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New Prime Minister Suga wants to lead Japan out of the crisis with an old team and reforms

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Japan officially entered a new era on Wednesday: As was expected, Japan's new head of government Yoshihide Suga was elected Prime Minister by the majority of his Liberal Democratic Party (LDP), succeeding Shinzo Abe. Abe had announced his resignation in August for health reasons after having been office for nearly eight years. The successes of his economic policy, which has been dubbed "Abenomics", were recently undone by the Corona pandemic, leaving 71-year-old Yoshihide Suga with major challenges to take on.

Following the outbreak of the corona crisis, the world's third-largest economy has slid into the worst recession of the post-war period. Japan's gross domestic product (GDP) dropped by a real annualised 27.8 per cent in Q2, marking the sharpest decline since comparative records were established in 1980. The country's economy has already shrunk in the two previous quarters and is therefore now officially in recession. Even before the Corona crisis, Japan was already suffering from the consequences of the US-China trade conflict and an increase in consumer tax.

Japan in worst post-war recession

Private consumption in Japan declined by 8.2 per cent in Q2 compared with the previous quarter. As the country has not imposed any harsh quarantine measures, the decline in consumption was comparatively mild. However, the export sector so vital to Japan suffered a harder setback. According to the latest government data, exports dropped by 14.8 per cent in August – the sixth consecutive month with a double-digit decline.

Although economists expect an upswing of over 10 per cent for the current quarter, this forecast is all but certain. It remains to be seen how a possible second infection wave will affect the economy. Overall, experts expect a full recovery for Japan to take years.

To cushion the impact of the crisis, Abe's government already signed off enormous economic stimulus programs. New Prime Minister Suga now plans to continue his predecessor's economic policy as well as the "Abenomics" course of action. Under this slogan, Abe wanted to pull the country out of stagnation using a coordinated mix of extremely expansive monetary policy, debt-financed economic stimulus programs and reforms.

Abenomics brought expansive monetary policy and debt-financed economic programs

At Abe's request, Japan's central bank began drastically easing the monetary policy in 2013. Massive purchases of government bonds were supposed to keep interest rates and the Japanese yen low, combat deflation and provide the economy with liquidity. The central bank already has accounted for 45 per cent of Japan's national debt, and this low interest rate policy enabled Abe to implement extensive, debt-financed economic programs. In addition, reforms in the labour market, deregulation and a corporate tax reduction from 39.5 to 29.7 per cent were implemented.

Until 2018, the program did show promising results, with the economy growing, unemployment rates falling and share prices rising. The Nikkei index more than doubled during Abe's term of office, outperforming other international indexes. One collateral of the program, however, is the drastic increase in national debt. With a debt level of 239 per cent of GDP, Japan currently clearly leads the OECD General Government Debt list, well ahead of the next most indebted countries, Greece (184 per cent) and Italy (157 per cent).

Suga plans to continue economic stimulus program and reforms to combat the crisis

Japan's new Prime Minister Suga now essentially plans to continue his predecessor's economic program, citing the fight against the coronavirus and the economic crisis as the most important points of his government work. Having been Cabinet Secretary under Abe, Suga was already responsible for the implementation of some reforms and now wants to initiate further reform projects. He has already hinted at the creation of a new agency for digital transformation and a reform of the country's numerous regional banks.

In addition to the economic crisis, Suga also has to deal with other problems such as the aging society and foreign policy challenges. For example, relations with China, North and South Korea and Russia are currently strained. He may also call early parliamentary elections in Japan, and, finally, Suga must also decide how to proceed vis-à-vis the Olympic Games that have been postponed to 2021 due to the pandemic.

Political experts and insiders describe Suga as a "dry" and pragmatic "workaholic" who implements reforms "with an iron hand", and, unlike colleagues like Abe, who frequently hail from dynasties of politicians, he comes from a relatively humble background, both of which gained him great support from the public. However, he only became a household name the year before, when the proclamation of the name of the new imperial era "Reiwa" earned him the nickname "Uncle Reiwa".

Some analysts accuse him of a lack of vision, others praise his will to reform. According to observers, he owes his election to the party's internal power plays, where he is probably regarded as a guarantee for stability and continuity in the crisis. Not only does Suga continue to rely on the "Abenomics" concept, but he is making few changes to his cabinet, leaving key ministerial positions unchanged.

US investor Buffet invests in Japanese equities

Suga has already received congratulations from abroad, from German Chancellor Angela Merkel and Russian President Vladimir Putin. Japan's economic policy has also received advance praise from Warren Buffet this year. According to a report in the Financial Times, The USA's most legendary investor began to invest massively in Japanese stocks for the first time with his holding company Berkshire Hathaway months before Abes announced his resignation. Buffet, who is famous for his investments in long-term turnarounds rather than short-term speculation, is thus likely banking on the long-term success of Abenomics.

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