
JAPAN IN 2000

The Year that Could Have Been but Was Not

Edward J. Lincoln

At the end of 1999, Crown Princess Masako suffered a miscarriage, dashing hopes for an heir to the throne in 2000 and halting several weeks of optimistic media frenzy. This sad personal tragedy and national disappointment provides a metaphor for Japan in the year 2000: this was the year that could have been but was not. Japan could have moved forward toward ending the political uncertainty and weakness that had characterized the previous decade, but the voters mumbled in a major election in July and the maneuvering among politicians during the rest of the year was inconclusive. The economy could have broken out of the pattern of stagnation and recession that has prevailed since 1992 but did not. On the international stage, Japan could have shown leadership but did not. Politics and economics were almost as muddled at the end of the year as at the beginning.

These developments should be kept in perspective. While disappointing relative to what Japanese society might have accomplished economically and politically, the economy was not facing imminent collapse nor was politics so dysfunctional as to prevent passage of the budget or other key legislation. As one of the most affluent nations in the world, economic hardship stemming from another year of near stagnation was minimal. The year is best described as a disappointing one in which people harbored vague anxieties about what might happen in the future, but few experienced actual losses due to either economic stagnation or political stalemate.

Edward J. Lincoln is Senior Fellow in Foreign Policy Studies, The Brookings Institution, Washington, D.C.

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Politics

Since the summer of 1993, Japan has been governed by coalitions. After a brief exile, those coalitions have been led by the Liberal Democratic Party (LDP) since the summer of 1994. New political parties have come and gone or recombined. Coalitions among parties have formed and dissolved. But Japan has not yet moved to any stable configuration in which either the LDP or an alternative party has been able to establish a clear majority on its own. Hopes that this situation might change in 2000 came to naught.

Obuchi Keizo had become prime minister in the summer of 1998 when Prime Minister Hashimoto Ryutaro stepped down in the wake of a major loss of seats by the LDP in an election for the upper house of the Diet. Initially thought to be an ineffective and colorless politician, Obuchi accomplished the main political task of holding the LDP together while passing needed legislation to shore up the financial system and stimulate the economy.

Nevertheless, coming into 2000, Obuchi's administration was troubled. First, the LDP pushed a controversial bill to reduce the number of seats in the lower house of the Diet. Electoral reform in 1994 changed the lower house election from one of multiseat districts to one of 300 single-seat constituencies and 200 proportional seats for broad regional districts awarded on the basis of votes for parties. This had been a compromise back in 1994, since a number of the smaller political parties stood little chance of electing anyone in single-seat constituencies. The LDP-backed legislation in 2000 reduced the number of proportional seats by 20, thereby damaging the prospects for smaller parties, and it was passed while the opposition parties were boycotting the Diet (an oft-used political tactic, though one that backfired on the opposition this time). While this episode was a legislative victory for the LDP, the tactics hurt Obuchi's reputation.

Shortly afterward, Tokyo's governor Ishihara Shintaro embarrassed the LDP (the party from which he had bolted) by imposing a local tax on major banks. Next, an aide to Obuchi was revealed to have profited heavily from illegally obtained shares of NTT DoCoMo (the cellular phone subsidiary of the government-owned telecommunications company, some of whose shares were listed in 1998). Then, Ochi Michio, an LDP Diet member who had been appointed head of the Financial Reconstruction Commission (in charge of cleaning up insolvent banks), was driven from his post for having told smaller financial institutions that the government would take a lenient attitude in conducting banking inspections.

Meanwhile, Prime Minister Obuchi faced further tension from the LDP's coalition partners. A small but important partner at the beginning of 2000 was the Liberal Party (LP), headed by former LDP member Ozawa Ichiro. In late March, Ozawa began demanding that the LDP and LP merge or cooperate closely in the upcoming election (by not running competing candidates in

the single constituencies). Such a move would have brought Ozawa back into the fold of the majority party (with potentially another shot at the prime ministership, or at least a powerful behind-the-scenes role within the party). Ozawa had long been a controversial figure; his decision to leave the LDP in 1993 precipitated a brief period when the LDP was actually out of the government (during the coalition governments of Hosokawa and Hata in 1993–94). His proposals to coordinate the election strategies of the two parties came with various demands he made as a condition for the merger. When Obuchi refused to accept Ozawa's demands, the LP pulled out of the coalition—weakening the latter's ability to govern.

