

Stanford Japan Program at S-APARC

The Stanford Japan Program was formally established in November 2011, renewing the Walter H. Shorenstein Asia-Pacific Research Center's commitment to this important field. As an integral component of the Center, SJP facilitates multidisciplinary, social science-oriented research on contemporary Japan, emphasizing both academic scholarship and policy-relevant research. The program aims to become a central platform for Stanford students and the broader community for understanding and engaging with Japan.

Research and Program Activities

Program activities include the Japan Colloquium Series, conferences to further cutting-edge research and address critical contemporary policy issues, and public seminars. The goal of Japan Program is to become an eminent platform to foster intellectual exchange among scholars, experts, top-tier professionals, politicians, and students.

Message from the Director



Our main event in November was the panel discussion on international economic policy of the Abe administration. The panel featured Hideichi Okada, our Sasakawa Peace Fellow and former Vice Minister of International Affairs at METI, Glen Fukushima, Senior Fellow at Center for American Progress and formerly at USTR (among many positions both in Japan and in the U.S. that he had), and Phillip Lipsky, our Center Fellow and Assistant Professor of Political Science. The panel explored implications of the policies by the Abe administration to reinvigorate Japan through opening it up for foreign trade and investment (more details on page 2). The event attracted more than 60 audiences.

We also held a smaller event on the same topic: Japan's international economic policy. We welcomed Mr. Naomichi Ishige, Chairman and CEO of the Japan External Trade Organization (JETRO), a government entity that promotes international economic activities for Japan, especially foreign direct investment into Japan. Researchers at the Stanford Japan Program,

including Hideichi Okada, Masa Aoki, Michael Armacost, Dan Sneider, Kenji Kushida and myself, had candid discussion on Japan's trade and foreign investment policy. Mr. Masato Watanabe, newly arrived Consulate General of Japan at San Francisco, also kindly attended the event.

In November, we observed some progress in the Abe administration's implementation of its growth strategy (aka "third arrow"), which includes policies to open up Japan that we discussed in the panel. The negotiation for the Trans-Pacific Partnership (TPP) is going forward, although the completion has been postponed to next year.

One important hurdle for opening up Japan is the opposition from the agricultural sector, which has been protected from not only international competition but also competition within Japan. The latest news on this front was what Japanese media reported as the "abolition" of the acreage reduction policy (of rice production). The government is advertising this as a "fundamental transformation of agricultural policy."

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A closer look of the policy, however, reveals that the reform is not as fundamental as it is advertised. The government will eventually stop assigning the rice production limit for each region. During the transition, the government reduces the amount of subsidy given to the farmers who keep their rice production within the limit from the current rate of 15,000 yen per 10 are of rice producing field (this subsidy is given to the portion of land where rice is produced) to 7,500 yen per 10 are. But, the reform increases another subsidy given to the portion of the land that are used for crops other than “rice” (mainly rice for feedstuff) from the current rate of

80,000 yen per 10 are to 105,000 yen. In addition, the farmers in general will receive another subsidy that will be newly introduced. Overall, the farmers’ income is estimated to increase because of the reform.

As the panelists discussed in our “More Open Japan” panel, the current administration’s emphasis on economic opening is a right policy to stimulate Japan’s economic growth. The latest development in the agricultural reform, however, suggests that the implementation of the third arrow of Abenomics will be a slow process at best.

Toward a More Open Japan? TPP, RCEP, and Abenomics



A panel discussion titled “Toward a More Open Japan? TPP, RCEP, and Abenomics” was held on November 13th at Shorenstein Asia-Pacific Research Center. The panelists at the meeting included: **Hideichi Okada**, Sasakawa Peace Fellow at S-APARC; **Glen S. Fukushima**, Senior Fellow at Center for American Progress; and **Phillip Lipsky**, The Thomas Rohlen Center Fellow and Assistant Professor of Political Science. The discussion was moderated by **Takeo Hoshi**, Director of Japan Program at S-APARC.

