

Koizumi-Led LDP Logs Historic General Election Win

– Hordes of Post-Postal Privatization Issues Ahead –

A historic outcome ensued after Japan's latest general election that took place in the year marking the 60th anniversary of the end of World War II. A strategic campaign of Prime Minister Koizumi Junichiro, which highlighted whether to push reforms by realizing postal privatization or backtrack on the reform drive, fully paid off and brought the ruling Liberal Democratic Party (LDP) a landslide victory. The LDP acquired 296 of the 480 House of Representatives seats at stake, securing a majority for the first time in 15 years. Along with its coalition partner, New Komeito, the ruling camp took 327 seats, more than two-thirds of the 480 seats, making it possible to enact bills even if the House of Councillors rejects them. The main opposition Democratic Party of Japan (DPJ) had tried in vain to wrest power from the LDP. Japan's politics has now entered a stage of stability led by the LDP at least for the time being.

LDP Faces Test of Achieving a "Small Government"

Backed by overwhelming public support, Koizumi will seek to carry out his long cherished privatization of Japan Post. However, this is only one of the tasks that should be addressed by the government. Japan is beleaguered with a huge public debt of around ¥770 trillion and a falling birthrate. The LDP had pledged to draw a conclusion by FY 2007 on how to carry out a fundamental reform of the nation's taxation system, including the consumption tax. In particular, the LDP will be urged to specify how to rehabilitate the nation's debt-ridden finances. Specifically, it needs to grapple with politically sensitive issues such as a review of fund allocations between the central and local governments, a reduction in the number of public-sector workers and a curb on healthcare spending. *The New York Times* construed the LDP's big win as the result of Japanese voters' support for Koizumi's idea of seeking a "small government" and a market-driven economy. The LDP, however, has long relied on industry

bodies and local organizations to maintain power. Koizumi faces the test of whether he will actually be able to achieve a small government.

Turning to diplomacy, the Koizumi administration faces a host of questions in its relations with Asian neighbors, even though Japan-US relations remain stable. Japan is still at loggerheads with North Korea over the abductions of Japanese nationals. An editorial in the South Korean daily, *The Dong-A Ilbo*, predicted that the LDP's landslide win will help Koizumi enhance his exclusively US-oriented foreign policy and conservative hard-line stance, warning that Tokyo's ties with Seoul and Beijing may be further entangled due to disputes over Koizumi's visits to Yasukuni shrine and contentious Japanese history textbooks. Although the problems of diplomatic rows and soured bilateral ties were not major campaign issues in the election, these are matters that many Japanese would like to see amicably resolved.

With numerous knotty issues lying ahead, vocal calls are growing within the LDP for Koizumi to stay in office beyond September 2006 when his term as LDP president is to expire. Koizumi himself, however, has repeatedly expressed his intention not to stay on and has vowed to devote his full energies to pushing through the reform drive during the remaining one year. The terms of the 296 LDP lawmakers who were elected in the general election will last four years as long as the House of

Representatives is not dissolved. If Koizumi steps down upon the expiration of his term, Japanese politics will be entrusted to his yet-to-be-determined successor who is destined to steer Japan's domestic and foreign policies for three years against the background of the ruling parties' overwhelming majority in the House of Representatives.

Photo: Kyodo News



Prime Minister Koizumi Junichiro after the general election

TO READERS

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COMING UP

"M&As and Japanese corporations" will be the theme of the next issue of Japan Spotlight. Japanese companies in the era of globalization are becoming much more willing to accept foreign capital. Our writers will analyze the latest developments in Japanese corporate governance and the related legal revisions as well as M&A case studies involving foreign companies.