

Abe's Third Term and What it Means for Japan and the World

Analysis from APCO Worldwide's Tokyo Team and Regional Experts



Introduction

On Thursday, September 20, Prime Minister Shinzo Abe won a party leadership vote within the Liberal Democratic Party (LDP), the current ruling party of Japan. This win sets Abe, who has held office for six years, on the path to becoming the longest serving prime minister in Japan's history.

810 votes were available in the election—405 for LDP lawmakers and 405 for regional party members—of which Abe won 329 and 224, respectively. His opponent, former Minister of Defense Shigeru Ishiba, won 73 and 181, respectively. In the regional vote, support for Ishiba was higher than that of Abe in 10 out of 47 prefectures. Ishiba campaigned on a platform of regional revitalization, support for small and medium sized businesses, and social security system reform, while Abe emphasized his past accomplishments, the success of Abenomics and his plans to revise Japan's pacifist constitution.

Abe has been and will continue to be an established and stable world leader

Prime Minister Abe is internationally trusted and respected, if not necessarily revered, for the stability he provides both domestically and abroad. At home, Abe is noted for being the first prime minister who has held office for over a year since 2006—this means that his policies were the first in six years to have the time to yield tangible results. Of these, the most notable are undeniably growing Japan's export revenue, private investment, and employment—statistics that are often attributed to "Abenomics." Abe's reelection as head of the LDP suggests that these trends will continue, signaling plenty of opportunities to come for both domestic and foreign businesses. Foreign investors, confident in the stability of the Japanese market, can also be expected to increase their stakes in the region. However, this stability and growth may be tempered by several variables, which include the international trade war and Abe's impending potential status as a lame duck prime minister.

Japan occupies an unenviable position in the trade war

As a major U.S. ally not exempt from the Trump administration's steel and aluminum tariffs, Japan has a unique place in the trade war. The trade deficit between the two countries was last reported at roughly \$70 billion (the fourth highest of all U.S. trading partners). This number, as well as the fact that even a private meeting between Abe and Trump in April failed to yield a deal to exempt Japan from the tariffs, makes it unlikely that Japan will be able to improve its position in the trade war anytime soon. Moreover, it would not be surprising if Trump were to impose even further tariffs on Japanese exports. Most of the U.S.'s trade deficit

with Japan stems from automobiles, and the Trump administration launched a national security investigation into car and truck imports in May—obviously setting its sights on Japanese car makers. Although Abe has vehemently opposed such accusations that Japanese exports could threaten American national security, numerous media sources agree that automobile tariffs are looming.

Is Abe a lame duck prime minister?

Movement within Japan's legislative houses indicates a wariness regarding Abe's potential status as a lame duck: a politician who is perceived to have little real power because his period of office is ending, whether due to term limits or losing a vote. While most of the LDP backed Abe almost automatically, some of the Takeshita faction, a 55-member subgroup within the LDP led by Wataru Takeshita, threw its weight behind Ishiba. Many interpret this move as the Takeshita faction already looking beyond Abe's reign and preparing for lower house elections next year. The fact that Abe has yet to indicate a preferred successor to the LDP presidency adds another layer of uncertainty to the fate of the party, as well as that of the executive branch.

What can businesses with stakes in Japan expect?

Abe's economic policy Abenomics boasts an impressive track record: investment from both domestic and international players is up, and unemployment in Japan is at a record low—so low, in fact, that the country is experiencing a labor shortage. Businesses both foreign and local have been and will continue to struggle and compete in the scrabble to secure talent. In that sense, any action on Abe's part to make good on his verbal commitment to employment reform will be crucial. If Abe truly means to overhaul the lifetime employment standard, it would result in a complete restructuring of human resources and their liquidity.

And though the outlook seems bleak now, there is still hope for Japan to make the trade war work to its advantage. Trump's tariffs against Japan are rooted in pure business, while those against China have genuine security concerns. If Trump and Abe can come to a deal, Japan will be primed both economically and geographically to take advantage of the trade war that will continue to rage between the United States and China.

What Impact will Abe's reelection have on Japanese relations with the world?

U.S. Perspective – By [Prashanth Rajan](#)

Shinzo Abe's re-election as the leader of the Liberal Democratic Party (LDP) now sets the stage for him to become Japan's longest serving prime minister in history, with a unique opportunity to re-balance U.S.-Japan relations in the Trump era. Since Donald Trump took office, Abe has pursued a strategy of 'calibrated restraint' when it has come to responding to Trump's unpredictability on trade, North Korea, and China. However, despite Abe's strenuous attempts to develop a good relationship with Trump – the two have met eight times and have spoken approximately 26 times on the phone – his efforts to connect with Trump have yielded no tangible victories.

