambiguous. A majority have a positive opinion of constitutional revision in general, but oppose the revision of Article 9. The success of the Abe-led constitutional revision will rest upon

political elites' campaigns to persuade the public.

Constitutional revision may mean reinventing Japan but if it does, it will need to be based upon a shared public vision of Japan's future. Otherwise it will be a 'play of words' by political elites heralding the beginning of a decade of drift, taking attention away from the economic and social problems that confront Japan today and will continue to. **EAFQ**

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Managing relations with China

Achieving the inflation target still a distant goal

PICTURE: THOMAS PETER / REUTERS

HIDEO HAYAKAWA

MORE than three years have passed since the Bank of Japan (BoJ), led by new Governor Haruhiko Kuroda, introduced the surprisingly aggressive monetary policy of quantitative and qualitative monetary easing or QQE. But the year-on-year consumer price index (CPI) inflation rate, excluding fresh foods, was -0.5 per cent as of June 2016.

This is largely due to the huge decline in crude oil prices; the CPI inflation rate will likely turn positive when the negative contribution of energy prices diminishes. Japan does not have to worry about the return of deflation.

Still, Japan seems to be a long way from achieving its 2 per cent inflation target. Although the BoJ maintained its inflation forecast for fiscal year 2017 at 1.7 per cent and reiterated that it may even achieve its 2 per cent target, few outside the BoJ seem to believe such a scenario. The private consensus forecast for the fiscal 2017 CPI inflation rate stands substantially lower, at 0.7 per cent.

There remains a misunderstanding that the BoJ believes the simple monetarist logic that an increase in monetary base automatically raises inflation through broad money creation or inflationary expectations. Kuroda has repeatedly denied that this is so. Rather, QQE was shock therapy, which assumed bold monetary easing might trigger substantial depreciation of the yen. A weaker yen would not only raise inflation, but stimulate



Bank of Japan Governor Haruhiko Kuroda at a news conference in Tokyo in June 2016. He has repeatedly rejected the argument that bank policy is shaped by 'simple monetarist logic'.

demand and corporate earnings. If it accompanied a nominal wage increase, 'the escape from deflation equilibrium' might be accomplished. This is because inflation due to the depreciation of the yen is a one-off, while inflation due to increases in wages is sustainable.

Unfortunately, this trickle-down scenario didn't materialise. The introduction of QQE did result in significant depreciation of the yen producing record high corporate

earnings. But the increase in capital investment as well as nominal wages remained very modest. Annual wage increases, excluding regular increases in accordance with workers' age, were around 0.4 per cent in 2014 and around 0.6 per cent in 2015. The increase in base pay in 2016 seems to be 0.3–0.4 per cent, even with record corporate earnings and an extremely tight labour market.

More surprisingly, a very slow wage increase occurred not just because

companies were reluctant to accept higher wages, but largely because wage demands by labour unions were quite modest. Although wage increases for part-timers are relatively firm at around 2 per cent year-on-year, wage demands by labour unions in 2016 often fell short of the previous year's settlement. What blocked the ambition of Abenomics and QQE was the defensive behaviour of Japanese companies comprised of long-term workers.

Why do both companies and unions remain so cautious against the background of record high earnings?

It is evident that a new wave of innovation is now spreading all over the world—in artificial technology, the internet of things, financial technology and the sharing economy—but the response of Japanese companies has been irritatingly slow. It is often argued that the decline of Japanese firms started in the 1990s when they lagged behind in the information and communications technology revolution. But Japanese companies in that period were more on top of the technology wave than they are now—when Dell became the world's top assembler of PCs, most of the componentry was made in Japan.

Besides US companies, many Chinese and German companies are now leading innovators, while very few Japanese companies are ahead of the wave. In the past, research and development on high-tech products like semiconductors or LCD screens could be made within a firm, and Japanese firms were very good at these types of technological improvement. But innovations in the 2010s are not necessarily high-tech, as many companies in the 'sharing economy' (such as Uber and Airbnb) demonstrate. The most important characteristic is innovation take-off

beyond the border of companies and countries. Unfortunately, this is a challenge for Japanese companies with closed, long-term labour relationships.