The convening of this panel discussion reflected Prime Minister Abe’s economic policy, called Abenomics, which places policies to open up Japan as a key component. Japan joined the negotiation for TPP (Trans-Pacific Partnership), which includes the U.S., Canada, and South America in July this year and Hideichi Okada, formerly a top official at Japan’s Ministry of Economy, Trade and Industry (METI) believes this economic partnership could become as big as APEC in the future. Okada also pointed out that Japan’s tariff, except for some agricultural products such as rice, are actually the lowest and most open among the major countries, despite common perceptions.

Glen Fukushima, drawing upon his experience as a trade negotiator for the US and CEO of major multinational corporations in Japan, noted that the definition of “open” often differs between the US and Japan. In some cases, when the US called for equal treatment under industry-specific rules in an attempt to eliminate non-tariff barriers, the Japanese rules actually made it harder for them to access the market, since aspects such as prior domestic track records were necessary. The Japanese side would then ask whether the US wanted special treatment, in conflict with its ideology of free trade; the US position was to call for an even playing field. Fukushima cautioned that this difference in notions of “open” was a challenge to overcome.

Phillip Lipsky, Assistant Professor of Political Science at Stanford, pointed out the source of many problems in Japan’s economic stagnation and relative decline are rising debt, military decline, and social problems. Lipsky further raised a question on Regional Trade Agreements such as TPP/RCEP: is the political decline of rural areas and inefficient sectors enough to outweigh political distortions?

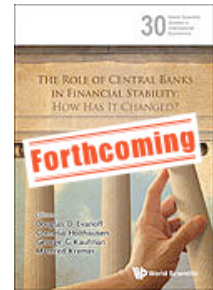
The panel was followed by active discussion with the participants.

In the forthcoming edited volume *The Role of Central Banks in Financial Stability: How Has It Changed?*, Japan Program director **Takeo Hoshi** contributed a chapter entitled “Role of Central Banks in Financial Stability: Lessons from the Experience of the Bank of Japan.”

The book, volume 30 in the “World Scientific Studies in International Economics” series, addresses the means to prevent future financial crises and stresses a major shift in most countries toward a better understanding of financial stability and how it can be achieved. In particular, the papers in this volume examine the recent change in emphasis at central banks with regard to financial stability. For example: What were the cross-country differences in emphasis on financial stability in the past? Did these differences appear to affect the extent of the adverse impact of the financial crisis on individual countries? What are perceived to be the major future threats to financial stability?

These and related issues are discussed in the book by well-known experts in the field — some of the best minds in the world pursuing financial stability. Following the global financial crisis, significant reforms have been initiated in many countries to address financial stability more directly, frequently focusing on macroprudential policy frameworks in which central banks play a more active role.

The Role of Central Banks in Financial Stability, edited by Douglas D. Evanoff, Cornelia Holthausen, George G. Kaufman, and Manfred Kremer, will be published by World Scientific: <http://www.worldscientific.com/worldscibooks/10.1142/8720>.



A journal article “The Fukushima Nuclear Disaster and the DPJ: Leadership, Structures, and Information Challenges During the Crisis” by **Kenji Kushida** (Takahashi Research Associate in Japanese Studies) was published in *The Japanese Political Economy*, Vol. 40.

