

Results and Implications of Japan's Ruling Party Leadership Election

KEY ELECTION TAKEAWAYS

Shigeru Ishiba to be Japan's next prime minister. On September 27, Japan's ruling Liberal Democratic Party (LDP) elected Shigeru Ishiba as party president and the successor to Prime Minister Fumio Kishida. After finishing second in the first round of party voting that included 9 candidates, Ishiba received 215 votes (out of 409 total cast) vs. Sanae Takaichi, often seen as the heir of former Prime Minister Shinzo Abe.

Ishiba government will emphasize significant economic reforms. As a candidate, Ishiba advocated weaning off the weak yen, raising interest rates and eliminating income disparities. In his new book, he pointed out the financial deterioration caused by prolonged monetary easing. He has called for a re-assessment of Abenomics and intends to maintain regional development as a pillar of his economic policy.

Immediately following Ishiba's election, the Japanese yen appreciated to 142.7 JPY:USD, and futures on the Nikkei stock index declined by more than 5% from Friday's intra-day high.

Ishiba is likely to seek a mandate via snap election. Before today's leadership election, most observers expected a new prime minister to call an early general election. Under law, Japan will have a national election for the full House of Representatives and a subset of House of Councilors no later than October 2025.

IMPLICATIONS FOR BUSINESS

Stronger push on redistributive economic policy. In stark contrast to Takaichi, who advocated the continuation of Abenomics, Ishiba signaled his belief that the corporate tax rate could be increased and that the Bank of Japan should reverse its long-standing monetary easing policy. Consistent with Kishida, Ishiba campaigned on the theme of raising wages for workers. These policies could drive up some costs of doing businesses in Japan, although a stronger and stable yen could reduce the costs of raw material and energy imports and help foreign companies in specific industries, such as luxury retail, who have struggled to maintain pricing parity in Japan.

Continuation of Kishida trade policies. Ishiba is likely to maintain a strategic approach to international trade, threading the needle of Japan's growing need to access foreign markets while also securing vital industries and intellectual property, especially in technology and industrial sectors. Recent investments in specific priorities, such as new semiconductor plants in Kyushu, will continue to advance the latter goal while also supporting Ishiba's commitment to revitalizing Japan's domestic economy beyond the Tokyo and Osaka population centers.

"Flexible" reforms in health care. Regarding health and welfare, Ishiba's campaign was short on specifics but emphasized reforms that would enhance "flexibility" in rulemaking for both the social security and drug pricing systems. Given Japan's super-aging society and increasing drug lag/loss concerns, pharmaceutical and medical device companies will be on guard for even less predictability in the frequency and criteria of product reviews.

Wait and see on defense. While many of the LDP candidates favored strengthening Japan's security, Ishiba has shown some skepticism about the Defense Ministry's record-high budget request for FY 2025. At the same time, he's advocated for an Asian NATO, built on the foundation of a more equitable U.S.-Japan Status of Forces Agreement. For now, it seems likely Ishiba will wait to set a clear policy direction on defense after the U.S. elections, in which a major party nominee has suggested foreign allies, like Japan, should pay their own way.