Both companies and workers in Japan interpret the current high levels of earnings as being largely due to a weak yen and cheap oil, and doubt the competitiveness of their companies. They are right. It is no wonder regular Japanese workers, who typically expect to stay with their company for 20–30 years, refrain from demanding aggressive wage increases when they are anxious about the future of their companies, even if current earnings are very favourable.

The 1980s saw the introduction of the insider–outsider theory in labour economics, developed by Assar Lindbeck of Stockholm University. The theory suggests that even if the unemployment rate is very high the bargaining power of a labour union within a company is so strong that large wage increases can be obtained each year. Companies have no choice other than to pass on the costs through increased product prices, resulting in the co-existence of high unemployment and high inflation—stagflation.

Japan's economy is now at full employment and slow economic growth is simply the reflection of very low potential growth

The current state of Japan may be described as reverse insider–outsider theory. Since labour market conditions are very tight, wages for part-timers go up accordingly, but regular workers refrain from demanding wage increases, resulting in the co-existence of very low unemployment and very low inflation. For the reverse insider–outsider theory to hold, two conditions are necessary: regular workers are so specialised in firm-specific skills that their wages will decline significantly when they leave their companies, and the wage gap between regular workers and part-timers has to be large. These conditions are undoubtedly met in Japan.

If we understand the reasons behind slow wage increase as above, achieving the 2 per cent inflation target through monetary policy alone will take a long time, and may be impossible. In addition, Japan's economy is now at full employment and slow economic growth is simply the reflection of very low potential growth. Since Japan's potential growth rate is estimated at 0.2 per cent according to the BoJ, and 0.3 per cent according to the Cabinet Office, 0.7–0.8 per cent average growth after more than three years of Abenomics does not suggest deficiency of demand. So a large fiscal package doesn't make sense.

Reverse insider–outsider theory may also suggest the need for the Abe government to strengthen reverse income policy in conjunction with labour market reforms. To revive the confidence of companies and workers, as the government desires, what Japan will need is no less than a 'new industrial revolution' **EAFQ**

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Shifting the burdens of age: prospects for a fairer future

SAGIRI KITAO

THE demographics of ageing are not all doom and gloom. They also open up economic opportunities. In Japan, where retirees have high average wealth and life expectancy, there is an opportunity to develop new products targeted to the elderly and to expand 'silver' markets. A decline in the number of workers opens up working opportunities for those who might otherwise retreat from the labour force, such as women and elderly individuals, giving policymakers more incentive to invest in human capital and health so that people can work and live longer.

Ageing itself is not the cause of Japan's fiscal pressures. It is the country's unfunded transfer welfare

system, coupled with an unstable population pyramid, that is so problematic. These factors could stifle the economy for years to come unless the government takes action soon.

The total fertility rate—the average number of children that each woman has over her life cycle—has to stay close to 2.1 to prevent the population from falling. The Japanese fertility rate was above 3 in the early 1950s, but in the past four decades it stayed well under 2 and has settled below 1.5 since the mid-1990s. According to official projections by the Japanese National Institute of Population and Social Security Research, fertility rates will stay below 1.4 until at least 2060.

Thanks to medical advances, life expectancy has risen by about 30 years since the 1950s and is projected

to continue to rise in the coming decades. As a result of low fertility rates and rising longevity, the old-age dependency ratio—the number of people aged 65 and over divided by the number aged between 20 and 64—will grow rapidly. In 2010, it was below 0.4. By 2050, the ratio is expected to rise to over 0.8, the highest level among OECD economies.

The Japanese pay-as-you-go public pension and health insurance systems will not be sustainable unless there is a sizeable increase in taxes or a major reduction in benefits. Several quantitative studies have found that revenues equivalent to 30–40 per cent of total consumption could be necessary for Japan to maintain these two programs at their current levels. Such high tax rates are not likely to be politically feasible, at least for the foreseeable future.

Many Japanese, younger people in particular, are pessimistic about the future of the public pension system. Very few young Japanese expect to receive an equivalent level of benefits to those that current retirees receive. To many, it seems certain that current benefit levels are the highest Japan will see for several decades. What is uncertain is when social security reform will take place and how dramatic the adjustment will be.

