

Japan Politics—Storm in a Teacup

Published March 22, 2017

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Japanese prime minister Shinzo Abe has seen a drop in his approval rating from 60%–65% to 55%–60% in recent weeks. This is due to accusations regarding a fixed real estate acquisition, where a school with a very nationalist agenda and close ties to Abe and his wife supposedly got to buy public land for its development at a discount. The good news is that Abe is highly unlikely to be directly involved, a fact that should be confirmed this Thursday, when Parliament will hear sworn testimony from the people involved.

That being said, this Thursday (March 23, 2017) should mark the climax of the “scandal,” and the bottom line is that the prime minister is highly likely to maintain his steadfast grip on power until 2021. However, there is some speculation that Abe might call a snap election sometime in April or May. We think this unlikely but do note that his popularity is still very high and that the opposition parties are in disarray.

Clear speak: Even in the unlikely event of a snap election, Abe and his Liberal Democratic Party (LDP) are likely to hold on to their two-thirds supermajority. The opposition will probably call for a vote of no-confidence, which would very likely be defeated, given the LDP’s control of Parliament. Note that the LDP is completely united behind Abe—it just extended Abe’s potential term limit from two to three (while the scandal was already in full swing).

For financial markets, Thursday’s parliamentary testimony should prove important. If, as we suspect, Abe is cleared from the accusations, his team will be able to again focus full-time on its economic policy agenda (from which they have been distracted in the past month due to the scandal). Note here that the heavy lifting on the U.S.–Japan economic and trade policy agreements will start mid-April, with Vice-President Pence due to visit Japan.

In contrast, the risk scenario of Abe being forced to call an election should imply only modest risk-off adjustment, in our view. This is because of the high likelihood of a strong Abe victory at the polls.

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