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Put Tokyo back on the screens
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The rush to understand Asia's new economic powerhouse, China, has meant that Australia has taken its eye off Asia's largest economic superpower, Japan. The undoubted attractions of China's booming economy, engaging regional diplomacy and boundless potential have supplanted Japan's stolid bulk and its frustrating economic and political paralysis.

Visits by high-ranking Chinese officials garner blanket media coverage with a positive spin. High-level visits from Japan, Australia's largest trading partner and strongest backer in East Asia, barely register.

Yet Japan is still economically the biggest game in town and Junichiro Koizumi's landslide election win means that this game is changing in our favour.

Japan's apparent disappearance from our collective radar screens was largely due to the economic and financial disappointment that characterised the country's post-bubble era. Yet even after more than a decade of sub-par economic performance, the sheer scale of the Japanese economy remains unparalleled in Asia.

Last year, Japan was the world's second-largest economy, with a GDP, using market exchange rates, of \$US4.6 trillion, or almost three times larger than the \$US1.6 trillion Chinese economy. On a per capita basis, Japan is one of the world's richest economies. According to the World Bank, in 2004, gross national income per head in Japan was more than \$US37,000, or almost 29 times China's level. Japan is the world's largest holder of US foreign debt: it holds more than twice as much US government paper as China.

This economic heft is evident in bilateral economic relations: Japan remains Australia's largest bilateral trading partner. In 2004, overall trade in goods and services with Japan amounted to more than \$44 billion. Bilateral flows with China totalled \$31 billion.

Japan is a major investment partner: as of December 2003, it was the third-largest source of foreign investment in Australia and the fourth-largest destination for Australian outward investment. Chinese investment in Australia, like Australian investment in China, was less than 10 per cent of the Japanese levels.

Japan's political system has been rightly identified as the greatest barrier to liberalising its insular and underperforming economy. The pessimistic consensus is that as long as its political system does not change, its economy will remain in genteel decline.

Japan sceptics may well read Koizumi's landslide in this manner. The ruling LDP party, in power for 49 of the past 50 years, won a resounding majority of 296 out of 480 seats. The LDP can once again rule alone, while Japan's more "progressive" opposition party lost ground in its best opportunity yet to take power.

This reading is outdated. Just as John Howard's political pre-eminence has sanctified his ruthless reshaping of the Liberal Party, Koizumi's landslide win yesterday is the ultimate personal victory for his campaign to modernise the LDP and reverse its own genteel decline.

Since taking over the LDP in April 2001, Koizumi's primary goals have been to expel the party's old-timers, destroy its factional system and minimise its dependence on rural voters, the old-timers' natural bailiwick. Koizumi has re-engaged with Japan's alienated urban and younger voters and re-established the LDP's fraying links with Keidanren, Japan Inc's peak association.

Keidanren heavyweights, including Toyota's chief executive, joined Koizumi on the campaign trail in support of his attack on his own party.

In 2003, Koizumi attacked the old-timers by imposing a retirement age on LDP candidates. This time, he called a snap election against his own party after 37 LDP members of the lower house opposed his postal privatisation bill. He replaced these 37 rebels with hand-chosen younger candidates. Most of these so-called "assassin" candidates triumphed while the LDP's vote in urban areas shot up. So did the stockmarket.

Koizumi's triumph has helped transform the LDP into a truly national party with a revived urban constituency. He is in a strong position to privatise Japan Post and to advance Keidanren's interests in free-trade deals. Koizumi is changing Japan. We should take notice.

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