

"Koikenomics" to re-energise "Abenomics"

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A new force is gaining momentum in Japanese politics, led by Tokyo Governor Koike. Her new national party—Party of Hope—has just forged an election alliance with the opposition Democratic Party that could deliver as many as 120-180 out of 465 seats contested in the upcoming 22 October lower house election. Most importantly, "Koikenomics" is poised to re-energise the original pro-growth promise of "Abenomics". This is because Governor Koike has a long-standing record as a pro-business, pro-deregulation and pro-growth politician.

Specifically, we view "Koikenomics" as a welcome program of supply-side economics with the following key aspects:

- Advocating a cut in both corporate and income taxes (the only party in Japan with this agenda)
- Promoting concrete "special economic zones" and "regulatory sandbox" where entrepreneurs, not just technocrats, set rules
- Pushing for more aggressive privatisation of national assets
- Creating administrative reforms that raise the quality and efficiency of public services and enables greater regional autonomy
- Focus on creating a diverse and "smart" society, that is, a focus on IT infrastructure, use of big data, FinTech, Blockchain, Bio-Tech, etc., and more diverse employment practices.

Although the exact contents of the new party's economic program will still have to be presented, the basic thrust is poised to follow along the lines of the de-regulation and pro-business agenda implemented by Governor Koike's mentor, ex-Prime Minister Koizumi and her team of private sector advisors, many of whom are successful new-generation entrepreneurs. Like Koizumi, her basic economic philosophy is to empower private sector entrepreneurship, fair and transparent competition and accountability.

Put in a global context, Koike's growing political momentum may be best compared to the rise of French President Macron. Like Macron, Koike has the vision, the expertise, and the charisma to break out of the old established patterns of influence and create something that is credible and constructive. She is a self-made political entrepreneur who runs against the establishment while promoting a spirit of enterprise and purpose.

Of course, it remains to be seen how much influence Koike's new Party of Hope will actually have in the post-election parliament. Unlike the Tokyo Governor election, a national election is a harsh numbers game, where candidates must win district by district. Japan's lower house of parliament will have 465 seats and it is still too early to make anywhere near credible predictions on the likely election results.

Having said this, in our view the election pact forged with the Democratic Party suggests Koike's new party may be able to win 120-180 seats, while Abe's LDP is set to go down from the current 288 to

around 240-250. The risks of the LDP losing its majority would rise if, against our expectations, more LDP candidates defect to join Koike.

Against still basically low confidence forecasts of election results, we do have great confidence that, from an economic policy perspective, Koike's Party of Hope mirrors the original thrust promised by the "Abenomics" structural and growth policies. At the very least, "Koikenomics" has the potential to re-energise "Abenomics" and force a re-focus on supply-side economics in Japan.

Investment implications:

For markets, the key issues are poised to be the new party's advocacy of a corporate tax cut and the promotion of "special economic zones." If, as we suspect, these two policies are presented in the party's election platform in coming weeks, the dream of "Koikenomics" as a positive catalyst for Japan's future policies will gain credibility, in our view.

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