Tense contest over Japan's prime ministership

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Next week's ballot for the leadership of Japan's ruling Democratic Party of Japan (DPJ) and the prime ministership has brought to the surface deep divisions not only within the party but within the political establishment as a whole. If the contender Ichiro Ozawa defeats the incumbent Naoto Kan, he will become the third Democrat prime minister since the DPJ defeated the Liberal Democratic Party (LDP) in national elections in August 2009.

According to the latest poll in the *Yomiuri Shimbun* this week, Kan and Ozawa were running "neck and neck" with the support of about 160 Democrat lawmakers each, and 90 undecided. The election is weighted so that lawmakers hold just under 70 percent of the voting power. The remaining 30 percent is held by local officials and party members among whom Kan appears to have strong support.

Ozawa's pitch to the party is based on two key issues: the US airbase on Okinawa and the thrust of the government's economic policy.

The DPJ promised during last year's election to move the highly unpopular military base off Okinawa, but relented after Washington refused to negotiate. After announcing the decision, Yukio Hatoyama stepped down as prime minister in June. The new prime minister Kan reaffirmed that the base would remain on Okinawa. Ozawa has reopened the issue, declaring that the base should be shifted from the island—a move that is certain to antagonise Washington.

The DPJ is a diverse party containing LDP breakaway factions and fragments of the former Japanese Socialist Party and other Social Democratic formations. Ozawa's opposition to the US airbase on Okinawa is aimed at enlisting support particularly from the ex-Social Democrats, who traditionally were critical of the US-Japan alliance and the stationing of US forces in Japan. More broadly there has been growing popular opposition to Japan's support for US militarism, particularly its neo-colonial occupations of Iraq and Afghanistan.

Ozawa's stance on the Okinawa base is connected to the dilemma facing the Japanese political establishment: how to balance the country's economic dependence on China, now Japan's largest export market, and its longstanding military alliance with the US under conditions of rising US-China rivalry in Asia. Ozawa has indicated that while continuing the US alliance he favours a more independent foreign policy and closer ties to China.

Behind Ozawa are sections of the corporate elite, heavily dependent on China as a cheap labour platform and export market, who have been alienated by Kan's marked pro-Washington policy. Kan sent Japanese naval officers to participate in a joint US-South Korean naval exercise in July in the Sea of Japan near the Korean peninsula, despite Chinese objections. His government then announced the first expansion of Japan's submarine fleet since 1976 in the name of countering the Chinese naval threat. This week Japanese patrol ships collided with a Chinese fishing ship in the disputed waters near Diaoyu islets in the East China Sea and provocatively arrested the Chinese captain.

Kan's decision to follow the US in imposing new sanctions on Iran over its nuclear program has provoked opposition in business circles. Iran is one of Japan's largest oil suppliers. In announcing the new measures last Friday, Tokyo warned other nations not to take advantage and move into Iran—an indirect message to China. Last year, a Chinese oil company signed a $2 billion deal to develop a major Iranian oilfield after its Japanese rival reduced its stake in the

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field due to the US pressure.

The issue of economic policy was on open display during a television debate between Kan and Ozawa last Sunday. Under pressure to reduce Japan's huge public debt—approaching 200 percent of gross domestic product, Kan is proposing to double the unpopular sales tax from the current level of 5 percent and to cut back on public spending, including child allowances promised during the election.

During the debate, Kan defended his tax hike, saying: "My comments were misunderstood, as if I had been calling for an immediate tax hike." At the same time, however, Kan insisted that it would be "very useful" to think of new tax sources, including an increased consumption tax and other taxes, as a long-term solution to the government debt crisis.

By contrast, Ozawa proposed a large stimulus package and pledged not only to keep the child allowance but also to double it to 26,000 yen ($308) per month from fiscal 2012. To reduce the debt, Ozawa insisted there was "plenty of room" for cost saving by giving local governments complete control over Tokyo's subsidies to municipalities. In fact, about 17 trillion yen ($201 billion) of the 21 trillion yen of state subsidies to local governments are used to pay for health care, nursing care, social welfares and public education. In other words, in the name of cutting "wasteful spending", Ozawa's "reform" is only viable by ultimately making deep inroads into social services.

Powerful financial institutions are behind Kan's austerity program, with the International Monetary Fund (IMF) warning last week that Tokyo was very close to its "debt limit". The IMF has called for a trebling of consumption tax to 15 percent. Investors have been nervous as major credit rating agencies are threatening to downgrade Japan's rating if Ozawa wins the election as he would likely issue more bonds to finance his stimulus spending.

Other sections of big business want a much more forceful stimulus package, as Japan's annualised economic growth rate was a mere 0.4 percent in the second quarter. Last month Kan has unveiled a small 920 billion yen stimulus package, while pushing the Bank of Japan (BOJ) to expand a cheap loan scheme. Criticising Kan's measures as insufficient, Ozawa has called for a 2 trillion yen stimulus package.

Ozawa is also calling for active currency intervention to keep the yen cheap; a move that will exacerbate trade tensions with the US and China. The value of the yen had risen 44.5 percent against the US dollar since December 2007 to close at a 15-year high, as international speculators bought yen assets as a "safe" haven. The high yen is hitting Japanese exports and export businesses hard.

The contest between Ozawa and Kan remains close. Even though former prime minister Hatoyama has backed Ozawa, 40 percent of his former coalition partners remain undecided. About 50 percent of the group that formed the Democratic Socialist Party, and nearly 30 percent of the former Socialist Party remain undecided—even though Ozawa has promised to move the US base off Okinawa.

The instability within the DPJ is a reflection of broad hostility among working people to the whole political establishment. Even though the DPJ won a landslide victory last year, its vote was largely a result of deep hostility to the LDP, which had held office for most of the previous half century. Whoever wins the vote next week will be compelled to implement unpopular policies, deepening the crisis of the next government.

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