On April 2, Prime Minister Obuchi suffered a massive stroke, perhaps caused in part by the high stress involved in struggling with Ozawa in the preceding days. This sad event immediately sparked further political confusion. First, the media were lied to concerning the prime minister's condition for a whole day. Then an acting prime minister (Aoki Mikio, an LDP Diet member holding the post of chief cabinet secretary) was chosen in a somewhat irregular process (in which Obuchi, who was actually in a coma, was alleged to have named a successor). None of this created much confidence in the openness or competency of the LDP.¹

Prime Minister Obuchi never came out of his coma, and passed away more than a month later on May 14. After three days of interim Prime Minister Aoki, Mori Yoshiro was selected as the new leader of the LDP (in another opaque, closed-door process) and took over as prime minister upon a formal vote by the Diet. Almost immediately, Prime Minister Mori got himself into trouble by saying in public that Japan was a "divine nation," using a politically loaded phrase from the 1930s that implied a national polity centered on a divine Emperor. Mori apologized for causing "misunderstanding," but did not actually retract his remark.² This incident turned out to be just the beginning of a series of misstatements, undiplomatic phrases, and imprudent revelations that made Mori an object of ridicule in the press and embarrassment to his party. The Japanese political system has often selected relatively colorless or weak individuals to serve as prime minister, but even by Japanese standards Mori was a weak and embarrassing choice for the job.

Facing Prime Minister Mori was an upcoming election for the lower house of the Diet. The Constitution stipulates that these elections must occur at least every four years (though, being a parliamentary system, they can occur

1. Doug Struck, "Japanese Leader Sidelined by Stroke; Top Official Named as Interim Premier," *Washington Post*, April 3, 2000.

2. Doug Struck, "Japanese Leader Trips over His Tongue; Mori Expresses Regret for Comment Suggesting Sovereignty of the Emperor," *ibid.*, May 17, 2000; and "Mori Apologizes for Remark," *Japan Times Online (JTO)*, May 18, 2000, on the World Wide Web at <<http://japan-times.co.jp/cgi-bin/getarticle.pl15?nn20000518a1.htm>>.

earlier, called by the prime minister or forced by a no-confidence vote). That limit for the election was to come due in October 2000, implying that whoever succeeded Obuchi must almost immediately guide the party through the election, one in which the LDP feared it would lose seats.

Mori called the election for June 24, with his political backers in the LDP perhaps fearing that further misstatements or scandals would result in even larger losses if the election were held later. Given the low public opinion of Mori—only a 16.7% approval rating in one poll in early June—the public had an opportunity to “throw the bums out” in this election.³ In the end, the people mumbled. Keeping in mind that the total number of seats had dropped from 500 to 480 because of the new election law, the LDP lost 38 seats, dropping from 271 to 233—less than an absolute majority. The LDP’s coalition partners also lost seats. The New Komeito dropped by 11, from 42 to 31, while the Conservative Party also lost 11, falling from 20 to 7. Meanwhile, the principal opposition party, the Democratic Party of Japan (DPJ) gained 32 seats, from 95 to 127 (and the other opposition parties, except the communists, showed small gains). However, despite the LDP’s loss of a majority on its own, the coalition as whole still held a comfortable majority of 271.⁴

How should this election be interpreted? Those looking for political change away from the LDP could point to the party’s loss of seats and interpret the coalition’s collective loss as movement toward eventual defeat of the LDP. On the other side, the DPJ gained enough seats to be firmly in place as the principal opposition party. However, the fact that the coalition maintained a majority meant that no real political change was in the offing until the next lower house election, which could be as much as four years later. The fact that the election was inconclusive implied that fluid politics in which coalition partners would come and go (like Ozawa and his LP) or groups might bolt from one party to another or form new parties, would continue. Anyone hoping that the election would help clarify political direction and leadership had to be disappointed.

Indicating the extent to which the election settled nothing, Prime Minister Mori was not even forced out of office to take responsibility for the LDP’s loss of seats (a common phenomenon in the past). With an election for the less powerful upper house scheduled for the summer of 2001—in which the LDP would probably also lose seats—leading LDP politicians initially appeared content to leave Mori in place until that time. This waiting strategy began to unwind in the fall. Mori continued to demonstrate ineptness in his

3. Minoru Tada, “Mori Lands in Hot Water Again,” *ibid.*, June 9, 2000, on the World Wide Web at <<http://www.japantimes.co.jp/cgi-bin/getarticle.p15?eo20000609mt.htm>> .