In a recent study I built an economic model to study the impact of likely reforms to ensure the social security system is sustainable, in which the government reduces pension benefits by 20 per cent and progressively raises the normal



The quality of adult lives that today's children—like these in Ise—are going to enjoy will be determined 'by how Japan's voters weigh their own wellbeing against those who are yet too young to vote'.

PICTURE: DOUG MILLS / REUTERS



Older people exercise with dumbbells during a health event to mark 'Respect for the Aged Day' at a temple in Tokyo's Sugamo district in September 2015.

retirement age from 65 to 68 over a 30-year period. This would stimulate the economy and bring about a major boost to the government's budget. People would be more motivated to work longer, while saving more, if less was expected to be provided by the government after retirement age.

Delayed implementation of these reforms would mean that the fiscal costs associated with ageing will shift towards future generations. It is predicted, for example, that a delay of two decades would lower output by up to 4 per cent and raise the tax burden by more than 8 per cent of total consumption. Lower economic activity implies lower wages for future generations. If Japan delays reform

and continues to push back the task of consolidating the welfare system, younger people will be made far worse off.

If Japanese voters only think about current generations' benefits and tax rates, it will be hard for any reform agenda to receive majority support. Japan could keep borrowing against the future until no one is willing to lend or until the debt explodes and a default is declared.

But if Japan cares about the wellbeing of its children and grandchildren, delaying reform for as long as possible is the worst available choice. Today's policy choices will have a major effect on what Japan will look like in a few decades' time.

Starting with the most recent national election in July, the voting age was reduced from 20 to 18. Although this suggests that Japan is interested in the concerns of the young and, perhaps, of future generations, this amendment won't change political outcomes by itself. Whether the government chooses a policy that is fair to future generations will be determined by how Japan's voters weigh their own wellbeing against those who are yet too young to vote.

EAFQ

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Multicultural society still far off, despite 'consideration'

CHRIS BURGESS

EARLIER this year I was asked by a group of non-Japanese global business leaders to talk about Japan's immigration situation. The participants were remarkably well informed about Japan's 'dire' demographic state of affairs—its declining and ageing population—and were interested in how Japan was planning to handle a labour shortfall. They were incredulous when I explained that Japan has no plans to open its doors to migrants any time soon. For them this was economic suicide made possible only through some kind of cognitive dissonance. For a long-term resident of Japan, the interesting thing about this conversation was the disconnection between the sense of crisis felt by outsiders and the lack of action in Japan itself.

That is not to say that there has been no discussion in Japan about immigration reform. Political committees and media commentators seem to be engaged in never-ending *kentō* (consideration) over whether or not to open the door to migrants, especially foreign manual workers.

A similar debate at the end of the 1980s resulted in Brazilians and others of Japanese descent gaining working rights in 1990. In 1993, Japan also extended the length of time that technical trainees were allowed to stay. These two groups continue to make up the largest source of 'backdoor' labour—'backdoor' because even today Japan does not, in principle,

accept blue-collar workers.

Japan's 'no immigration principle' can be seen as an institutionalisation of the 'homogeneous people' conception of the Japanese nation that continues to play a key role in structuring its identity. The term 'migrant' tends to be studiously avoided or replaced by euphemisms such as 'entrants' or 'foreign workers'. The implication is that foreigners should not stay long or settle down.

While some more revolutionary immigration reform proposals have emerged recently, such as establishing a guest worker program, the steps that have been taken are very much within the conventional framework. For example, the inclusion of health workers—nurses and caregivers—in economic partnership agreements with Indonesia, the Philippines and Vietnam attempted to address critical labour shortages in particular areas. But, again, the need to maintain the 'no immigration principle' saw strict conditions attached that resulted in many of these workers returning home after just a few years in Japan.

Other recent reforms—such as accepting foreign housekeepers in special zones, a 'point system' to attract highly skilled foreign professionals and further extension of the trainee system period to fill the construction worker gap in the run up to the 2020 Tokyo Olympics—merely highlight the fact that the word 'migrant' remains taboo.

Prime Minister Shinzo Abe himself has taken pains to avoid the 'm' word. In a joint meeting of the Council on

Economic and Fiscal Policy and the Industrial Competitiveness in 2014, Abe stressed that 'we should be careful not to mistake the "utilisation" of foreign workers in nursing care and house-keeping as immigration policies.'

