

POLITICAL PULSE

End of the Beginning for Abenomics

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Abe has a strong mandate now. Free trade talks will be the first test of how he'll use it.

Sunday's election for Japan's House of Councillors, the upper house of the Diet, gives Prime Minister Shinzō Abe's Liberal Democratic Party and its coalition partner New Komeito both an undivided government and a mandate to implement the difficult pro-growth reforms called for in [Abenomics](#) (see "[The Abe Restoration](#)" May 10, 2013). We caution against over-interpreting this, though. As we will explain, single-party rule gives Abe's coalition no legislative powers it didn't already have. The victory here is in the moral authority or political capital that it vests in Abenomics.

- Because this election result was fully expected, there is no reason for a large reaction in markets one way or the other as a function of the news itself.
- The implications for markets will play out now over the coming weeks and months, as we learn what Abe will do with his victory.
- [Exit polls show](#) the election -- being [described in western media](#) as a "landslide" -- was indeed a mandate for Abenomics, after a campaign run largely [as a referendum on it](#). The technically necessary correction endured by Japanese stocks wasn't enough to sour the electorate (see "[Japan: At Long Last a Correction](#)" May 31, 2013).
- And other issues seem to have been crowded out, with parties focusing on [nationalist themes](#) and [constitutional reform](#) performing more poorly than expected.
- Abe's mandate is a strong one. Abe's governing coalition will have a 28-seat majority out of 242 in the House of Councillors. That is a greater proportional majority than currently enjoyed by Republicans in the US House of Representatives or Democrats in the US Senate.
- While an important moral victory, taking control of the upper house was never *procedurally* critical for Abenomics to move forward. That's because the House of Councillors is an "upper house" in name only, with limited powers more similar to those of Britain's House of Lords than of the US Senate.
- Only Japan's *lower* house, the House of Representatives, can originate legislation. If legislation from the lower house is not approved by the upper, the lower can pass it nevertheless with a two-thirds vote. Abe's coalition already commands a 170-seat

Update to strategic view

ASIA MACRO, ASIA STOCKS: Shinzō Abe's taking control of Japan's upper house was expected, so the news should not drive a large reaction in markets. And this control means little procedurally, as Abe's coalition already strongly dominated the more important lower house. The importance of the election is that it is a mandate for Abenomics. Now we will see how Abe invests this new political capital to implement difficult reforms opposed by powerful vested interests. The first test may be whether or not Japan accepts lowering agricultural trade barriers as it begins its participation this week in the Trans-Pacific Partnership free trade talks.

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majority in the lower house, with 68% of 480 seats, so it is capable of overriding defeats from the upper house.

- So threats to Abenomics in the upper house -- such as [blocking Abe's nominations](#) of three new Bank of Japan governors (see "[On Kuroda and Iwata at the BOJ](#)" February 25, 2013) -- have never really had very sharp teeth.
- The risk to Abenomics all along has been the vested interests that oppose deregulation in labor, product and production markets. Those vested interests are fully capable of acting through Abe's LDP. So Abe's challenge will be to bring along his own party.
- The strong mandate given to Abenomics on Sunday should help.
- So now it's crunch time. Now we see which battles Abe will pick, and how he will fight them.
- Some early evidence might come as soon as this week as Japan takes its seat officially in the closing days of the [Kota Kinabalu round](#) of the Trans-Pacific Partnership free trade talks. Japan's agreeing to lower agricultural trade barriers is the critical stalking horse for Abe's land reform plans, which face resistance from the powerful farm lobby (again, see "[The Abe Restoration](#)"). The stance taken by Japan's negotiators will speak volumes about how serious Abe is about really investing the political capital he acquired in Sunday's election.

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Bottom line

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