An unstable new coalition in Japan

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28 November 1998

After less than four months in office, Japanese Prime Minister Keizo Obuchi appears no more secure than his predecessor Ryutaro Hashimoto, who resigned following large losses by the ruling Liberal Democratic Party (LDP) in upper house elections.

Just last week the LDP signed a coalition agreement with the conservative Liberal Party headed by Ichiro Ozawa, himself a former LDP political strongman. The purpose of the deal was to strengthen the government's position in the upper house, where it has been forced into protracted and debilitating wrangling with opposition parties over key legislation such as its financial rescue package for the ailing banking system.

While the LDP and its partners hold a majority in the lower house of the Japanese Diet, they are in a minority in the upper house. The addition of the12 Liberal Party upper house members would still leave the LDP 11 seats short of a majority. The LDP is also wooing the reconstituted Buddhist-based New Komeito party by endorsing a plan to distribute $5.8 billion worth of spending vouchers to low-income elderly and families--one of Komeito's policies.

But only days later Ozawa threatened to tear up the agreement and call for early elections after senior LDP members hinted that the policies in the deal were only agreed between party heads and were therefore not binding on the government. Ozawa warned that if the agreed points were not implemented there would be no coalition. In particular, he stated that the agreement to reduce the number of cabinet ministers from 20 to 17 should be carried out through an immediate cabinet reshuffle.

As part of its agreement with the Liberal Party, the LDP has agreed to a review of the national consumption tax. Ozawa had originally demanded that the tax rate, currently set at 5 percent, be temporarily lowered during the country's economic recession. Hashimoto lost considerable support when he raised the sales tax from 3 to 5 percent in April 1997.

Other policies demanded by the Liberal Party include a $83 billion cut in income and residential taxes, mainly for the wealthy, a drop in the corporate tax rate from 46 to 40 percent, and a 25 percent cutback in government jobs over the next decade.

The public fracas has exposed the fragility of the Obuchi government and the LDP itself. Far from strengthening the ruling party, the alliance with Ozawa threatens to further open up deep rifts within its ranks and fuel factional struggles.

Finance Minister and former prime minister Kiichi Miyazawa announced last week that he would resign as chairman of his faction and hand over to former party secretary general Koichi Kato after end of the next parliamentary session. He has also hinted that he may step down as finance minister.

The Miyazawa faction may break in two over the coalition with Ozawa. Kato has publicly criticised the decision, saying: 'It is too sudden. We should have reached an agreement in the party first and progressed steadily. I am worried whether we will be able to achieve a consensus.' Both Kato and Miyazawa had publicly opposed any review of the sales tax.

Ozawa quit the LDP in 1993 along with a number of other MPs and members. The splits, which were ostensibly over the persistent corruption scandals afflicting the party, the government and the state bureaucracy, resulted in the formation of new opposition groupings, the defeat of the LDP government and the formation of the first non-LDP government in nearly four decades.

Underlying the political breakup was a protracted economic slump, sharpening trade tensions with the US and widespread alienation of broad layers of workers and sections of the middle class with parliamentary politics. Since 1993 there have been five prime ministers in as many years and a series of splits and

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regroupments in opposition parties.

As one of the key opposition figures, Ozawa has sharply criticised LDP policies and sought to construct an opposition coalition based on a more aggressive assertion of Japanese national interests. But late last year, his plans for a coalition collapsed. Ozawa formed the Liberal Party and stayed apart from moves to regroup opposition forces into the Democratic Party. His party made few gains in the upper house elections and is expected to lose seats in the next national poll. Ozawa's coalition with the LDP is a rather desperate attempt to resurrect his political fortunes.

Within the LDP, the chief cabinet secretary Hiromu Nonaka is credited with paving the way for the coalition with the Liberal Party. Last year Nonaka declared that an alliance with the 'faithless' Ozawa would be 'absolutely inconceivable'. Even after the July election losses, he emphatically ruled out any deal. But faced with continued entrenched opposition in the upper house to LDP policies, Nonaka patched together the agreement.

The arrangement is unlikely to last long. The Japanese economy is officially in recession. Major corporations such as Hitachi and Toshiba have recorded their first losses since World War II. Nissan Motor Corporation is barely able to service its $20 billion debt and has asked for $820 million in fresh credit from the state-owned Japan Development Bank. At the same time, the Clinton administration is threatening trade retaliation over the Obuchi government's failure to reduce tariffs and open up the Japanese economy. These economic pressures are certain to widen the rifts in ruling circles and lead to further instability.

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[15 September 1998]

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