Political caution reflects public sentiment. Two out of three Japanese are against accepting more foreign workers, let alone manual workers. Underlying this is what is known as the 'foreign crime' debate—the fear that allowing in greater numbers of foreigners will harm public safety. These fears have only been heightened in recent years by terrorist atrocities in Europe and other countries with high migration levels.

THE continuing reluctance to open the door to migrants challenges the 'multicultural Japan' idea that is popular among some academics. The numbers suggest that Japan is neither becoming more ethnically diverse nor more 'multicultural'. For example, 2009 saw the first fall in the foreign resident population since 1961, and even that was from a very low base of only 1.7 per cent of the total population. This figure also includes third- and fourth-generation Korean residents born and raised in Japan.

International marriage, another key marker of diversification, peaked in 2006 at 41,000 and is only slightly more than half that figure today. Japan continues to accept only a handful of refugees (27 in 2015) and this is likely to decline further after work restrictions were introduced



Indonesian nurses study Japanese culture in Jakarta before leaving to work in Japan. Nursing is included in a bilateral economic partnership agreement.

in a recent revision of the refugee recognition system.

On the surface, these numbers would seem to contradict the growing visibility of Japanese-style multiculturalism known as *tabunka kyōsei* (multicultural coexistence). *Tabunka kyōsei* emerged in the mid-1990s when it began to be widely used by local governments and NGOs to refer to Japanese and foreigners living harmoniously together. In 2001, 13 municipalities formed the Committee for Localities with a Concentrated Foreign Population and called on the government to develop a coordinated and coherent integration policy. While the central government has been slow to respond, it has published a number of reports since 2006 and established committees to discuss *tabunka kyōsei* issues.

The main criticism of *tabunka kyōsei* is that it defines boundaries that reaffirm foreigners' non-membership in Japanese society. By reinforcing cultural differences in the name of multiculturalism, the privileged position of the Japanese majority is maintained. ANU Professor Tessa Morris-Suzuki calls this 'cosmetic multiculturalism', which celebrates diversity 'but only under certain tightly prescribed conditions'.

Tomoko Nakamatsu suggests that *tabunka kyōsei* is more concerned with social cohesion—converting foreigners into 'law-abiding, locally functioning, well-adjusted residents'—than with empowerment. Kikuko Nagayoshi finds that those with a strong ethno-national identity also tended to support Japanese-style multiculturalism. This suggests that

tabunka kyōsei is not in opposition to but rather is compatible with the belief in a unique, homogenous ethnic national identity. Interpreting the popularity of *tabunka kyōsei* as evidence that Japan is becoming more multicultural is risky.

In sum, however unfathomable it may be to outside observers, Japan is not likely to become multicultural anytime soon. Despite some support for opening up, especially in business circles, many if not most Japanese seem resigned to a smaller economy if that is the price that has to be paid for maintaining social cohesion and public safety. **EAFAQ**

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Tensions dampen Japanese business hopes in China

AMY KING

THE Japanese business community is increasingly pessimistic about the Japan–China relationship. For the past three years the US-based Center for Strategic and International Studies (CSIS) and the Japan-based Nihon Keizai Shimbun (Nikkei) have surveyed Japanese business people about their attitudes about the bilateral relationship with China. Results from the most recent 2016 survey, released in July, reflect a Japan that has grave fears about the political, security and economic dimensions of the relationship with its most important neighbour.

The CSIS–Nikkei survey shows Japanese business groups understand the vital importance of the bilateral economic relationship for Japan.

Since 2013 more than two-thirds of Japanese surveyed have consistently acknowledged that the Chinese economy is ‘essential’ to Japan. Yet the surveys also demonstrate that the Japan–China economic relationship is changing.

More than half of Japanese surveyed since 2013 believe China’s importance to Japan’s economy will diminish in the future, particularly as China ceases to be the key production base for Japanese products. In place of China, nearly 90 per cent of Japanese business groups are betting on India and Southeast Asia as the most important emerging economic destinations for Japanese investment.

As Waseda University China specialist Rumi Aoyama has shown, the key factor driving Japanese firms out of China is rising labour costs. But

Demonstrators hold anti-Japan placards during a protest outside the Japanese consulate in Hong Kong in August 2015.

when surveyed around 80 per cent of Japanese business groups stated that it was political risk—not macroeconomic or commercial risk—that posed the biggest challenge for doing business in China.

