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Meet Yoshihide Suga

Because of Japan's enormous role in the world, investors need to pay attention whenever the country undergoes a change of leadership as it did last week. After all, Japan currently accounts for some 7% of global stock market capitalization and 6% of the world's gross domestic product. Not bad for a country whose 126 million people make up just 1.7% of the world's population! Japan is also a key U.S. ally in the military and diplomatic spheres. It hosts huge U.S. military bases, allowing the U.S. to mount a robust "forward defense" in the Western Pacific, and it's a vital partner in countering aggression from nations like China and North Korea. With its stable, vibrant democracy and dynamic consumer culture, Japan is a natural partner for the U.S. in East Asia.

But who is Japan's new prime minister? In this report, we'll sketch out the biography of Yoshihide Suga and examine how he's likely to govern in the years ahead. We'll focus especially on his probable policies in the areas of diplomacy, defense, economics, and finance, and we'll discuss how effective he might be as a leader. As always, we'll wrap up with a discussion of what the new prime minister might mean for investors.

Sumo Wrestling and Baseball

Suga was [born on December 6, 1948, to a middle-class family in rural northern Japan.](#) In all likelihood, he has little or no memory of the economic devastation suffered by much of Japan during World War II or the

difficult political transition as the country adopted its new, post-war constitution under U.S. occupation after the war. By all accounts, however, Suga's middle-class background has given him a strong understanding of, and affinity for, Japan's middle class and rural residents. Suga's father was a successful strawberry farmer, while his mother was a teacher. His favorite pastimes as a youth ranged from sumo wrestling to fishing and playing baseball. He carries a reputation for being much more of a "man of the people" than other Japanese leaders, including outgoing Prime Minister Shinzo Abe, who came from a prominent political family that included a prime minister, a foreign minister, and several high-level military leaders.

Figure 1.



Suga (back row, far right) as a baseball player in high school. (Source: Wall Street Journal)

After high school, Suga struck out for Tokyo to study at Hosei University, the cheapest school he could find. Paying his own way by working part-time at a cardboard factory, a fish market, and a printing company, he received a Bachelor of Laws degree from Hosei in 1973.

Suga's first job after graduating from Hosei was on the campaign of a candidate for the House of Councilors (the upper house of parliament). Following that position, he spent 11 years as the "secretary," or chief of staff, for a lower-house legislator representing a district in Yokohama. He later won a seat on the Yokohama city council, and in 1996, running on the ticket of the Liberal Democratic Party (LDP), he won his own seat in the Diet representing another Yokohama district.

To this day, Suga maintains that his greatest accomplishments have been his ability as a lower-house legislator to provide basic constituent services, such as holding down mobile phone bills, improving dam regulation to reduce the risk of floods, and creating more daycare spaces. Indeed, he seems to put greater emphasis on his constituent service as a legislator than on his brief service as Japan's internal affairs minister in 2006 and 2007, during Abe's first term as prime minister.

Suga the Master Political Manager

Suga's long experience managing a parliament member's office and serving in parliament himself gave him strong skills in the management of Japan's legislative process. It probably also didn't hurt that Suga strongly pushed Shinzo Abe to run for prime minister again in 2012, five years after Abe resigned from his first stint in the post. With his successful reelection, Abe named Suga as his chief cabinet secretary, essentially making him his right-hand man in government. As Abe's chief cabinet secretary, Suga spent the last eight years as a combined chief of staff, chief government spokesman, and behind-the-scenes policy enforcer. He is a master of backroom politics and personnel vetting.

In his role as Abe's right-hand man, Suga built a reputation for competence and

effectiveness, but always humbly and with complete loyalty to Abe. He is widely perceived as being self-effacing and perhaps even a bit shy or unambitious. That has served him well in the sense that he hasn't developed strong political enemies. On the other hand, working behind the scenes and staying out of the limelight has also left him relatively poorly defined in many voters' eyes. He is widely viewed as lacking in charisma and television presence, while his steadfast refusal to align with any particular LDP faction has left him relatively bereft of key party allies other than Abe.

Figure 2.



Suga after his election as prime minister.
(Source: *Financial Times*)

Suga the Policymaker

Announcing his candidacy to become prime minister on September 2, Suga cast himself as the best person to carry on Abe's policy program. Suga's promise to continue Abe's program was probably the major reason why several key factions of the LDP quickly swung behind his candidacy. Suga is widely seen as a seamless successor to Abe, and that is likely to be a major source of his political power in the early months of his term. In fact, when Suga announced his cabinet last week, [the majority of its members were holdovers from Prime Minister Abe's last cabinet.](#)

All the same, there have been some signs that Suga could eventually diverge from Abe's policies. During his years as Abe's

chief cabinet secretary, Suga focused mostly on domestic economic policy issues like holding down electricity bills and mobile phone charges. He was much less involved in foreign policy, diplomacy, or defense, and his views in those areas are largely unknown. Nevertheless, several of his key policy aims have come to light.

