

## Kishida's "levelling up" agenda: mostly good news for investors

### Summary

- Kishida's sizeable win puts him on the path to a stable administration
- His economic agenda focusses on inequality
- Ex-Prime Minister Abe is the power behind the throne
- Pragmatic approach to nuclear restarts
- So adjustments to Abenomics, but no drastic change
- Some concerns about Capital Gains Tax
- Shinsei / SBI imbroglio could shape governance policy

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Japan's ruling Liberal Democratic Party ("LDP") has elected Fumio Kishida as its new chief, which means he will immediately succeed Yoshihide Suga as Prime Minister and lead his party into the general election due this November.

The good news is that Kishida won by an unexpectedly large margin giving his administration a great deal of authority. Weak administrations are characterised by factional infighting, deferral to the will of the bureaucrats, and poor stock market conditions. If the LDP scores a solid victory in November, Kishida will have an excellent chance of leading a strong, stable administration which last for considerably longer than his predecessor's one year term.

The other winners are Sanae Takaichi, the dark horse candidate, who surprisingly outpolled popular favourite Taro Kono in votes by parliamentarians in the first round, and her sponsor, ex-Prime Minister Shinzo Abe. She is now in a position to win an important cabinet or internal party post putting her in poll position to become Japan's first female Prime Minister. Takaichi was easily the most reflationary of the candidates, doubling down on Abenomics by calling for a suspension of any consumption tax hikes until the Bank of Japan hits its 2% inflation target.

Abe himself is now the undisputed power behind the throne. Tactically, he 'won by losing', splitting the vote by backing Takaichi in the first round, then transferring his support to Kishida in the final round. Under Abe, Kishida became Japan's longest-serving Foreign Minister, and was then given one of the crucial internal party positions that are considered crucial for a future Prime Minister.

Despite being groomed for leadership by Abe, Kishida is a centrist in terms of policy positions. In his campaign, he criticised 'neoliberalism' and talked about wage hikes for lower paid workers. The giant fiscal package that he will announce before the election will likely include hand-outs for small companies and individuals who lost income due to COVID-19 restrictions as well as wage subsidies for nurses, kindergarten teachers and other key workers. Given the plethora of natural disasters in recent years, there will also be plenty of money focussed on construction and building activities. A restart of the domestic travel and dining out subsidy programme is also on the cards.

INEQUALITY METRICS	Gini Coefficient (pre-tax and transfers)	% of total income attributed to top 1%	Richest 10% / Poorest 10%
Japan	0.462	10.4	4.5
US	0.486	20.5	18.5
UK	0.456	12.6	13.8
France	0.483	11.2	9.1
Sweden	0.426	9.0	6.2

Source: World Bank (Gini Coefficient), United Nations Development Programme (other two columns),

Kishida is also likely to take a more pragmatic approach to the green energy transition than his rival candidate Kono would have. The LDP is careful not to run too far in front of public opinion, but the mainstream view is that nuclear energy will play an indispensable role and the reactors taken off-line after the Fukushima accident must be gradually be brought back into service.

During the leadership campaign, Kishida – like the other three candidates – talked about raising tax on capital gains and dividends. Whether this will come to pass remains to be seen. The day after the election, Finance Minister Taro Aso gave a speech lamenting the lack of interest that the Japanese public has in the stock market and encouraging young people to invest. That is in line with the main thrust of Abenomics.

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The other important issue is corporate governance. We believe that the evolution of a more open and modern approach has an 'all Japan' consensus behind it and, over time, the direction is clear. But that is not to say the path will be free of obstacles and occasional reversals. In particular, we will be watching corporate actions in the financial sector. Outgoing Prime Minister Suga was a strong advocate of restructuring the regional bank sector and was on good terms with the CEO of SBI Holdings (8473), which is currently locked in a takeover battle with the management of Shinsei Bank (8303). As the Government itself is Shinsei's largest stockholder (the legacy of a previous insolvency), the outcome will be a valuable indicator of the Kishida administration's approach to governance.