The Fukushima nuclear disaster was a critical juncture in the world’s relationship with nuclear energy, as well as Japan’s postwar political economy, society, and national psyche. The DPJ, and particularly Prime Minister Kan, were later widely criticized for mismanaging the disaster, contributing to the party’s loss of power. This paper closely examines the crisis as it unfolded, assessing the degree to which the government’s chaotic response can be attributed to the DPJ’s political leadership. It finds that the DPJ inherited a difficult hand when coming to power in 2009, with deep structural problems developed under the long LDP rule. Existing procedures and organizations were drastically inadequate, information and communications problems plagued decision-making and coordination. Kan’s leadership was, on balance, beneficial, taking control where the locus of responsibility and decision-making was ambiguous and solving several information and communication problems. This paper is one of the first readily accessible English language analyses examining this critical juncture, including a broadly readable account of primary government decision-makers as the disaster unfolded. The Paper is available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2334523

On November 19th, Kenji Kushida was interviewed by The Voice of Russia (radio) about the Fukushima nuclear disaster. The topic was extraction of the spent fuel rods from the damaged reactor 4: why it took so long; what other challenges are facing TEPCO; and the effects of radiation in the Pacific Ocean.

http://voiceofrussia.com/2013_11_19/Pacific-Ocean-attacked-by-radiation-leakage-from-Fukushima-expert-2045/

Kenji Kushida was quoted in the *Greenwire* (Nov. 20). “Following the Fukushima disaster, Japan established feed-in tariffs mandating that utilities buy electricity generated by renewable sources at a high price. The new regulations present an opening for U.S. companies that have been leaders in developing solar technologies and systems to manage smart grids. There’s going to be all sorts of business opportunities linking innovations in the U.S.”

<http://www.eenews.net/greenwire/2013/11/20/stories/1059990789>

Appeared in *Washington Post*, October 31, 2013

A dangerous stalemate between Japan and South Korea

By Daniel Sneider, Associate Director for Research at Shorenstein Asia-Pacific Research Center



Relations between U.S. allies Japan and South Korea have descended to another low, fueled by issues of wartime history and the still-poisonous legacy of Japan's harsh colonial rule over Korea from 1910 to 1945. The two countries' leaders have not met since May 2012, and polls show that three times more Koreans view China favorably than Japan. A senior adviser to the Japanese prime minister recently suggested to me that the United States might no longer be given a free pass to use its bases in Japan to support South Korea in a war.

This dysfunctional relationship threatens to undermine U.S. security interests, including dealing with a rising China and an aggressive North Korea. For too long, U.S. policymakers have told themselves that wartime memories will eventually fade. It is clear that the passage of time cannot by itself cure the corrosive effect of historical injustice or dim the fires of nationalism among younger generations of Northeast Asians.

Unfortunately for the United States, the reality is that neither Japan nor South Korea seems capable of finding a path toward reconciliation on its own. In addition, the United States bears a historical responsibility for the unfinished nature of the postwar settlement and the subsequent Cold War system that blocked reconciliation.

There are, however, practical steps that could improve this situation. The biggest issue on the agenda should be compensation for all individual victims of the system of forced labor the Japanese empire used during wartime — beginning with the Sino-Japanese war in 1937 — including “comfort women” who were coerced into sexual servitude. The Japanese government, with official U.S. support, has long insisted that the issue of compensation was settled by the San Francisco Peace Treaty and by the agreements normalizing relations with China and South Korea. But some legal scholars, including some Japanese, argue that a settlement between states does not bar individuals from seeking compensation.

Recent South Korean court decisions have upheld this principle. In July, two high courts ordered major Japanese firms — Mitsubishi Heavy Industries, Nippon Steel and Sumitomo Metal Corp. — to pay Koreans who were forced to labor in their factories and mines during the war. Korean historians believe that about 1.2 million Koreans were forced to work during the war and that some 300 Japanese companies still in operation used such workers.

Japanese policymakers are alarmed that Japanese company assets could be seized if they refuse to pay, further fraying relations. But rather than seeing this as a threat, the Japanese should view this as an opportunity to provide justice for those victims, most of whom are in their final years.

Japan should follow the model of the German Fund for the Future, formally known as the Foundation “Remembrance, Responsibility and Future.” The 5.2 billion euro fund, founded in 2000, is a joint project of the German government and the German private corporations that used forced labor during World War II. In cooperation with international partner organizations, it has compensated more than 1.6 million survivors in almost 100 countries. The foundation continues to conduct research and education programs.