Domestic Policy. Suga’s [vow to continue Abe’s policy direction has focused on the three “arrows” of his Abenomics program:](#)

1) Expansive fiscal policy; 2) Encouraging the Bank of Japan to pursue extremely loose monetary policy; and 3) Deregulation and structural reforms to boost the productivity of Japanese workers. However, even though Abenomics helped stabilize the Japanese economy after a spate of recessions (see Figure 3), it only had limited success in boosting Japanese economic growth or accelerating inflation (see Figure 4). Some LDP leaders have panned the program for primarily serving to weaken the yen, which in turn boosted the profits of Japan’s big multinational companies and helped buoy Japanese stocks. In the critics’ view, Abenomics was a much bigger benefit to Japan’s upper classes than it was to the middle and lower classes. Nevertheless, where Suga has revealed an interest in adjusting Abe’s program, he has seemed more interested in pro-business efficiency initiatives than government support programs, despite his populist reputation.

- In a sign that Suga might put new emphasis on deregulation and structural reforms, he expressed a strong commitment to neoliberalism and “jijo,” (self-sufficiency) during his campaign for the LDP leadership. In a discussion of government’s proper role in the economy, for example, he said, “First and foremost, the onus is on yourself to perform your own duties...If you can’t, then it’s your family or community’s job

to support you. If that still doesn’t work out, then the government will take responsibility to protect you.”

Figure 3.

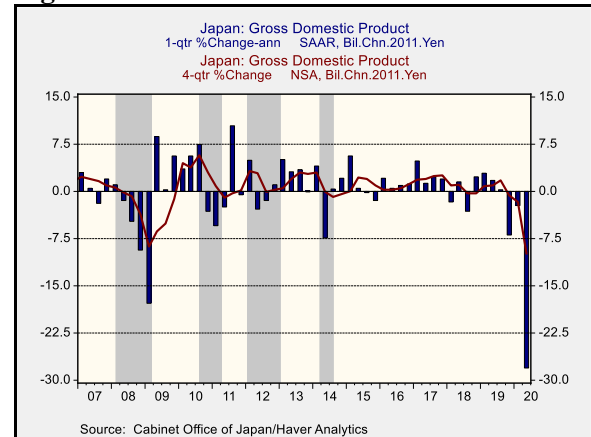
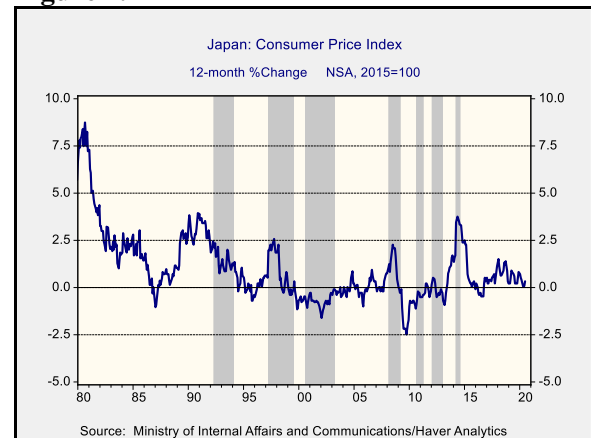


Figure 4.



- Suga also might be planning a future tightening of fiscal policy. For example, shortly before winning the LDP leadership election he [suggested that Japan’s aging population and growing debt load would inevitably require another increase in the country’s consumption tax](#). The statement was especially interesting given that Suga’s populist credentials stem, in part, from his work to limit the last such tax hike in 2019 to non-food items. Suga quickly walked back the idea of a new tax hike in response to pushback from party members who remember how the last

two tax hikes threw the economy into recession. Nevertheless, the statement suggests Suga's commitment to neoliberalism might include fiscal probity and an effort to cut Japan's fiscal deficit in the future.

Foreign Policy. Suga has largely echoed Abe's foreign policy, but he [has also shown signs of being less hawkish or provocative](#) toward countries like South Korea and China. For example, Suga urged Abe to avoid visiting the controversial shrine to Japan's World War II heroes at Yasukuni, and he has avoided visiting it himself. He has also not pushed independently for Abe's desired constitutional amendment allowing Japan to boost its military capabilities.

- With the Japanese population becoming ever more aware of the Chinese and North Korean military threats and [strongly supporting the U.S.-Japanese military alliance](#), Suga will probably prioritize maintaining close ties with the U.S. It isn't clear that he'll be able to build the same close, productive bond that Abe had with President Trump, but since the alliance with the U.S. is the basis for Japan's international security, he will certainly try. A major test of the U.S.-Japan relationship will come in early 2021, when the burden-sharing agreement for U.S. bases in Japan comes up for renewal.
- Suga is also likely to continue Abe's effort to strengthen Japan's military and economic alliances with major regional democracies like Australia and India in order to augment the U.S.-Japan partnership and counter China's rising power. Again, however, it isn't yet clear whether he will be able to forge the same, close relationships that Abe had with foreign leaders, like Indian Prime Minister Narendra Modi.

