

September 2009

A new dawn in Japan



Blink and you would have missed the stock market's reaction to Japan's momentous election result over the weekend. On the day following the result the Nikkei actually fell 0.39% (31 August). For those of you following broader Asian markets I'm sure you will remember earlier this year the extraordinary reaction on 18 May of India's markets to the decisive Congress Party's election victory. The Sensex gained over 17% in a little under two minutes. To say Japan's reaction was somewhat more muted is an understatement of titanic proportions. But in fact it is merely a reinforcement of the same old negative market view of Japan as a basket case, unable to change.

To be fair to the bears we have had almost six decades of the "same-old, same-old" in Japan, so history is on their side. But from our perspective we really do see this election result as a hugely important one, as;

- the DPJ (Democratic Party of Japan) won 306 out of 480 seats.
- the LDP (Liberal Democratic Party) was decimated winning just 119 seats, and will have no residual influence over policymaking.
- many current/former LDP heavyweights lost their seats.
- the DPJ controls both houses.

So what does this mean? Well actually rather a lot! The party that has ruled Japan virtually uninterrupted for over 50 years has been obliterated. The populous has delivered the DPJ a huge mandate, which whilst widely expected, not even the most optimistic DPJ supporter could have expected - especially as the weather was foul and the government announced (rather suspiciously) that a swine flu epidemic was building. With record turnout, the landslide result rested on a general acceptance and desire for a change from a bureaucracy driven policy process.

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As far as we are concerned this result has changed something. It's changed the idea that Japan is unwilling and unable to change. The electorate has delivered the mandate and now it's up to the DPJ to deliver the result. This will undoubtedly take time and face considerable hurdles on the way. The sceptics would argue the DPJ has neither the policies nor political nous to deliver against huge

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expectations. Whilst it is too early to fully refute this position, we expect that the widespread under-estimation of the DPJ will continue for at least the rest of 2009.

The immediate task facing the newly elected government is filling Cabinet positions. Then a crucial test comes in October when the Cabinet Act is amended to introduce Cabinet style government to Japan. This is where we will likely see the bureaucracy mount resistance. Next, in December, comes the drafting of the Budget Bill, which will begin to flesh out policy initiatives. This period will be the litmus test of the new government, and for asset allocators will be of vital significance. If the DPJ gets its right, there are going to be an awful lot of people dusting off “How to Invest in Japan” manual.

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