

The third arrow

Shinzo Abe has the best chance in decades of changing Japan for the better. He seems poised to take it



DURING Japan's Meiji restoration, which began in 1868, a group of reform-minded officials and citizens worked together to stamp out feudalism, prise open borders and push the country onto a path of rapid industrialisation. In little over ten years they reshaped Japan from top to bottom. That well-known tale has left a perennial optimism among the Japanese that they can, when absolutely necessary, change direction. Others, especially foreigners, are not so sure. In two decades of economic stagnation Japan's leaders have repeatedly failed to rescue their country's fortunes.

Shinzo Abe, Japan's prime minister since 2012, has offered something for both sides. He started surprisingly well. Last year, with Meiji speed, he shot off the first two arrows of "Abenomics": a huge fiscal stimulus and a dramatic programme of monetary easing. His approval rating soared, as did the stockmarket, and his Liberal Democratic Party (LDP) triumphed in an election for the upper house of the Diet, Japan's parliament. But his first attempt at a third arrow of structural reforms to unleash growth, an announcement in June 2013, fell flat. He seemed to have been nobbled by Japan's various lobbies. Then in December he paid a visit to the Yasukuni shrine which, taken as a symbol of reverence for Japan's criminal militarist past. That infuriated outsiders and strengthened suspicions that his focus on economic reform had wavered.

This week Mr Abe is back with a proper third arrow. There are two reasons for thinking that this time it will hit the target. First, the country has reached a point at which almost all Japanese realise that reform of some sort is needed. Second, Mr Abe is at last pursuing schemes of such breadth that they touch on nearly every area of the economy that demands change.

The wrinkled society

Japan has changed in the 20 years of stagnation. Demography is the main reason. Like telltale grey hairs, the signs of ageing are everywhere. A think-tank has just predicted that some 900 municipalities, or half of the total, will have disappeared by 2040, as women of childbearing age migrate to big cities. Centenarians are the fastest-growing segment of the population, and over one-tenth of houses are already vacant, chiefly because of ageing. The workforce is shrinking so fast that even Japan's often sexist and xenophobic elite is discussing subjects such as higher immigration and encouraging women to get a job. Among farmers, whose average age is a staggering 70, resistance to reform from those who wish to keep agriculture small-scale and inefficient is dying along with the resisters.

Another prompt is sluggish growth. Twenty years of underperformance has practical consequences. It helps explain why the nation's companies increasingly belong to foreigners, who now own 30% of the stockmarket in total, up from 4% in 1989. Shareholder capitalism is spreading and many large firms are setting themselves ambitious aims for profitability. That greatly aids Mr Abe's goal of forcing Japan Inc to invest its huge pile

of savings, rather than hoard them, and to improve the allocation of capital. Foreign shareholders are also likely to argue for more rapid change to Japan's post-war system of lifetime employment, which is slowly keeling over. Nearly 5m protected, permanent staff are now surplus to requirements yet cannot be laid off, even with severance pay. Meanwhile almost two-fifths of Japan's employees, especially the young and female, are stuck in irregular, low-paid jobs.

The third prompt is China's rise. Voters now understand the need for Japan to stand up for itself. That leads to some ugly nationalist poses, but it also makes economic reform seem more urgent—even to ugly nationalists.

Mr Abe's reform plan is far weightier than its predecessors. It seeks to free up an overly restrictive health-care sector, to ease the way for local and foreign entrepreneurs in Japan and to overhaul corporate governance. Some measures take on deep cultural taboos, such as allowing Japanese households in a series of special economic zones to sponsor foreign maids to help care for children and the old. And more is still to come. Together, all this represents a coherent vision of a more innovative and globally minded society. Part of its strength is its breadth: it is less a single arrow than a 1,000-strong bundle of acupuncture needles.

That Mr Abe's approval ratings are still so high after announcing his intention to tackle sensitive areas is a sign that the public is ready for fresh thinking. Japan's previous effort at a radical overhaul was led by Junichiro Koizumi, prime minister in 2001-06. His successors diluted his reforms. (One of the main villains was his protégé, Mr Abe, whose first, disastrous, term as prime minister lasted only a year.) Nowadays, Mr Abe faces little serious opposition outside the LDP: the opposition Democratic Party of Japan is nowhere near reviving itself after its trouncing at the polls in December 2012.

That opinion is shifting in favour of reforms does not mean the country is united behind them. Many powerful interest groups, from farmers to doctors to big business to—strongest of all—the civil service, will fight them. Yet the sheer ambition of the growth plan that the cabinet approved this week is evidence of Mr Abe's determination to act as a "drill bit" in spite of them all (see page 23).

Tries, shoots and leaves?

Mr Abe likes to quote Shoin Yoshida, an intellectual who inspired the Meiji's reformers: "Once a man's will is set, he can triumph through any obstacle." But much still depends on whether enough reforms are enacted in full, without codicils that stealthily neuter their impact, and on when they will take effect. In some areas—notably the labour market, where permanent workers enjoy excessive protection—Mr Abe must go further. And across the range of reforms, he will have to force change on those still determined to resist.

Mr Abe needs to stay focused on his target and avoid being hobbled by interest-groups or sidetracked by nationalism. But the scale of what he has put forward this week is breathtaking. It offers the best chance for many years of revitalising Japan. That is something everybody should welcome. ■