

# PREPARING FOR POST-ABE JAPAN

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In the coming months, Japanese politics are poised to become more exciting. With little more than a year left before Prime Minister Shinzo Abe's Liberal Democratic Party (LDP) presidency ends in September 2021, slowly but surely the post-Abe succession race will intensify.

Discussions with global investors suggest that they're even worried about a possible snap election coming before the end of this year because Abe's popular support rate has dropped below 40% in recent months. I doubt that anyone is bold enough to challenge Abe before the U.S. presidential election. After an unprecedentedly long iron grip on power for more than seven years, however, it is now prudent to recall the wisdom of ex-Prime Minister Yasuhiro Nakasone: "In Japanese politics, three inches ahead there is darkness."

If politics are more uncertain now, what about the economy? Do we have to worry that a personality change in the prime minister's office will bring change to the way the economy is run? The answer is not really, because, after all, this is Japan, where economic policymaking is dominated by an entrenched and able technocracy.

Japan succeeds because of its systemic strength, not because of "great men" forcing their vision on the country. Japan's strategic pragmatism and efficiency are anchored by its administrative state. It makes Japan the envy of the world, not least because it so successfully defends the nation against the powerful temptations of populism and narcissism modern democracies seem to demand from their leaders.

Unfortunately, it is not enough to be a "bastion of stability" against an increasingly uncertain and tumultuous world. The line between stability and stagnation is thin. To assure Japan's future prosperity and success, open-minded, strong and decisive political leadership is necessary. In fact, here lies the true legacy of Abe's leadership style. He and his team have always been exceptionally open to new ideas, outside opinions and unorthodox proposals. Born out of a deep personal and national existential crisis, Abe was always clear that "business as usual" was not an option.

At the risk of being too macro-focused, let me point out the key success stories of Abenomics. In 2014, Abe and his team changed the basic operational framework at the major ministries (and the Bank of Japan) by enforcing Cabinet Office-led top bureaucrat selection, thus making the elite administrative state more accountable to the prime minister and his Cabinet. The Government Pension Investment Fund was also shaken up and empowered to reinvent itself as the world's biggest and most progressive sovereign wealth fund.

Make no mistake, for economic and financial policy, what Abe's team did is about as deep and fundamental as it gets. Change the way the biggest pension fund in the world—Japan's national pension fund—allocates capital, and chances are you change the way your entire nation allocates savings into investments. Without it, Japan's ongoing revolution in corporate governance and capital stewardship would have been impossible.

Change the way the central bank and the Finance Ministry cooperate toward a common goal, and chances are you don't just escape the traditionalists' austerity trap, but actually end up raising national purchasing power. An added bonus is that both the U.S. Federal Reserve and the European Central Bank followed your role model when they merged their monetary and fiscal policy during the recent crisis.

At the same time as forcing deep changes onto Japan's macroeconomic flows and policymaking, Abe also revolutionized Japan's foreign economic policy. He set himself a target of making one official overseas trip every four weeks. Here, in addition to relentlessly marketing Japan to global investors—"buy my [Abenomics](#)"—the prime minister always insisted on bringing along a delegation of corporate leaders with explicit strategies and goals for the promotion of Japanese projects in the country visited.

To my knowledge, Abe was the first Japanese prime minister to do so. He was happy to roll up his sleeves and become a dealmaker for Japan. Moreover, under Abe's leadership, Japan clearly became more proactive in the global arena, a leading force in saving the Trans-Pacific Partnership free trade agreement following the pullout of the United States and, more recently, on track for a historic first trade agreement with the new post-Brexit United Kingdom.

Last but not least, the rapidly intensifying and deepening bilateral relationship between Japan and India is poised to become a key force shaping the future of Asia and the world. Under Abe's leadership, Japan has opened up on the global stage and turned into a trustworthy, proactive alliance builder. The world now respects and expects Japanese leadership.

All said, we should not underestimate how high a bar Abe has set. On both the domestic and the global stages, he'll be a hard act to follow. I am confident his eventual successor will have what it takes, but here are the key economic policy markers to watch in assessing whether Japan's next leader will be a success.

### **Consumption Tax Moratorium**

Last summer, Abe enshrined into the LDP policy platform the promise to not raise the consumption tax again for another 10 years—i.e., not before 2029. This is good policy not just because every time the tax goes up the economy goes into recession, but more importantly because consumers crave peace of mind and certainty that their purchasing power won't get cut by higher taxes. It would be a serious red flag if Abe's successor gave in to pressure from the Finance Ministry and allowed for a return to the "fiscal austerity through higher consumption tax" debate.

### **Top Bureaucrat Personnel Decisions**

In 2014, Abe established the Personnel Affairs Bureau at the Cabinet, which grants him direct control over more than 600 elite bureaucrat appointments. He and his inner circle have used this new tool aggressively, thus fundamentally shifting the balance of power away from entrenched bureaucratic tradition and factionalism toward greater accountability to the goals and objectives of the prime minister and members of his Cabinet.

### **Advisory Councils for the Prime Minister**

Abe established no fewer than five councils to advise him on his economic growth strategy alone, plus a number of individual advisors for various other issues. This has significantly shifted the center of both strategic and tactical policymaking away from the ministerial deliberation councils, where laws used to be drafted almost exclusively.

Abe's advisors and councilors are predominantly drawn from the private sector, thus injecting real-world experience and a new sense of urgency into the policymaking process. If Abe's predecessor were to reverse course and became more inward-looking and less open for private sector or outside ideas, the risks of Japan falling back toward uninspired policymaking will rise.

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## **DEFINITIONS**

**Abenomics** : Series of policies enacted after the election of Japanese Prime Minister Shinzo Abe on December 16, 2012 aimed at stimulating Japan's economic growth.