

November 8, 2021

Meet Fumio Kishida

Whenever a big, rich country gets a new leader, there could be potential investment implications, and Japan is no exception to this rule. When former Prime Minister Suga announced last summer that he wouldn't seek reelection as head of the ruling Liberal Democratic Party, the first step in Japan's political transition to a new leader was the [party's vote in mid-September naming former Foreign Minister Fumio Kishida to take over as LDP chief and, upon a later majority vote in the Diet \(Japan's legislature\), as the head of government](#). Facing a legal deadline to hold new elections by the end of November, Kishida called for the next ballot to be on October 31. Now that the LDP [has won that election, giving Kishida a full four-year term as prime minister](#), it's a good time to review his background, leadership skills, and likely policies going forward. At the end of this report, we also explore the likely investment ramifications as Kishida takes power.

Kishida's Biography

[Born in Tokyo in 1957, Kishida grew up with extensive exposure to the United States, World War II history, and issues related to international trade and finance.](#)

Kishida's father was an official with Japan's Ministry of Economy, Trade, and Industry, and because of his posting to the U.S. in the 1960s, Kishida attended elementary school for three years in New York City. However, the family returned to their hometown of Hiroshima every summer, giving Kishida the chance to talk with his many family

members who had witnessed the U.S. atomic bombing in August 1945 or had lost relatives because of it. He completed his elementary, middle, and high school education in Japan, where he appears to have been a mediocre student with as much interest in baseball as in his studies. Following multiple rejections from the University of Tokyo, the young Kishida studied at Waseda University and graduated in 1982 with a degree in law.

Figure 1.



Prime Minister Fumio Kishida (Source: Government of Japan)

Kishida's principal early-career experience was with the now-defunct Long-Term Credit Bank of Japan. He then worked as secretary to his father, who had become a member of parliament. When his father died, Kishida ran for his seat and was elected in 1993. Once in the Diet, Kishida attracted the attention of several Japanese prime ministers and was named to a succession of jobs with increasing responsibility. He first served as minister of Okinawa affairs in 2007 and 2008, followed by a stint as state minister for consumer affairs and food safety in 2008. During this time, he became close to

Representative Makoto Koga, the longtime head of parliament's centrist and pacifist "Kochikai" faction. He was therefore able to take control of the faction when Koga retired from politics in 2012.

Following the LDP's election win in 2012, Kishida served as Prime Minister Abe's foreign minister until 2017, making him the longest serving foreign minister in Japan's modern history. Among his achievements during that period, he helped arrange President Obama's historic visit to Hiroshima's atomic bomb memorial. However, Kishida resigned his position in 2017 to protest Abe's nomination of Toshihiro Nikai as LDP general secretary (the Kochikai faction saw Abe's move as an effort to keep younger LDP politicians out of power). Still, despite his resignation from the foreign minister's post, Kishida was able to turn the move into a promotion and ended up as chief of the LDP's Policy Research Council from 2017 to 2020.

Figure 2.



Kishida (back row, second from right) on his high school baseball team (Source: Kyodo)

Leadership Attributes

In democratic countries, it's tempting to analyze a politician's leadership capacity strictly in terms of his mass communication skills and electoral instincts. However, we think it's just as important to analyze a leader's interpersonal power and ability to influence people one-on-one, since much of the work of governing takes place in smaller

groups behind closed doors, where mass electoral skills aren't in play. That's especially true in Japan, where the LDP has a virtual lock on the electorate and has ruled for all but a few years since World War II. To ride the LDP's machinery into the prime minister's seat, a Japanese politician's first priority is to curry favor with the right LDP leaders and their party factions.

Kishida's Electoral Prowess. On balance, the evidence suggests Kishida could do a passable job of maintaining popular support between now and the next election. In this regard, one indicator is Kishida's success in the October 31 elections, [where the LDP won slightly more Diet seats than had been expected](#). Moreover, Kishida's ability to keep winning his own seat in the Diet probably points to significant electoral skills. Even though media descriptions of Kishida range from positive (he's a good communicator) to negative (he's boring and uncharismatic), we think his espousal of income redistribution policies, as described below, could be a sign that he has the ability to "read" the national political mood and craft policies that respond to it.

