

# Japanese PM Abe steps down

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Last week, Prime Minister Abe decided to step down for personal health reasons. His record-breaking long- and stable grip on Japanese power has set a very high bar for his successor. On both the domestic and global stage, he'll be a hard act to follow.

However, in the immediate future, neither Japan's economic nor social policy is poised to be much affected because the successor race is primarily determined by factional strength in the Liberal Democratic Party (LDP) and internal power alliances. It is about personalities and personal promises, not policy. The elite bureaucracy, rather than inspired political leadership and vision, is poised to dictate economic and financial policy making from here.

## **A general election within 4-6 months?**

Technically, Abe's successor will be selected by the LDP, which is the ruling party, with a vote from the members of parliament and some representatives from the local chapters. It is an inner-party affair, not a general election. However, whoever gets selected by the party in coming weeks will only get to serve out Abe's term, meaning they will have to be re-elected in the regular LDP party convention coming in September 2021. Also, there will have to be a general election before October 22 of next year. So, whoever becomes party president and prime minister next will probably have to prove their leadership power to the party's rank and file by calling a general election sometime over the next four to six months.

History shows that only a prime minister who can win a landslide victory from the general public is a strong prime minister. Abe won two record-breaking super majorities in the three lower house elections the LDP fought under his leadership, in December 2012, December 2014 and October 2017. If you cannot deliver victory, you're out. And after a long eight years of patient waiting, there are plenty of old and young contenders from within the LDP who will want to keep Abe's successor under pressure to prove their worth sooner rather than later. That's why many observers, including me, expect a relatively short-lived tenure for Abe's immediate successor.

## **Abe's Legacy – What's at stake**

Rather than speculating on who will outsmart who in the upcoming LDP party leadership race—as I said, I expect a lot of intense backroom dealing and power broking—let me suggest several “trip wires” to determine whether Abe's legacy survives.

### **Consumption tax moratorium:**

Last summer, PM 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, in my view, 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 conceded to pressure from the treasury and allowed for a return to the "fiscal austerity through higher consumption tax" debate.

### **Top-bureaucrats' personnel decisions and political appointments to the Ministries:**

In 2014, Abe installed a 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 power balance away from entrenched bureaucratic tradition and factionalism toward greater accountability to the goals and objectives of the prime minister and his ministers. In addition, Abe consistently appointed between five and seven political appointees to each ministry, a sharp departure from his predecessors' practice of having only the minister and his deputy actually dealing day-to-day with their branch of the administration. If Abe's successor shows less enthusiasm for exercising political power over the technocracy, he (or she) will find it increasingly difficult to govern in an effective and innovative way. Reduced competition between political vision and a sense of urgency versus expert opinion and a sense of continuity would be a clear step backward.

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

Abe installed no fewer than five councils advising him on his economic growth strategy alone, plus a number of individual advisors for various other topics. This has significantly shifted both strategic and tactical policy making 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 sense of urgency never seen before into the policy making process. If Abe's predecessor were to reverse course and become more inward-looking and less open for private sector or outside ideas, the risks of Japan falling back toward uninspired policy making would rise.

### **Pro-active Global Leadership**

Abe 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<sup>1</sup>—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, happy to roll up his sleeves and become a dealmaker for Japan. Whether his successor has the personality and vision to continue that remains to be seen. Here, the strong relationship Abe has been able to build with India will become a key litmus test for his successor.

### **And the winner is? Japan's Elite Technocracy**

All said, Japanese politics post-Abe is poised to become more inward-looking, with his immediate successor likely to have their hands tied by having to prove their domestic leadership credentials first, and by fighting-off challenges from within his party.

If you ask, the most worrying aspect of the post-Abe leadership race is the almost complete lack of private sector interest. Nowhere have we seen a business or financial leader voice an opinion or desire to actively influence the LDP. I hope this will change as the race intensifies, but it goes without saying that markets would benefit from knowing what kind of substantive policies Japan's business and financial leaders would like to see pushed by Japan's next leadership team. If business does not speak up, the technocracy will return to rule more and more uncontested, happy to divide and rule an LDP leadership team focused on personal allegiances more than policy substance. That would be a big reversal from the way PM Abe ran the country.

1 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.

*The views expressed in this blog are those of Jesper Koll, any reference to "we" should be considered the view of Jesper and not necessarily those of WisdomTree Europe.*

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