- Other key international goals for Suga will likely include bolstering Japan's own independent military prowess. For example, he'll have to come up with a replacement for the U.S. missile defense system that Japan decided not to deploy last year. At the same time, Suga will undoubtedly try to calibrate Japan's alliance-building, military development, trade relationships, and diplomatic activity so that its pushback against Beijing won't disrupt the country's important trade relationship with China.

Suga the Leader

Whatever we know about Suga's life experiences, perspectives, values, professional skills, and policy aims, what he means for Japan [will ultimately depend on how effective he is as a leader](#). As Suga steps into his role as the nation's chief executive, the questions to ask are:

Does he have the insight, intelligence, and creativity needed to craft a compelling vision of the future that the Japanese people can swing behind? Suga's long tenure at the pinnacle of Japanese power has certainly given him deep expertise in Japanese policy challenges, especially related to the domestic economy. However, it isn't yet clear whether he will be able to develop his own policy prescriptions that resonate with the deeper motivations of the Japanese electorate. Only time will tell if he'll be able to do that.

Does he have the communication skills needed to convey his vision clearly and powerfully? Serving as Abe's chief spokesman has probably given Suga a reasonable sense of what works and what doesn't work in terms of political communication. However, his reputation for blandness and apparent lack of strong oratory skills is probably a yellow flag. As Abe's spokesman, Suga also honed his

ability to simply not answer reporters' questions; if he can't move beyond that habit, his ability to build political support for his policies and initiatives could suffer.

Does he have both the will to power and the political skills needed to drive his program through to full implementation? By all accounts, Suga is a master political operator as might be surmised by his long tenure managing the political life of powerful superiors. He clearly has the legislative skills needed to be prime minister. The question is whether he has the toughness, ruthlessness, political drive, and will to power needed to battle for his own aims, rather than those of a powerful boss. In this sense, Suga's long service in the background behind more powerful superiors could even be a yellow flag as it may reflect a relative lack of ambition or independent purpose.

Does he have the best interests of the Japanese people at heart? Media analyses seem to unanimously assume that Suga's middle-class background and pride in constituent service early in his political career are enough to make him a man of the people. Indeed, that may be true. All the same, it's important to remember that Suga has spent a very long time in the rarefied company of Japan's political "princeling" class. There is no guarantee that his connection with the broader Japanese society is still fully intact. As suggested by his neoliberal rhetoric and discussion of tax hikes, as mentioned above, one can't assume that his program will be focused on Japan's broader problems and interests rather than those of the ruling classes.

Does he have the moral rectitude, honesty, and courage necessary to serve the Japanese people through thick or thin? A review of Suga's background reveals no obvious evidence of corruption or questionable judgment. Stories of his youth

paint a picture of someone who is consistently empathetic and honest, and his counsel to Abe that he should avoid visiting the Yasukuni shrine suggests he may have a strong moral sense.

Ramifications

In summary, Prime Minister Suga brings some key attributes to his new role. He is likely to benefit from his expertise regarding Japan's domestic policy challenges and his mastery of the Japanese legislative process. With the backing of former Prime Minister Abe and most of the key LDP factions, his immediate political position is solid. However, it is an open question whether he has, or can develop, the attributes of a popular, effective national leader. If he decides not to call snap elections in the coming weeks and instead commits to first serve out the last year of Abe's term, as he has promised, he would [run the risk of facing younger, more popular LDP leaders at the next party election in September 2021](#). It would therefore not be a surprise for Suga to [call elections this October in order to start the clock on a full term as prime minister](#).

In any case, Suga [will face a range of challenges in the coming months](#). His top priority will probably be to manage the continuing coronavirus pandemic and its impact on the economy. He'll have to work hard to avoid a second postponement of the Tokyo Olympic Games, which were originally scheduled for Summer 2020 and are now to be held in Summer 2021. Suga will also need to establish a good working relationship with President Trump, maintain Japan's alliance with the U.S., and keep pushing back against China's geopolitical and economic aggressiveness. He'll also need to balance those moves with maintaining Japan's lucrative trade ties with China to the extent possible, while also dealing with challenges from North and South Korea.

In the longer term, Suga will need to boost Japan's economic productivity to make up for its falling population and aging society. That will likely require steps to boost the labor force by making it easier for women to work and foreigners to immigrate. If he fails, Japan could find it increasingly difficult to service its growing debt and maintain its promised pensions to its growing cohort of elderly citizens.

Japan's government is likely stable enough that, even if Suga makes some of the initial missteps that are natural for a rookie prime minister, the country's financial markets will remain attractive in the near-to-medium term. Given the success of large Japanese companies and their relative undervaluation, global investors are likely to remain interested in Japanese stocks as shown by

[Warren Buffet's recent large investment in Japanese trading companies](#). Because of Japan's stable political and economic environment, foreign and domestic demand for Japanese bonds is also likely to remain healthy. Finally, the Japanese yen is likely to maintain its attractiveness as a safe haven and widely held reserve currency. Our models show the yen is currently trading well within the range that Japan's fundamentals would imply. We expect the currency to be stable to modestly stronger in the near term.

Patrick Fearon-Hernandez, CFA
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