Kishida's Interpersonal Influence. With no way to directly observe Kishida's personal interactions, it's difficult to assess his leadership style and influence skills with confidence. Nevertheless, our review of the literature on Kishida [points to a personal style that is passive, self-effacing, respectful to peers and elders, and focused on building consensus](#). In Japanese political culture at the highest levels, this willingness to be deferential and avoid making waves is often the key to successful deal-making and horse-trading, not only when building a coalition of LDP factions for a run at the prime minister's position, but also when building factional support for important policy initiatives.

- In fact, during his campaign for the LDP's leadership, Kishida stressed his "ability to listen" and his intent to practice "polite and tolerant politics."
- Kishida has already taken steps to demonstrate those ideals through his cabinet appointments. His ministerial appointments are widely seen as striking a good balance between the various LDP factions and different age groups within the party.
- Indeed, Kishida's self-deprecating and consensus-oriented approach marks a return to the traditional style of a Japanese leader after almost a decade under the more flamboyant Prime Minister Abe and his successor. Kishida's style will likely be welcomed by LDP elders and faction leaders because it gives them a better chance to influence policy. That's important because the [LDP's more militaristic, right-wing factions have been in ascendency for more than a decade and would otherwise look with suspicion on someone from the liberal, traditionally pacifist Kochikai faction](#). Kishida has already adjusted his defense and economic policies to be more in sync with the conservative factions. [That may have opened him up to charges of acting based on political opportunism instead of principle](#); his tack to the right has probably made the conservatives more willing to steer their parliamentary voting blocs to support him.

Policy Priorities

As discussed above, the job of an LDP prime minister is often more about managing intraparty factional disputes than independently developing his own policy thrusts. All the same, to the extent that Kishida can put his own stamp on Japan's

government, we believe he will prioritize the following policies:

Foreign Affairs. Not only does Kishida lead the most anti-militarist faction in the LDP, but the Hiroshima district he represents in parliament is considered the center of Japanese pacifism and anti-nuclear sentiment. To win the backing of the LDP's conservatives, it was therefore especially important for Kishida to tack to the right in his foreign policy proposals, the most important of which are:

- **China.** Driven by the ascendent right wing of the LDP, officials in Japan have recently staked out strong defense policies to counter the military and economic challenge from China. While stressing that "balance is important," Kishida has embraced a number of such policies, including calls to [strengthen Japan's alliances with the U.S. and other liberal democracies](#) and to [double the defense budget to 2% of gross domestic product](#). Even more notable, [Kishida has called for Japan to develop missiles that could be used to preemptively strike Chinese military bases](#). Kishida has not espoused Abe's call to eliminate the pacifist elements of Japan's constitution, but he does express support for "clarifying" the legality of the country's Self Defense Forces.
- **North Korea.** Kishida will also probably work to bring North Korea back to the negotiating table over its nuclear program, threatening missile launches, and past practice of kidnapping Japanese citizens.
- **South Korea.** Kishida will also likely continue Japan's long struggle against South Korean efforts to punish it for its behavior during World War II. A continuing bone of contention is a

disputed South Korean court ruling allowing suits against Japanese companies for using South Korean citizens as slave laborers during the war.

Figure 3.



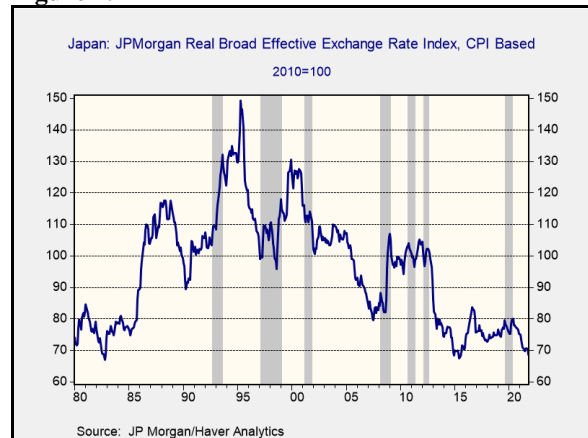
Domestic Policies. Kishida's tack to the right is less pronounced in domestic policy, but it isn't entirely absent from it:

