Message from the Director

I start this month's message with a very sad note. Mrs. Betty Ogawa, who had been a great supporter of our program, suddenly passed away on May 15. Betty and her husband Hiro have been contributing for the improvement of the U.S.-Japan relations through numerous organizations and initiatives. They have also been supportive of our Japan Program and participated in many events that we organized. During the dialogue on energy issues that we organized in February, Betty and Hiro kindly opened up their beautiful house for the welcome reception for participants. We are all shocked and saddened by her departure, but I have to be glad that I had a chance to get to know Betty, who volunteered so much for the worthy cause of bringing Japan and the U.S. together. I hope our program can make a contribution to carry on Betty's legacy.

Turning over to a more usual topic, the Japanese economy has done very well during the first quarter of 2014. According to the GDP estimates that have just been published, the Japanese economy grew by 1.5% in real term over the fourth quarter of 2013 (after seasonal adjustments). If we extrapolate this to an annual rate, this implies the annual real growth of 5.9%. The household consumption (2.1% growth), the private residential investment (3.1%), and the private non-residential investment (4.9%) all contributed to the phenomenal growth. High growth during the first quarter is not surprising: expenditures increased just before the increase of the consumption tax rate from 5% to 8% on April 1. More people decided to buy cars before April 1, and more people decided to finish building their houses before April 1.

The second quarter growth will certainly be lower and probably negative as consumers have shifted the consumption to the first quarter. The sales numbers in April, however, suggest the downturn may not be as large as some feared. According to the Japan Department Stores...
Current Situation of the Abe Administration and Liberal Democratic Party of Japan

On May 13, Hiroshi Hoshi (columnist and senior political writer for Asahi Shimbun) talked about the current status of the Abe Administration on the domestic side as well as developments in foreign policy and national security. On the domestic side, Hoshi evaluated Abe’s “Three Arrows” of economic policy, the consumption tax hike, and Japan’s political system. For foreign policy and national security, he discussed topics such as the constitutional amendment, Abe’s visit to Yasukuni Shrine, and Japan-China and Japan-Korea relations.

According to Hoshi, 3rd arrow has not been so successful due to a large perception gap between the Abe Administration and the stock market. While Abe calls for a growth strategy, stock market expects that 3rd arrow should be the structural reform and regulation policy.

Hoshi highlighted some significant events for Japan that are scheduled to occur in the near future, including Beijing APEC this November, Abe’s sales tax increase, the LDP presidential race in 2015, and the end of the upper and lower house terms in 2016.

Hoshi pointed out that Japan is at a major turning point. He posed two important questions: can Abe execute structural reform? and will Japanese political systems return to LDP-dominant systems or a two-party system with the LDP and the DPJ? Hoshi hopes that the LDP and the DJP will compete against each other in the next election.
The ICT-Enabled Services Transformation: Towards a New Production Paradigm, with Implications for China, Japan, and South Korea

On May 6, Kenji Kushida (Takahashi Research Associate in Japanese Studies) introduced a broad but detailed view of how Information and Communications Technology (ICT) tools is transforming economic activities and business models around the world, with particular attention to implications for Asia. The talk was based on a book chapter already published, and a book project underway. The main points were that a fundamental transformation of services is underway, driven by developments in information and communications technology (ICT) tools, the uses to which they are being put, and the networks on which they run. Services, once considered a productivity sinkhole, are now widely recognized as a source of productivity growth and economic dynamism that is changing the structure of employment, the division of labor, and the character of work and its location. Yet, the actual character of this transformation is often obscured by the increase in jobs labeled as services and by a focus on the digital technologies.

The core story of Kushida and his collaborators’ conception of the services transformation is not about the growth in quantity or value of the activities labeled services, the conventional emphasis. Rather, it is about how the application of rule-based information technology tools to service activities transforms the services component of the economy, altering how activities are conducted and value is created. Kushida pointed to significant implications for how firms compete, business organization, production, and worker skills. Capturing the possibilities from the services transformation presents new policy challenges for governments and regions.

The core challenge for firms and nations is that commoditization is accelerating. As firms moved to escape commoditization, they often shifted towards services. However, services activities themselves are increasingly commoditized as the algorithmic revolution allows an ever greater range of activities to be automated. Therein lies the dilemma of what to keep in house, what to outsource, what to automate, and how to find sustained a competitive edge.

The chapter in which this argument was written can be found in Breznitz and Zysman ed., “The Third Globalization” (Oxford University Press, 2013).