4. “Coalition Wins a Stable Majority,” *ibid.*, June 25, 2000, at <<http://www.japantimes.co.jp/election.htm>>

public statements, causing criticism from opposition parties and undermining public opinion. In October, he told British Prime Minister Tony Blair that he had a plan to improve relations with North Korea through settling a festering issue over alleged kidnapping of Japanese nationals by proposing that they mysteriously turn up in a third country. Meanwhile, Chief Cabinet Secretary Hidenao Nakagawa had to resign his cabinet post after admitting that he tipped off his mistress that she was about to be investigated by the police for drug use. Mori himself was accused of having been arrested in a raid at an illegal brothel 30 years earlier when he was a student. His denials were upheld only by the refusal of the police to release their arrest records.⁵ Such developments coupled with the daily embarrassments of Mori's behavior led to reconsideration within the LDP of the decision to let him remain until the 2001 election.

Opposition parties were also angered by Mori and the LDP when the party returned to strong-arm tactics in the Diet, passing an election reform law for upper house elections while the opposition was once again boycotting Diet deliberations. The new law reduced the number of seats by 10 and enabled voters to pick either a party or an individual in the party's list of candidates for the proportional representation vote system used for upper house elections. The change was perceived as benefiting the LDP—which has a stronger ability to recruit popular entertainment and sports figures to run for the upper house. Thus, a voter not entirely happy with the LDP might still vote for a favorite media or sports star, thereby helping the LDP.

The revolt within the party was led by Kato Koichi, a senior LDP Diet member who had been a rising star in the party for 20 years. In late October, Kato pressed for radical policy changes in order to stave off defeat in the 2001 election. He even toyed with the idea of leaving the party with his faction and either forming a new party or joining forces with the DPJ. Matters came to a head in mid-November, when a no-confidence motion was submitted by the opposition parties in the Diet. If Kato and his faction members supported this motion it would have carried, but Kato finally backed down and the motion failed. Not enough members of Kato's faction had been willing to support the no-confidence motion or follow him out of the party had he subsequently left. So Mori remained as prime minister, but with continued low approval ratings in public opinion polls and dissatisfaction within the party.

5. "Mori Criticized over Kidnap-Resolution Plan Blunder," *ibid.*, October 22, 2000, at <<http://www.japantimes.co.jp/cgi-bin/getarticle.p15?nn20001022a8htm>>; Keizo Nabeshima, "Mori Administration Reeling," *ibid.*, November 5, 2000, at <<http://www.japantimes.co.jp/cgi-bin/getarticle.p15?eo20001105kn.htm>>; and Toshi Maeda, "With Shield Gone, Mori May Be Next," *ibid.*, October 28, 2000, at <<http://www.japantimes.co.jp/cgi-bin/getarticle.p15?nn20001028a2.htm>>.

The political year ground to a close about where it began. Hopes at the beginning that Obuchi might have been enough of a political leader to have held the party together through the 2000 election were squashed by the bitter struggle with the LP, Obuchi's untimely death, and the bumbling leadership of Prime Minister Mori. By the end of the year, the LDP-led coalition was fearful of losses in the summer 2001 upper house election and was bickering again over how to rescue the situation. The prime minister was under attack within his party and earned little but contempt from the public. It was politics as usual.

Economics

Average annual real (inflation-adjusted) growth in the gross domestic product (GDP) from 1992 through 1999 had been just 1%, and late in the decade the economy experienced real recession. Five consecutive negative quarters from the second quarter of 1997 and two more in the second half of 1999 ended the decade on a sour note. But in 1998, the government had passed new legislation to deal with the huge nonperforming loan problems in the banking sector and provided additional fiscal stimulus to the economy. At the beginning of the year, the government and some private-sector analysts hoped that the long period of stagnation and recession would finally come to an end.

The first three quarters of 2000 showed positive growth. Indeed, the first quarter showed 10% growth on an annualized basis—a number that was so high as to spark concerns over the accuracy of the estimate (even though it withstood subsequent revisions). The second and third quarters, however, were quite sluggish in comparison, with 0.9% annualized growth in the second quarter and 1.0% in the third quarter. In December the Economic Planning Agency even announced that it anticipated that revisions of the third quarter data would yield an outright contraction of the economy. On the strength of the first quarter surge, it appeared that the year as a whole was virtually guaranteed to show positive growth, but this disappointing quarterly pattern implied that economic recovery was disappointingly weak or running out of steam before it got started.