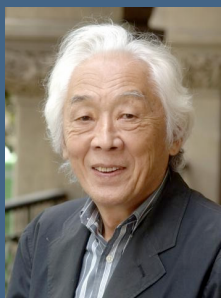
Senior Clinton administration officials, led by then-deputy Treasury secretary Stuart Eizenstat, played a central role in the complex negotiation with multi-nation governments and citizen groups that led to the formation of the German fund and a similar one in Austria. Their involvement was prompted in part by lawsuits filed against German firms in U.S. courts. U.S. officials saw it as in the country's national interest to reduce tensions with Germany and resolve the issue for all forced laborers, not just those filing suit. Washington needs to play the same role today with Japan. For their part, Korea and China and groups representing victims of forced labor should publicly accept this solution as a final settlement of all issues of compensation. The Japanese need assurance that this would bring real closure.

This would, of course, be a bold and politically difficult step for all nations involved. The United States must abandon its position of neutrality on wartime history issues, as it is not really a neutral party, and step forward. Japanese leaders must break with the habits of defensiveness about the past and take the initiative. And Japan's wartime victims must be ready to relinquish the use of history as a political weapon.

Only this kind of effort can break the dangerous stalemate about the past that threatens the future of Northeast Asia.

Daniel Sneider's op-ed was also published in *Asahi Shinbun* (Oct. 29): http://ajw.asahi.com/article/forum/politics_and_economy/east_asia/AJ201310250062

Comparative Institutional Analysis: Theory, Corporations and East Asia. Selected Papers of Masahiko Aoki

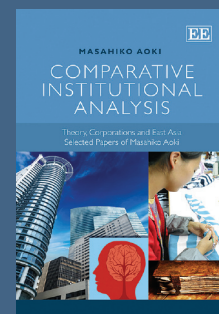


Comparative Institutional Analysis: Theory, Corporations and East Asia. Selected Papers of Masahiko Aoki collects 22 articles by Masahiko Aoki (Senior Fellow of the Stanford Institute of Economic Policy Research and the Freeman Spogli Institute for International Studies), selected from writings published over the course of his 45-year academic career. These fascinating essays cover a range of issues, including mechanism design, comparative governance, corporate governance, institutions and institutional change, but are tied together by a focus on East Asia and a comparative institutional framework.

Specific topics include the early stages of mechanism design theory, comparative analysis of vertical, horizontal and modular industrial coordination and its applications, cooperative game-theoretic approaches to the diversity of corporate government structure, the endogenous nature of institutions, and comparative and historical analysis of institutions in Japan, China and Korea.

Students, professors and scholars with an interest in comparative institutional studies and East Asian studies will find this book a useful and illuminating resource.

Comparative Institutional Analysis is available for purchase from Edward Elgar Publishing: http://www.e-elgar.com/bookentry_mainUS.lasso?id=15474



Recent & Upcoming Events

• November 13 - S-APARC Japan Panel Discussion

“Towards a More Open Japan? TPP, RCEP, and Abenomics”

• November 13 - S-APARC Japan Colloquium Series

“The Stabilizing State: State Capitalism as a Response to Financial Globalization in East Asia”

• January 21 - S-APARC Japan Panel Discussion

“ADIZ and International Security Issues in East Asia”

Panelists: Tom Fingar - Oksenberg-Rohlen Distinguished Fellow in the FSI
Don Emmerson - FSI Senior Fellow, Director of Southeast Asia Forum, S-APARC
Daniel Sneider - Associate Director for Research, S-APARC

Moderator: Takeo Hoshi - Director of Japan Program at S-APARC

• February 7 - S-APARC Japan Colloquium Series

“Abenomics: Evaluation of the First Year”

Speaker: Takatoshi Ito - Professor, Graduate School of Economics, University of Tokyo

* Please register for our events at Japan Program website at jsp.stanford.edu *

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