



A Big Week for Mr. Koizumi

by Brad Glosserman

This is probably the most important week in the tenure of Japanese Prime Minister Koizumi Junichiro. Three events - elections, the unveiling of his economic plan and the beginning of normalization talks with North Korea - test his commitment to bringing about real change in Japan. Yet while this week may mark the historical turning point for the Koizumi administration, it will have no immediate impact on the prime minister. There is still no credible opposition to Koizumi or his government.

The prime minister has already passed his first test. On Sunday, the ruling coalition - consisting of the Liberal Democratic Party, Komeito, and the New Conservative Party - won five Diet seats in seven by-elections. Four of the elections were triggered when politicians were forced to resign over financial scandals. Yet even scandal wasn't enough to get voters to the ballot box: Six of the seven elections had the lowest turnout ever recorded. Nonetheless, the coalition's strength is undiminished and that strengthens Koizumi's hand.

The second test is on the domestic front. During the 18 months the Koizumi administration has been in office, it has adopted two antideflation packages that have failed to arrest the economy's slump. This week it revealed its third, a combination of measures designed to reflate the economy and speed up disposal of the bad debt that hangs over the financial sector.

Even before its official release, the plan triggered intense controversy within the LDP and unleashed a storm of criticism around Takenaka Heizo, the author of the report and the economy czar. In one especially poignant moment, Takenaka was called before the Diet and forced to disavow his comment that "no company is too big to fail." Opposition within the LDP and from the banking community obliged the government to postpone announcement of the plan. Last week, a panel representing the ruling coalition rejected key parts of the proposal and put forth its own, which goes easier on banks and the companies that hold the debt.

The government package was revealed Wednesday in Tokyo. Its key provisions include stricter assessments of bank assets and the creation of a new body to buy debt from struggling companies and possibly extend further financial assistance to debtors. Additional measures include tax reform and strengthening the social safety net.

Response was less than overwhelming. Headlines tagged the plan "watered down" and even Takenaka conceded it was only "a good start," a far cry from the definitive action Koizumi had promised - and appeared ready to implement last week. The outlines of the proposal were leaked to the press and the package announced this week lacks key elements of the draft. The stricter accounting rules for banks - key to any cleanup of the debt

problem - have no implementation date and the upper limit for deferred tax assets has been removed.

Let's be honest. No plan will yield instant results. The issue is Koizumi's credibility. Having backed away from the Takenaka proposals, he appears to have no stomach for real reform, and has undermined the authority of his minister only one month into his term. That isn't just symbolism: The prime minister appointed Takenaka "to show the government's commitment to speed up the disposal of bad loans." The skeptics' case will be confirmed if, as expected, the prime minister also abandons his pledge to cap new bond issues at 30 trillion yen and opens the public works spigot. Fiscal stimulus is needed. But spending without measures that force banks to clean up their debt or clean out the corporate deadwood will signal a victory for the old guard.

The third challenge concerns foreign policy. This week, Tokyo also began negotiations with North Korea on normalizing relations. Koizumi's bold attempt to break the stalemate with Pyongyang has since been overshadowed by the revelations that eight of the 13 abductees are dead and that North Korea pursued a clandestine nuclear weapons development program. Now, attention is focused on the Foreign Ministry's preparations - or lack thereof - for the Sept. 17 summit and the administration's seeming rush to make a deal. On both counts, Japanese diplomacy looks amateurish.

The North Korean negotiations pose risks for the Japan-U.S. relationship. When the U.S. disclosed that the North admitted to cheating on the Agreed Framework, questions were immediately raised about Koizumi's attention to the nuclear issue in his talks with North Korea. An aide to the prime minister is reported to have admitted that the U.S. information was incomplete and they therefore "didn't take it so seriously." That compounds the concern in the U.S. - and among some Japanese - that Tokyo's priority is the abductees and the proliferation issue will not get the attention it deserves.

Japan won't turn a blind eye to North Korean attempts to build a nuclear arsenal. After all, Japan is the likely target of North Korean missiles. The public still has a powerful allergy to all things nuclear; Beijing's 1995 test of nuclear weapons was enough to get Tokyo to suspend (temporarily) its aid to China. The questions surrounding the abductees will stiffen Tokyo's spine in all other matters on the negotiating agenda.

The danger - and this risk also exists with South Korea and China - is that Japan's willingness to negotiate with the North could put it at odds with the U.S. Make no mistake: North Korea should honor its obligations. Bad behavior should not be rewarded. But the U.S. administration seems to consider the very act of negotiating with North Korea to be a concession - a reward. For this administration, North Korea has to dismantle its nuclear program before Washington will talk. North Korea's Asian neighbors are unlikely to go that far. For them, the insistence on a

peaceful resolution to the nuclear weapons issue requires negotiations. There is the additional danger that Japan - like South Korea - will acquire a stake in the negotiating process and be willing to continue talking long past the breaking point of U.S. tolerance.

If Pyongyang has any diplomatic acumen, it will use that gap to drive a wedge between the U.S. and its Asian allies. It will offer enough concessions to Japan and South Korea to keep them engaged and to keep the benefits flowing. Fortunately, North Korea has not shown itself to be that smart when it comes to diplomacy. In their first day of talks, North Korean negotiators refused to discuss security issues with the Japanese. After the second day, Japanese officials announced the two sides had agreed to set up in November a panel of working-level officials to discuss security issues, including the North's missile and nuclear weapons programs. That may be a crude attempt to split the U.S. from Tokyo, but Pyongyang will have to be more forthcoming to have any success. For both Pyongyang and Washington, the key is to appear conciliatory - and avoid criticism - even while sticking to a hard line.

We'll only know how shrewd the North Koreans are - and how successful Japan's diplomacy is - some time long in the future. The same time horizon applies to Koizumi's economic strategy. Fortunately for the prime minister, he can afford to focus on the long term: His opposition continues to be weak and ineffectual - witness last weekend's ballot. So while it may look like politics as usual in Tokyo, this could be a week of historic decision making. Mark your calendars.

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