Microeconomic data also suggested that either no recovery was occurring or that it was uncertain and weak. Unemployment subsided from its 1999 high of 4.9% to a range of 4.6%–4.7%, and industrial production began rising (particularly machine tools, regarded as a harbinger of rising plant and equipment investment). On the other hand, retail sales continued to fall, new automobile sales fluctuated with no clear recovery, and housing investment continued to drop. The mixed nature of the microeconomic data left ample room for government and private sector analysts to disagree about whether a real economic recovery was underway.

This disagreement surfaced between the Ministry of Finance (MOF) and the Bank of Japan (BOJ) in a debate over monetary policy. Arguing that a recovery was underway, the BOJ wanted to raise interest rates. The discount rate had been at 0.5% since 1995, but in 1998 the BOJ pushed short-term interest rates even lower by guiding the call rate (the interest rate in the short-term inter-bank lending market) to zero. The BOJ was eager to end this low interest-rate regime on the grounds that it delayed necessary restructuring in the corporate sector (by artificially reducing the interest costs paid by corporate borrowers) and unduly disadvantaged household savers (and particularly elderly households living on their interest earnings). The MOF, most academic economists, and many politicians, argued that the signs of recovery were still insufficient to warrant an increase in interest rates.

The debate was equally motivated by bureaucratic politics. A change in the Bank of Japan Law in 1998 made the bank more formally independent of the MOF, and the bank's president, Hayami Masaru, was eager to prove that independence. In August, the BOJ's policy board voted to raise rates, but did so with only the minimal step of raising the call rate from 0%–0.25%, a move that left most other interest rates unaffected. Thereafter, the Bank refrained from further action. This tentative and modest action reinforced the conclusion that the primary motive for this policy change was political rather than economic. The BOJ formally proved its independence by defying MOF opposition to an interest rate hike. But BOJ officials knew that the evidence of economic recovery was thin, and therefore minimized their policy shift.

Economic recovery was becoming a more urgent topic by 2000. Over the course of the 1990s, the government had pursued fiscal stimulus as a necessary policy approach to restoring economic growth. By the end of the decade, the annual government deficit had risen to 7% of GDP as a result of extensive stimulus efforts in 1998 and 1999.⁶ Nevertheless, the consequence of sustained government deficits is a rise in outstanding government debt. By the end of 2000, Japanese government debt was expected to reach 125% of GDP, by far the highest among developed nations. While this number looks large, it was not a problem for the government since it could issue bonds at a record low 1.8% interest rate due to the continued easy monetary policy. However, economists argue that some limit exists beyond which markets will balk at buying additional government bonds, thereby driving up interest rates. When Japan would reach such a limit was entirely unclear, but the trend of rapidly rising debt through 2000 was not encouraging. Cognizant of such

6. Organization for Economic Cooperation and Development (OECD), *OECD Economic Outlook*, no. 67 (June 2000), p. 272.

coming problems, Moody's shocked the government by downgrading its Japanese government bond rating slightly in September.⁷

In Japan's case, reversal of large annual government deficits and the associated accumulation of debt depended on evidence that the economy was experiencing a sustainable private-sector led recovery. By raising taxes and cutting expenditures prematurely in 1997, the government had turned what initially looked like a recovery into an outright recession. By 2000 the deficit and debt were larger, but evidence of economic recovery was far too insubstantial to justify any move to cut the deficit through tax increases or spending cuts.

As competing concerns over the implications of continued debt buildup versus the need for stimulus until the economy showed sustained private-sector-led recovery, the actual stance of fiscal policy remained expansive. Japan's fiscal year begins April 1, and the initial budget for the year maintained the fiscal stance of the previous year (with an anticipated slight increase in the deficit over the initial budget for fiscal 1999). Faced with uncertain evidence of economic recovery in the fall, the government submitted a supplementary budget to the Diet that continued this policy stance. The combined budget measures for the year were expected to yield a deficit to be financed by government bonds of ¥ 34 trillion, or about 7% of GDP—roughly the same as in fiscal 1999. Besides the straight economic rationale for maintaining fiscal stimulus, the LDP was obviously eager to continue the high level of public works spending that has been a large portion of the increase in government expenditures, especially in advance of the 2001 election for the upper house of the Diet.

Continued fiscal deficits certainly provided stimulus to the economy, but many wondered why such large deficits over a period of several years had failed to do more to push the economy back to sustained private-sector-led growth. One possible answer lay in the incomplete cleanup of bad loans in the banking sector (and similar problems in the life insurance industry) and the slow pace of deregulation. That is, in order for the private sector to recover, banks needed to clean up their balance sheets before expanding lending again and businesses needed to see expanded opportunities from deregulation. Progress on both fronts remained slow in 2000.

