

Japan's prime minister faces leadership challenge

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Japan is heading for new political turmoil after key powerbroker Ichiro Ozawa announced a challenge on Thursday to Prime Minister Naoto Kan for the top job in the ruling Democratic Party of Japan (DPJ). If he wins the post of party president in internal DPJ elections on September 14, Ozawa will become Japan's third prime minister in 12 months. Kan has been in the post for less than three months.

Both Kan and Ozawa have begun intense lobbying among Democrat parliamentarians and party officials who hold sway over the more than 345,000 party members who will be polled. Kan and Ozawa each control sizable factions—estimated at about one third of parliamentarians. Ozawa, who organised the DPJ's landslide win in lower house elections last August, reportedly has strong support among many of the party's first-time parliamentarians—dubbed “Ozawa's children”.

While Kan has the advantages of political incumbency, Ozawa has secured the backing of Yukio Hatoyama, who became prime minister last September and resigned in June. Hatoyama, a key figure in founding the DPJ in 1998, has considerable clout within the party. In announcing his candidacy, Ozawa pointedly declared: “Former prime minister Hatoyama gave his word to extend full support if I run in the party presidential election. So I made up my mind to throw my humble self into the race.”

Ozawa is making a grab for the job of prime minister despite being mired in political funding scandals that forced him to step aside as DPJ president in 2009—prior to the August election—and as the party's secretary general this June. Ozawa is a former member of the conservative Liberal Democratic Party (LDP), widely identified with the LDP's “money politics” and lacks popular support. A Nikkei online survey this week found that 71 percent of respondents hoped Ozawa would not stand in the DPJ election.

The contest between Kan and Ozawa reflects sharp

divisions within the Democrats and the political establishment as a whole, amid rising friction between the United States and China in Asia and a stagnant Japanese economy. Statistics released last week showing that China had overtaken Japan as the world's second largest economy only added to political tensions in ruling circles in Tokyo.

The DPJ is made up of disparate groupings, including breakaway LDP factions and right-wing remnants from the Japanese Socialist Party (JSP). The party won the 2009 election by capitalising on widespread hostility to the Liberal Democrats, who had held power for virtually all of the previous half century. Amid broad opposition to Japan's support for US militarism, including the Afghan war, Hatoyama pledged to adopt a more independent foreign policy oriented to Asia. The party also promised to address the country's deepening economic and social crisis.

The DPJ's failure to keep its election pledges led to plummeting public support, which came to a head earlier this year over the re-siting of a controversial US Marine Corps airbase on the island of Okinawa. During the election, Hatoyama had promised to renegotiate a previous LDP deal with the US to ensure that the base was moved off the island. The Obama administration, however, refused to budge. Despite the largest-ever protests on Okinawa, Hatoyama caved in to US pressure, sending his popularity plunging to less than 20 percent.

While Hatoyama resigned in June, Kan retained the deal with Washington to move the military base to another location on Okinawa. The Obama administration's determined stand on the Okinawa base was part of a broader US strategy to consolidate strategic ties with Japan and other regional allies as a means of undermining China's rising influence. In recent weeks, the Kan government has backed the US as it has provocatively asserted its “right” to “freedom of navigation” in the South China Sea and the Yellow Sea, despite protests from Beijing.

As in countries throughout Asia, growing US-China rivalry confronts the ruling elites in Tokyo with a deep dilemma. Throughout the Cold War, Japan relied on the US alliance, which remains central to its foreign policy. At the same time, however, the country is increasingly dependent economically on China, which is now Japan's largest export market and a major destination for Japanese investment. Tokyo's diplomatic balancing act has only become more precarious after the 2008 global financial crisis hit the Japanese economy and fuelled sharpening US-China tensions.

Ozawa, who is known for his right-wing nationalist views, bluntly declared on Wednesday that he liked Americans, "but they tend to be simple-minded"—the actual Japanese idiom he used literally means "single-celled organisms". While the comment has been widely dismissed as a diplomatic gaffe, Ozawa's remark—the day before he announced his prime ministerial bid—was far from accidental. It was aimed at sharply differentiating his stance from Kan's and casting the latter as pro-American.

Like Hatoyama, Ozawa has long advocated greater foreign policy independence and closer relations with China. Speaking to the press in February 2009 after meeting US Secretary of State Hillary Clinton, he declared: "Both sides must be on an equal footing and one should not be subordinated to the other." Last December and again in March, Ozawa opposed any move to keep the US base on Okinawa. He underlined his strong support for closer ties with Beijing by leading a large delegation of more than 600 businessmen and Democrat lawmakers to China last December.

Kan's assumption of office in June was also bound up with mounting pressure in Japan and internationally for tough austerity measures to rein in the budget deficit and the country's massive public debt—currently approaching 200 percent of Gross Domestic Product. Kan, who was the finance minister before becoming prime minister, quickly signalled his support for "fiscal discipline" by foreshadowing a doubling of the country's unpopular sales tax, cuts to corporate tax and the dumping of some of the DPJ's election promises.

While Kan's policies won cautious praise from financial commentators, the government's support began to quickly erode. In elections last month, the DPJ lost control of the upper house of parliament where it and its allies previously held a narrow majority. The vote reflected deep hostility

towards the government's plans to slash social spending and increase the tax burden on working people amid high levels of unemployment and rising poverty.

Differences within the ruling Democrats have only been intensified by the worsening outlook for the Japanese economy. Figures for the second quarter released last week showed an unexpected slump in annualised GDP growth to just 0.4 percent—down from 4.4 percent in the first quarter. The continuing global economic crisis has impacted heavily on Japanese exports.

At the same time, fears of further international financial turmoil have boosted the value of the yen against the US dollar to levels not seen for 15 years as traders seek safe haven currencies. The yen hit 83.58 to the US dollar on Tuesday—nearing the 1995 record low of 79.75—after news that Kan and Bank of Japan Governor Masaaki Shirakawa had taken no action to reverse the trend.

The rise in the yen's value will only compound the difficulties facing Japanese exporters. In 1995, faced with a collapse of exports, the Japanese government threatened to start selling US bonds forcing the Clinton administration to agree to joint measures to push up the dollar. Kan has yet to take such drastic steps, but yesterday he promised "decisive action" to address excessive currency movements.

Ozawa has been critical of Kan's economic policies, including the proposed increase in the consumption tax—not least because of their impact on the upper house elections. Ozawa would be more likely to resort to renewed stimulus measures to try to lift Japan out of its protracted economic stagnation—policies that are sharply at odds with the demands of international financial institutions for savage cutbacks to public spending.

Whatever the outcome of next month's DPJ election, the result will be deeply destabilising. Commentators in Japan are already pointing to the likelihood that Ozawa and his supporters will quit the party if he loses—a step that could bring down the DPJ government. If Ozawa wins, it is unlikely to end bitter political infighting in a party deeply divided over its basic economic and foreign policy direction.



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