These political risks come in many forms. Since 2013, the perceived risk of improper interference in business by local Chinese government authorities has nearly trebled, from 6 per cent to 17 per cent, while the perceived risk of a disruption to business caused by China’s foreign relations with the United States or other countries has grown from 16 per cent to 23 per cent.

The most important political risk perceived by Japanese businesses

in China is deterioration in the Japan–China political and security relationship. In 2013, the year after the Japanese government nationalised a number of islands in the Senkaku/Diaoyu island chain, 44 per cent of Japanese business groups cited deteriorating Japan–China relations as the greatest political risk facing Japanese firms in China.

In 2016, following an easing of tensions in the East China Sea, that figure had reduced to 30 per cent. But the East China Sea dispute continues to be a key source of tension in the bilateral relationship. Only one-third of Japanese advocate ‘shelving’ the East China Sea dispute, while more than half believe the time for shelving the dispute and relying on diplomatic solutions has passed.

Instead, Japanese business groups argue that Japan should take steps to further consolidate its sovereignty claims by building permanent structures on the Senkaku/Diaoyu islands or by stationing Japanese civil servants there. In line with this view, 42 per cent believe the Japanese Coast Guard should take stronger steps to counter China in the East China Sea, even if this might increase the risk of conflict. Another 35 per cent believe Japan should deploy its Self-Defense Forces (SDF) to ‘resolutely’ safeguard Japanese sovereignty.

THese responses suggest the Japanese business community believes that paramilitary or military force is now the only way to deter China in the East China Sea. This response is not surprising given that, over the past three years, more than 90 per cent of Japanese business people surveyed have consistently stated that they view China as a threat. Yet beyond this dispute, the China threat has not fundamentally transformed

Japan’s traditional post-World War II approach to security in Asia.

While Japanese business groups acknowledge the need to strengthen their country’s Coast Guard and SDF capabilities, a majority of respondents still believe that the US–Japan alliance is the best way to meet the threat from China. Similarly, on other pressing regional security issues like the South China Sea dispute, more than 70 per cent of those surveyed argue that Japan should not intervene militarily, but should instead support dialogue through ASEAN-led processes and help Southeast Asian nations to strengthen their own defensive capabilities.

Perhaps the most important findings from the CSIS–Nikkei surveys are the responses that illuminate the nexus between politics and economics. There are some surprising and very mixed findings about how political and security issues affect the economic relationship and vice versa.

The Japanese business community clearly believes that political and security issues do affect Japan’s economic relationship with China. Only 8 per cent of Japanese support Japan’s long-standing principle of ‘keeping politics and economics separate’ (*seikei bunri*). In contrast, 40 per cent believe Japan should scale down its business interests in China if the Senkaku/Diaoyu island dispute deteriorates over the long term.

At the same time, 37 per cent believe that even in the event of a worsening Senkaku/Diaoyu dispute, the two countries should try to maintain the status quo. Given that two-thirds of Japanese business groups anticipate growing tensions in the East Sea China dispute, this issue is likely to create strong uncertainty into the future.

Although two thirds of Japanese

business groups believe that China will not abide by international norms, there is strong support for Japan to become a member of the Chinese-led Asian Infrastructure Investment Bank (AIIB). Of business groups surveyed, 60 per cent believe that Japan should become a formal member of the AIIB at some point in the future. This dichotomy is difficult to explain, but suggests that although they are deeply concerned about China’s future role in the international economic order, Japanese businesses also recognise the importance of new initiatives—like the AIIB—to Japan’s own economic future.

SINCE World War II, the China–Japan economic relationship has defied the liberal thesis that close economic ties between two countries breed closer political and security relations. Yet political and security tensions between China and Japan have not inhibited the development of a crucially important economic partnership between the two countries.

The Japanese business community recognises that this partnership is now evolving because of the changing nature of the Chinese economy, its growing influence in the international political and economic order, and its ability to pose a security threat to Japan. Sustaining the bilateral China–Japan economic relationship in the face of these challenges will require serious attention and leadership on both sides. **EAFQ**

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