Banks continued to write off loans and some reorganization of the banking sector occurred. But later in the year, the International Monetary Fund (IMF) indicated continued concerns about the slowness of this process, especially given the continuing emergence of additional nonperforming loans. And the major mergers announced during the year involved the combination of large commercial banks to become even larger commercial banks. A merger

7. "Moody's Downgrades Japan Bond Ratings," *Wall Street Journal*, September 8, 2000.

among Fuji Bank, the Industrial Bank of Japan, and Dai-Ichi Kangyo announced in the middle of the year creates the largest bank in the world if measured by total assets. However, plans for achieving efficiency gains were very much unclear and analysts were somewhat skeptical. Furthermore, problems in the life insurance sector finally began to surface and several sizable life insurance companies failed during the year.

These developments were not encouraging considering that the collapse in asset prices triggering the problems in the financial sector had begun in 1990 and was in full swing by 1993 (when the stock market bottomed out and the real estate slide was well underway). Seven years later, banks had written off massive amounts of nonperforming loans (roughly \$500 billion over the course of the decade according to the IMF).⁸ At best, the year 2000 did not represent the end of the problem, and at worst Japan faced the possibility of renewed crisis in coming years.

Meanwhile, deregulation and encouragement of private-sector activity in new industries continued but without clear results. The main new development in 2000 was the opening of two new stock exchanges aimed, like the American NASDAQ, at attracting initial stock offerings by young, small firms. The Tokyo Stock Exchange opened its own specialty market called MOTHERS in December 1999, and Son Masayoshi, founder of the high-tech firm Softbank, started a joint venture with NASDAQ called JASDAQ that opened in 2000. These new exchanges were presumed to offer an expanded opportunity for entrepreneurs, especially those in high-tech or information technology industries. However, initial experience with these two exchanges in 2000 proved disappointing. Initial public offers of shares were fewer in number than anticipated by either exchange, most issues were trading well below their initial prices, and daily trading volumes were small. Existence of equity markets for young start-up companies might eventually make a difference in energizing the information technology sector and other high-tech industries, but that difference certainly did not appear in 2000.

Broader economic deregulation also was also disappointing in 2000. Since the process began in 1994, some real progress had occurred. By 2000, for example, domestic airline fares were decontrolled and some new competition was allowed in the electric power industry. However, the LDP-led coalition showed little interest in pursuing further deregulation, and slowed deregulation initiatives in some areas. U.S. government negotiations helped some, especially through some reduction in the inter-connection fees charged by the government-owned telephone company for its competitors to connect to its system, but even American pressure had only a modest impact.

8. Morsink, Ramaswamy, Mhleisen, and Nagaoka, "Japan: Economic and Policy Developments," *IMF Staff Country Report*, no. 00/143, October 13, 2000, pp. 73–75.

All these developments added up to a discouraging picture for the economy. Economic recovery from a recession usually involves relatively high economic growth for a period of one or two years because slack exists that permits companies to increase production quickly. A normal cyclical recovery from the recession that prevailed for most of 1997–99 would have brought substantial growth in 2000, but this did not happen. Even optimistic government officials spoke in terms of a weak or mild recovery on the order of 2% for the fiscal year. This weakness left the government with little option but to continue fiscal stimulus and low interest rates.

Foreign Affairs

Japan has not generally had an activist foreign policy. The year 2000 was no exception, although trade policy did show an interesting independent shift toward Asian regionalism. The big foreign policy event for the nation was the annual G8 summit meeting that the Japanese government hosted, an event that provided an opportunity to demonstrate some leadership on global affairs. Hosting the summit was not exactly a failure for the Japanese government, but little came out of the meetings, sustaining the image of a cautious, timid foreign policy.

First, back in 1999, Prime Minister Obuchi had chosen Okinawa as the site for the meeting, using the choice in an attempt to force resolution of issues concerning relocation of the U.S. military base at Futenma. Presumably the highly public occasion of the summit meeting would put pressure on all parties—the Okinawa prefectural, the Japanese central, and the U.S. governments—to reach a mutually acceptable compromise prior to the meeting. The death of Obuchi undermined this agenda: the base issues were not resolved prior to the summit meeting and at least modest demonstrations occurred outside the bases at the time of the meeting. The atmosphere was further damaged by arrest of an American soldier just prior to the summit on allegations of molesting a minor.