Trump seems determined to disrupt the decades-long friendly nature of U.S.-Japan relations, with tariffs on steel and aluminum and a haphazard approach to denuclearization talks with North Korea. According to media reports, Abe was blindsided by both the U.S. move to impose tariffs and to leave off Japan from the list of exempted countries. In addition, Trump's weak-dollar policy jeopardized Abe's signature economic reform to boost exports and corporate profits – key elements of 'Abenomics'. Geopolitically, Trump's decision to ignore Abe's advice and jump into face-to-face negotiations with Kim Jong Un – combined with China's increasing willingness to assert its interests militarily and economically in East Asia – have together created the impression that Japan is getting boxed out.

With Abe now secure in his position as prime minister, he has an opportunity to rebalance the U.S.-Japan relationship and take a more assertive stand. For example, Abe could take a firm stance on the U.S.-Japan trade dispute, particularly related to the auto industry. While Trump is preoccupied with the number of non-U.S. cars on the road, approximately 75 percent of Japanese cars and trucks sold in the United States are made in North America. Abe could benefit both domestically and globally from speaking up on this issue as it's a great example of a foreign manufacturer making a commitment to invest in the U.S. market and employing American workers. More controversially, Abe could also expend additional political capital to push for a constitutional amendment of Article 9 of Japan's pacifist constitution, which outlaws war as a means to settle international disputes. Abe's move toward pursuing a conventional military could serve as a future path for Japan to chart their own course and move away from their economic and military dependence on an unpredictable United States.

EU Perspective – By [Mariëlle van Heumen](#)

Japan is regarded by the EU as one of the closest and most like-minded allies in Asia. The relationship between the European Union and Japan is based on a longstanding cooperation and besides trade and investment, the two entities have also built a strong political partnership, with cooperation in the fields of democracy, rule of law and increasingly, security.

At a time where U.S. President Trump is heading down the path of protectionism, Japan and the EU moved in the other direction, showing the world that they still believe in open, market-based international trade. The EU-Japan Economic Partnership Agreement (EPA) signed on 17 July was the biggest ever trade agreement negotiated by the EU and will create a free trade zone accounting for about a third of the world's GDP.

While Prime Minister Abe's reelection is likely to result in continuity for EU-Japan relations, one concern remains; the ability to navigate the ratification process of the EPA quickly.

Both EU and Japan have set themselves an ambitious timeline by agreeing that they want the EPA to enter into force before Brexit happens in March 2019, to ensure that the EPA will still apply to the UK in a post-Brexit transition period. This is important for Japan, because the UK is a key market for the Japanese car manufacturing industry and the main destination of Japanese FDI in the EU. Ratification before Brexit would also allow more time for the UK and Japan to negotiate a separate trade agreement later.

Prior to the election, the EU was also watching carefully to assess whether a change in leadership will impact the ongoing negotiations on investment protection standards and investment protection dispute resolution.

As European Council President Donald Tusk said at the end of the EU-Japan Summit in July, "Geographically, we are far apart. But politically and economically we could hardly be any closer." With PM Abe remaining the head of the LDP, the EU and Japan will have a good basis to continue strengthening their ever-growing friendship.

Southeast Asia Perspective – [Daniel Tan](#)

Southeast Asia (SEA) continues to be a strategically critical region for Japan and benefits extensively from the current government's policies. SEA is home to some of the Japan's biggest trading and investment partners as well as important stakeholders in its South China Sea policy. It is likely that with the re-election of the incumbent LDP leadership,

relationships with the SEA nations will continue to be strengthened as Japan seeks to balance China's expanding economic, diplomatic and security influence in the region.

Here's a look at a few of the most important regional relationships:

Indonesia

Indonesia will continue to benefit from Abe's economic and foreign policies. A strengthening domestic economy in Japan has also strengthened economic partnership between Indonesia and Japan in recent years. Japan also has more foreign investments in Indonesia than any other Southeast Asian country, replacing Singapore and China in recent years as Indonesia's number one foreign investor. According to data from Indonesia's Investment Coordinating Board (BKPM), direct investment from Japan to Indonesia has increased considerably at a rate of 30% in the past five years. Japan has invested in several key infrastructure programs in Indonesia as well as investment in R&D, training and supporting the technological capabilities of human resources, specifically in the manufacturing sector.

Philippines


The Duterte Administration will continue to benefit from its bilateral and economic cooperation with Japan under Prime Minister Abe's Administration. Japan and the Philippines have affirmed their bilateral relations with Japan providing economic cooperation to the Philippine worth ¥1 trillion over the next five years in October 2017. Over the next five years, Japan will aid the Philippines in infrastructure (aligned with the Duterte Administration's 'Build Build Build' infrastructure program), specifically on the construction and operation of a subway system in Metro Manila to mitigate traffic. Japan continues to account for a majority of the country's trade and is considered as one of the top trading partners of the Philippines. According to the Philippine Statistics Authority, in 2016, Japan was the country's second largest trading partner – accounting for a total trade worth US\$ 21.552 billion or 15.2% of the country's total trade. Moreover, Japanese companies remain among the top investors in the Philippines, registering projects worth Php5.12 billion in Q2 2018, up by 6.6% from Php4.8 billion in Q2 2017.