- Economic Policy.** Under Abe and the more conservative LDP factions, Japanese economic policy for more than a decade has been a mix of neoliberal deregulation, stimulative fiscal policy, and loose monetary policy. Those policies have weakened the yen (see Figure 4) and boosted the profitability of Japan's large multinational companies, but they've done little to accelerate economic growth or boost inflation. [In fact, they have come under increasing criticism for favoring the wealthy and leaving middle- and lower-class citizens behind.](#) Therefore, [Kishida has called for a "New Capitalism" program focused on income redistribution.](#) Besides imposing new taxes on the wealthy, Kishida's program aims to boost wages and improve working conditions for part-time workers, women, and families with children. To further improve income prospects for the middle and lower classes, Kishida has also called for

massive investment in digitization, decarbonization, and [advanced semiconductor manufacturing.](#) Importantly, however, Kishida has already backed away from a proposal to hike Japan's capital gains tax.

- Other Domestic Policies.** In addition to his New Capitalism program, Kishida has [embraced the LDP right wing's proposal to restart most Japanese nuclear generating plants](#) in order to improve the country's energy security, reduce the impact of rising fossil fuel costs on electricity prices, and cut the country's greenhouse gas emissions. He has also called for installing many new small-footprint nuclear generating plants. Responding to the prior government's perceived failures in dealing with the coronavirus pandemic, Kishida has also called for legal changes that would give the government broader emergency powers. He has also proposed hundreds of billions of dollars in new government spending to help the economy recover from the effects of the pandemic.

Figure 4.



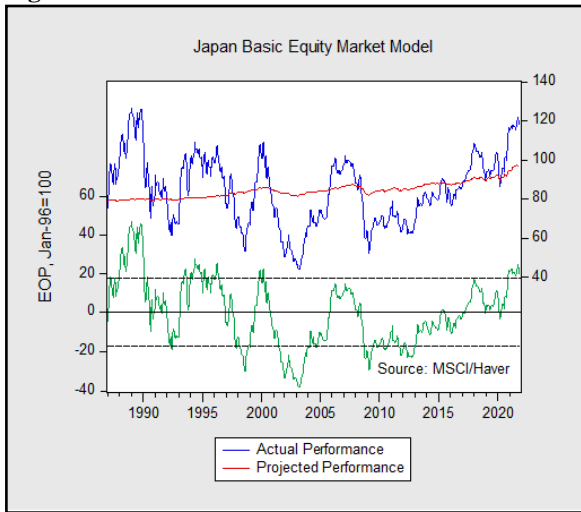
Ramifications

Even if Kishida had free rein within the LDP to pursue his policy goals, he would probably still be somewhat constrained by next summer's upper house elections. For example, several new defense strategy

documents are only expected to be released beginning in late summer 2022. In any case, Kishida represents the return to a more traditional style of Japanese politics in which the prime minister must pay close attention to the various LDP factions and the interests they represent, especially the newly dominant defense hawks and the traditionally powerful supporters of big business and wealthy investors. As noted above, those interests have already forced Kishida to back away from an increase in Japan’s capital gains tax. We suspect the conservatives in the LDP will continue to have strong influence over Kishida, acting as a brake to much of his New Capitalism program.

Assuming the Kishida administration won’t be able to stray too far from the conservative policies of his immediate successors, but also assuming the administration may have some limited success in bettering the lot of lower-income citizens, we expect Japan’s investment environment to remain healthy albeit uneventful in the near term. With economic growth moderate, inflation low, debt high, and the yen weak, Japanese equities are likely to plod along as they have done in recent years, although their recent outperformance may call for a pause in the near term (see Figure 5). We would expect similar on-trend performance for Japanese bonds, which are likely to retain their status as safe havens in times of economic or geopolitical turmoil. Finally, we note that the yen remains extraordinarily weak compared with Japan’s economic fundamentals, even if it also retains its role as a safe haven. The yen appears to be in good position for an eventual rebound, but it probably requires some catalyst before that could happen.

Figure 5.



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