In addition, the presence of President Clinton was in doubt until the last minute because of the ongoing tense (and ultimately failed) Middle East peace negotiations back in the U.S. Clinton broke away from those negotiations to attend the G8 summit, but his presence in Japan was shortened, eliminating bilateral meetings in Tokyo with the Japanese government in advance of the Okinawa meeting. While he did stay for the full meeting on Okinawa, the shortened trip once again left the Japanese feeling that they ranked low in American foreign policy priorities.

Perhaps the most telling comment on the summit meeting is that the item the foreign media highlighted was the extravagant expenditures by the Japanese government associated with the meeting. The government spent almost \$800 million to host the meeting, or more than 100 times as much as the

German government had spent in the previous year.⁹ That was an accomplishment of dubious value and only reinforced the sense that image was more important than substance.

As the G8 summit was occurring, however, events were moving forward that would present the Japanese government with a policy dilemma before the year was out. After decades of stalemate, and a crisis in 1994 over nuclear weapons development, relations between North Korea and the outside world showed signs of thawing in 2000. The swift and dramatic pace of developments between North Korea and the U.S. in the second half of the year presented the cautious Japanese government with a problem.

The Japanese had restarted negotiations with the North Korean government in 2000, but those talks were generally unproductive. At issue were three problems. First, was the nature of a Japanese apology for the excesses of Japanese colonial rule from 1920 to 1945 and the size of Japanese foreign aid (and what to call it, since the Japanese would not consider the term “reparations”). Second was the issue of repatriation of Japanese Red Army terrorists who fled to North Korea in 1972. Third was Japanese allegations of abduction of as many as 10 Japanese citizens by the North Korean government over the years.¹⁰ Because little progress occurred on these issues by late in the year, the Japanese government was greatly concerned that the U.S. would move too fast. A quick U.S. deal could have left the Japanese government feeling that a rift had developed between American and Japanese approaches to North Korea. Further, conclusion of a U.S. deal would put the Japanese government under stronger pressure to compromise quickly and probably on less favorable terms than it wanted. Once again, a cautious, slow-moving Japanese foreign policy was overtaken by American policy initiatives.

The G8 summit meeting and the developments with North Korea demonstrated a continuation of long-standing patterns in foreign policy in which Japan plays a timid role in the shadow of the U.S. The one piece of more independent initiative during the year came on foreign economic policy, where Japanese actions indicated a tilt toward Asian regionalism. With no start to a new round of global trade negotiations in the World Trade Organization in 1999, and no signs of APEC making much progress, the Japanese government moved on its own to strengthen economic relations with some of its neighbors. One initiative was to pursue bilateral free trade areas (FTAs) with Singapore and South Korea. During 2000, a bilateral study group with Singapore worked on the outlines of a possible FTA, with actual negotiations

9. Gillian Tett and David Buchan, “Japanese Splash out L500m on Hosting G8 Summit,” *Financial Times*, July 19, 2000.

10. Joji Sakurai, “Japan, North Korea Debate Old Grievances at Tokyo Meeting,” *Washington Post*, August 23, 2000.

scheduled to begin in 2001. With South Korea, negotiations were farther away from starting, but on both sides the concept of doing so was aired in public. The second initiative was to work with the new "ASEAN+3" framework composed of the members states of the Association for Southeast Asian Nations (ASEAN) plus China, South Korea, and Japan. The initial Japanese initiative within this framework was an expanded currency swap arrangement among central banks (as a means of assisting central banks in protecting their currencies). The swap was largely innocuous, raising no objections from the IMF or U.S. government, but it demonstrated a sense of solidarity between Japan and its Asian neighbors that felt they had been mistreated by global financial markets and the free-market policies of the IMF during the 1997 Asian financial crisis.

The ASEAN+3 process was so new that whether it would become a vehicle for Japanese regional leadership was unclear. However, the fledgling signs of a tilt toward Asian regionalism in economic policy certainly represented a clear departure from the past and represented more of an independent Japanese government policy initiative than has generally been the case in Japanese foreign policy.

Conclusion

Princess Masako may still produce an heir to the throne despite the disappointment of her miscarriage. Similarly, the unfulfilled hopes for resolution of political uncertainty and economic stagnation in 2000 do not rule out better outcomes in coming years. But 2000 was a year that could have represented progress in clarifying political power and could have represented the start of strong economic recovery. That neither occurred is disappointing, if not surprising. An atmosphere of vague anxiety about the future characterized the public, but relatively few actually suffered from economic restructuring and those anxieties had failed to galvanize politics sufficiently to produce stronger policy outcomes.