Singapore

Singapore and Japan have a good bilateral working relationship under the administration of Prime Minister Abe. In 2017, Singapore was the number one direct investor in Japan from Asia, providing 13.2% of FDI inflows. The two countries work closely on many issues such as defence and cybersecurity, and have aligned similarly on the South China Sea

and Trans-Pacific partnership. After the March 2011 Tohoku earthquake and tsunami, Singapore also provided funding for recovery projects in disaster-hit areas in Japan. With Abe remaining the head of the LDP, diplomatic relations between the two countries will continue to progress, with Singapore being a key ally for Japan in the region.

Thailand

Thailand and Japan has a long history of trade and international relations. Last year, the two countries celebrated its 130th anniversary of diplomatic relations. The continuation of Abe's Thailand-Plus-One would further deepen economic ties between the two countries, with a focus to utilise Thailand's strategic location as a bridge for shifting Japan's labor-intensive industries to its neighbours – Cambodia, Laos PDR and Myanmar. The Eastern Economic Corridor (EEC) also creates the prospect of expanding the scope of Japanese investment in Thailand towards more Capital-intensive industries as well as services including IHQ and ITC. Japan is also amongst the major partners in Thailand's rail works projects alongside China.  Despite domestic changes expected to come after the general election in Thailand next year, it can be anticipated that the sustained relations between the two nations would continue to deepen both on a national-level and local-to-local relationships, which is reflected in many initiatives between the Thai and Japanese authorities and associations.

Vietnam

Under the administration of Prime Minister Abe, the relationship between the two nations has been steadily strengthened, helping Vietnam boost economic growth and tackle many developmental challenges relating to institutional reforms, human resource development, infrastructure, environmental pollution and urbanization. As Abe remains to be the head of LDP, Vietnam looks forward to advancing its strategic relationship with Japan in the future. Japan is and will continue be the top ODA sponsor to Vietnam. Additionally, Japan has approximately 3,700 projects with a total investment of nearly USD 50 billion as of March 2018, with the continuation of Abenomics and other policies this figure is only set to increase. To Vietnam, the re-election of Abe means that the country will continue receiving assistance from Japan as it progresses towards its goal of becoming a modern industrialised country by 2020.

Korea

This year will mark the 20th Anniversary of Kim-Obuchi Declaration, the joint declaration issued by South Korea's President Kim Dae-jung and Japan's Prime Minister Keizo Obuchi in

1998. Under the Abe administration little development has been made in relationship between Japan and South Korea and it is most likely that his re-election will maintain the status quo. The two countries main area for cooperation will likely continue to be the North Korea issue.

In closing

Abe's reaction to any existing and future American tariffs on Japanese goods, as well as his complicated relationship with Trump, will be worth monitoring in the coming years. Japan and the United States have traditionally enjoyed a close relationship, but Abe has failed to produce results in his interactions with Trump. He has thus far been unsuccessful in negotiating a deal to exempt Japan from tariffs, and Trump refuses to participate in multilateral trade agreements. Furthermore, Abe has been left out of negotiations between the United States and North Korea. The Prime Minister must take his final term to find something to show the public for his dealings with America.

Abe's possible relegation to lame duck status is also cause for concern. The feasibility of his proposed reform to Japan's pacifist constitution, for example, will depend entirely on the extent to which he can retain his political clout through his final term as prime minister. Similarly, the exit plan to monetary easing measures Abe revealed in the days leading up to the election would have been difficult for him to deliver on even in his political prime. This move seems even more unfeasible now, as it would result in yen appreciation and stock weakness, risking a slowing down of the economy. Not to mention, such a policy call is not necessarily up to Abe but to the Bank of Japan. A lame duck Abe could also have ramifications on the current style of governance in Japan. Abe's Cabinet is famous for being particularly capable when it comes to pushing legislation through the Diet, and if Abe loses political influence, that power will inevitably fall into the hands of other players. Without a strong prime minister to crack the whip, policy implementation in Japan can be expected to slow.

Prime Minister Abe's win over Ishiba in the LDP leadership elections, though not as decisive as his camp had hoped, suggests a continuation of Japan's economic growth and stability—though the possible influence of factors such as the country's precarious position in the trade war should certainly not be overlooked. Businesses in Japan should in particular be on the lookout for policy changes that affect hiring practices, and the world will be keeping tabs on any movement regarding constitutional reform and economic policy.