

## Stanford Japan Program at Shorenstein APARC

The Stanford Japan Program was formally established in November 2011, renewing the Walter H. Shorenstein Asia-Pacific Research Center's commitment to this important field. As an integral component of the Center, SJP facilitates multidisciplinary, social science-oriented research on contemporary Japan, emphasizing both academic scholarship and policy-relevant research. The program aims to become a central platform for Stanford students and the broader community for understanding and engaging with Japan.

## Research and Program Activities

Program activities include the Japan Colloquium Series, conferences to further cutting-edge research and address critical contemporary policy issues, and public seminars. The goal of Japan Program is to become an eminent platform to foster intellectual exchange among scholars, experts, top-tier professionals, politicians, and students.

## 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 been also 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

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## Stanford Japan Program

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Association ([http://www.depart.or.jp/common\\_press\\_release/list/0](http://www.depart.or.jp/common_press_release/list/0)), while the sales in March showed 25.6% increase over March last year, the sales in April was down only 12% over April last year. The Japanese economy seems to be doing fine so far and the negative impact of the consumption tax hike seems to be minimal so far.

This does not mean that the Abe administration can be complacent. There are still many economic policy issues that need to be addressed. By next month, the government is supposed to come up with a revised and updated version of the growth strategy. Fiscal situation has not yet achieved the long-term stability even after the consumption tax hike. It is important for the administration to come up with a credible plan for fiscal reconstruction. But, this month, the government has been totally occupied by the debates on the right of collective self-defense. I do not deny the importance of strategies for national defense. But, I do not understand the timing. I am not convinced that the issues

that the government is trying to solve by changing its traditional interpretation of the Constitution to make it possible for Japan to exercise the right of collection self-defense are urgent matters. Revising the growth strategy and formalizing a credible plan for fiscal reconstruction are much more urgent matters.

As this newsletter reports, we have had two Japan seminars in May. Our own Kenji Kushida discussed how new information and communication technology has been changing the service industries and what it means to large Asian economies including Japan in his seminar on May 6 (see page 3 for more details). On May 13, we had Hiroshi Hoshi at Asahi Shimbun, who delivered a talk on the challenges that the Abe administration will face in the near future (see page 2 for more details). As the end of academic year approaches, public events at our program will slow down, but we plan to continue updating you with our program activities throughout the summer.

- Takeo Hoshi

## 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 DPJ 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 Schaefer (University of California, San Diego) and Anil Kashyap were also quoted.

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



Photo credit: Flickr/President of the European Council



**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.)

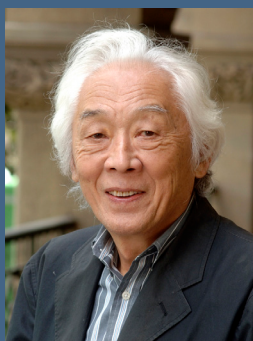
Nikkei: <http://www.nikkei.com/article/DGKDZO70516260Y4A420C1NNK000/>

Yomiuri: <http://www.yomiuri.co.jp/book/review/20140507-OYT8T50177.html>

**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 Yomiuri International Forum



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 article is available online at [Yomiuri Research Institute](#) for Japanese and [The Japan News](#) for English.

“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

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## 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**