Japan Program Members in News

Ambassador Michael Armacost, a distinguished fellow at Shorenstein APARC, evaluated the goals of President Barack Obama’s recent trip to four Asian nations, saying it aimed to deliver a message of reassurance to East Asia that the U.S. rebalance is intact. Armacost highlighted the efforts to negotiate a 12-nation trade pact, the Trans-Pacific Partnership (TPP) as the centerpiece of the Obama trip to Asia. He was interviewed by Weekly Toyo Keizai, a Japanese political economy magazine.

An English version of the Q&A is available on http://www.dispatchjapan.com/blog/2014/04/armacost-president-obama-has-to-make-the-tough-political-decisions-for-tpp-.html.
Shorenstein APARC’s Takeo Hoshi assesses the initial ‘arrow’ of Japan’s economic strategy implemented by Prime Minister Shinzo Abe in recent Marketplace article. “The new approach was also reflected in the exchange rate,” says Hoshi. Other experts and Hoshi’s co-authors Ulrike Schaede (University of California, San Diego) and Anil Kashyup were also quoted.

The article is available online at http://www.marketplace.org/topics/world/abenomics-working-depends-who-you-ask.

Masahiko Aoki’s latest publication, Introduction to Economics by Masahiko Aoki (Aoki Masahiko no Keizaigaku Nyumon) was recently reviewed by Japanese economists, which were covered by Nihon Keizai Shimbun (April 30, p. 13) and Yomiuri Shimbun (May 4, p. 12.)

Nikkei: http://www.nikkei.com/article/DGKDZO70516260Y4A420C1NNK000/

Kenji Kushida was selected as one of the inaugural David Rockefeller Fellows of the Trilateral Commission, attending the plenary meeting in Washington D.C. on April 25-27. The Trilateral Commission, created in 1973, is a non-governmental, policy-oriented discussion group of about 390 distinguished citizens from Europe, North America, and Pacific Asia formed to encourage understanding and closer cooperation among these three regions on shared global problems.
The opening session of the Yomiuri International Forum, “The 2020 Tokyo Olympics and Japan’s Future” was held on April 19 in Marunouchi, Tokyo. Shorenstein APARC’s Masahiko Aoki participated in a panel discussion along with Yoichi Masuzoe (Governor of Tokyo), Seiko Hashimoto (President, Tokyo Olympics Organizing Committee and Upper House Member), Jonathan Stephens (Former Permanent Secretary of the Department of Culture, Media and Sport in UK), and Seiichi Kondo (Commissioner, Agency for Cultural Affairs). Aoki considered the challenges that Japan faces as it prepares for the 2020 Tokyo Olympics, and the prospects of the Games being used as an impetus for broader, national change.

According to Aoki, Japan is in the middle of “the three decades of transition.” Since the collapse of the bubble economy and the end of LDP’s single party dominance in the early 90s, Japan has been going through a series of substantial reforms. Considering these reforms to take three decades to complete, we will be in the last and the critical stage around the time of the 2020 Tokyo Olympics.

“The Great East Japan Earthquake and Great Hanshin Earthquake made clear the importance of countermeasures. It is the host city’s responsibility to ensure safety through ‘flawless disaster preparations’.”

- Masahiko Aoki

The article is available online at Yomiuri Research Institute for Japanese and The Japan News for English.

Recent & Upcoming Events

- **June 3, 2014** - U.S-China Relations and the ‘Re-balance’ to Asia
  - Shorenstein APARC Special Event -
  - **Bechtel Conference Center, Stanford University**
  Speaker: Kenneth Lieberthal - Senior Fellow, Brookings
  Panelists: Michael Armacost - Distinguished Fellow, Shorenstein APARC
  Jean Oi - William Haas Professor, Political Science Dept. and Senior Fellow, FSI
  Karl Eikenberry - Distinguished Fellow, Shorenstein APARC
  Cui Liru - Senior Advisor, China Institutes of Contemporary International Relations
  Tom Fingar - Oksenberg-Rohlen Distinguished Fellow, FSI

  RSVP Required
  [http://aparc.stanford.edu/events/uschina_relations_and_the_rebalance_to_asia/](http://aparc.stanford.edu/events/uschina_relations_and_the_rebalance_to_asia/)

- **July 28 - 2014** Governors’ Meeting in Silicon Valley
  - Stanford University - U.S.-Japan Council Conference -
  - **McCaw Hall, Stanford University**