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# How U.S. Political and Financial Sectors See Japan

By SUZUKI Keisuke

I visited the U.S. East Coast (New York and Washington D.C.) from September 6th to 7th and exchanged views with investors, congressional associates including members of the House of Representatives, and experts on foreign policy and national security. While the schedule was extremely tight as I had 13 meetings of about an hour in substantially two days. Nevertheless, I had a series of meaningful exchange of views with those from various quarters. Hence, I would like to leave some notes here about my experiences insofar as I can retain a degree of confidentiality. First, regarding how investors see Japan, my honest impression is that they are "cautiously optimistic" about Japanese economy. Their attitudes are somewhat toned-down compared to their enthusiasm at the times when Prime Minister ABE Shinzo and Governor of the Bank of Japan KURODA Haruhiko took office in 2013, or when corporate governance reform and corporate tax cuts were promoted in 2014. However, it can also be said the situation is rather settled where the investors are neither overly hopeful nor disappointed. This time in particular, their attention is focused on the situation of North Korea, Japan's political situation, and the new appointment of Governor of the Bank of Japan. And, in terms of policy, those investors' interests seem to be focused on enhancement of corporate governance and labor market reform for higher fluidity. In their analyses of recent phenomena, such as the weakness of consumer consumption capex and the increase of retained earnings, those investors found problems in Japan's private sector that cannot make full use of monetary easing and corporate tax cuts rather than in the policies of the government and the central bank. I found it interesting that many of the investors unanimously pointed out the necessity of better corporate governance reform in other words, prohibiting cross-shareholdings and labor market reform including the repeal of lifetime employment practice.

Some would find a fundamental cause of deflation in structural problems, while others would find it in monetary phenomenon. I personally felt that in Japan's case, there was spreading a recognition that the cause lay more in psychology in decision-making,

such as the “risk-avoiding” tendency and extraordinary low expectation to the future of individuals and corporations, deeply rooted in the horizontally egalitarian society. To recover from deflation and achieve sustainable economic expansion, what is needed is not a government-led temporary recovery by way of creating public demands and so on, but rather an environment where private players can take a degree of risks appropriately and continue to be a driving force for growth, but not. It is receiving attention whether the LDP can resume such structural reform policy to provoke changes in mindsets of the private sector, and that point is vital to draw foreign investments into Japan and boost potential economic growth.

Meanwhile, so far as American politics is concerned, “America First” which stems from socio-economic inequality is very strongly rooted, and a view that the Trump administration continues to its second term is spreading. Presupposing that as one possibility, Japan needs to consider and prepare various responses. In particular, as to America’s commitment to international order defined with the TPP and the Paris Agreement, whether or not America will return to the international society in the future is crucial not only to Japan but also to countries in Asia except China and North Korea. Frankly speaking, there are still some possibilities for America to return to the international society, and yet that would be difficult in reality for the time being. We need to reconsider how Japan should respond in long-term perspectives.

The American society in general still considers international rules and order as something imposed and as dreadful “bureaucracy.” Given the reality that diplomacy is largely influenced by the domestic public opinion and political situation in case of the U.S., it cannot be helped to be considerably pessimistic. Nevertheless, such widespread view on the American society could be somewhat misleading. The U.S. as a country firmly holds the philosophy to dislike others’ intervention into its daily life and economy, the spirit of which comes from its foundation. Then it is extremely important to promote the idea that “To seek for a small government and prevent government intervention, it is the most important to thoroughly establish and comply with international rules as well as to be engaged and to lead rule-making.”

Not only for the President but also for the members of both Senate and Congress, to take free trade as a case example, the only criterion for their action is what influence the industries in their constituencies incur from it. In the current situation as such, it would be a big challenge, but the U.S. allies strongly oriented to free trade, such as Japan, the U.K.,

and Australia, have no options other than persevering to be engaged with the U.S.

On foreign affairs, moreover, Asian experts' interests are focusing "too much" on North Korea partly for the times. They can be seen preoccupied in a sense. As a result, I have to point that they are forgetting to see China is still a long-term and structural threat. There exists a reality that they hear about North Korea's missile launches but fail to recognize China's moves around the Senkaku Islands. In addition to the geographical location of the U.S., the view that Chinese market holds great business opportunities unlike the former Soviet Union is widespread as well as a fact. Therefore, Asian countries' recognition that China is as threatening as the Soviet Union during the Cold War era is not shared on the same level even among Republican supporters. Yet in Asia, in a long-term perspective, it is China's threat that is structurally serious. If such a perception gap is left unaddressed, that could inflict irreversible consequences in ten or twenty years. Since U.S. foreign policy makers including the Capitol Hill are heavily influenced by domestic public opinion, we need to have solid strategic communications in each levels.

**(This is an English translation of the article written by SUZUKI Keisuke, Member of the House of Representatives (LDP), which originally appeared on the e-forum "Hyakka-Somei (Hundred Ducks in Full Voice)" of CEAC on September 12, 2017.)**