

## Strategy Bulletin Vol. 291

## Japan's Stock Market Crash and Kishida's Economic Policy : Two Sides to Consider

### Japan's Stock Market Crash called as "Kishida shock"

The wild swings, spikes, and subsequent crashes in Japanese stocks since September have shown how sensitive the stock market is to policy. The Nikkei Average, which soared 2,200 yen, or 7.6%, in less than 10 days after former Prime Minister Suga announced on September 3 that he would not run for the presidency, plunged 2,600 yen, or 8.7%, in six days after Kishida won the LDP presidential election on September 29. Some overseas factors have been pointed out as the reason for this, such as the business crisis of the Evergrande Group, a major Chinese real estate company, the U.S. debt ceiling problem, and soaring oil prices. However, since overseas stocks such as the Dow Jones Industrial Average were almost unchanged during the same period, it can be said that the crash was a uniquely Japanese phenomenon. There were high hopes that Suga's resignation would lead to a reform government that would break away from the factional dynamics and renew the ranks, but the new Kishida administration has turned those hopes into disappointment.

### Disappointment over Kishida's non-reform, distribution-oriented policy and his consideration of raising the financial income tax

The biggest worry for foreign investors is that Kishida will turn his back on his reform agenda. I had been concerned about the anti-economic tendencies of the LDP presidential candidates, but the most worrisome aspect was Kishida's criticism of neoliberalism. "The content of his criticism of neoliberalism is still unclear, but he has positioned himself as anti-reform, arguing that deregulation and structural reforms have created a divide between the rich and the poor. He also argues that distributional policies will reduce the gap between the rich and the poor, in what could be seen as an opposition position. (Strategy Bulletin No. 289, September 17). Since then, we have been able to see the contents of Kishida's "new Japanese capitalism," including (1) the creation of a "New Capitalism Realization Council," (2) support for the middle class, including support for education costs and higher salaries for nurses and caregivers, and (3) an increase in the financial income tax as a source of funds. There is a big possibility that this is a major departure from the basic principles promoted by the Abe and Suga administrations, which are "deregulation and reform to free up business" and "corporate governance reform and structural economic reform using market forces". In fact, in his policy speech on October 8, Prime Minister Kishida did not mention the key word "reform" at all, which former Prime Minister Suga had mentioned 16 times, and instead used "distribution" a lot. This did nothing to allay the fears of global investors that Japan will return to the old Japan of the pre-1990s.

If these fears are unfounded, so much the better, but as soon as the Nikkei reported, "The government plans to discuss a review of financial income taxation in the fiscal 2022 tax reform at the end of the year. The government will consider raising the tax rate from the current 20% or making the tax more progressive so that higher income earners will bear a heavier burden.

### Retraction previous words may be the characteristic of Mr. Kishida

Most notably, on the morning of the 10th, he said on a commercial TV program that he was "not thinking of touching" the financial income tax for the time being. Apparently in consideration of the market's opinion that it would be a policy that would go against the "investment instead of savings" trend and would cause stock prices to fall. This flexibility may become a hallmark of the Kishida administration.

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### Expectations for Kishida's plan to revive economic security and high-tech industries

While it is hard to deny that the recent stock market crash was a "Kishida shock" brought on by the negative aspects of the new Kishida administration, I would like to point out a positive aspect of the Kishida cabinet that few investors around the world have taken into account. This is the establishment of a global supply chain, excluding China, in cooperation with the United States, and a plan to revive Japan's high-tech industry. The LDP Semiconductor Council, established under the leadership of Secretary-General Amari, has led to the creation of the first minister of state for economic security in the Kishida cabinet.

"The LDP Semiconductor Caucus resolved to "strengthen the foundation of the semiconductor industry through unprecedented and extraordinary support," and the Ministry of Economy, Trade and Industry (METI) announced its "Semiconductor and Digital Industry Strategy. Mr. Amari stated that "whoever controls the semiconductor industry will control the world" and called for a budget of several trillion yen. This is about to become a reality. As a first step, TSMC, the world's most powerful semiconductor manufacturer, is moving forward with a joint venture with Sony to build a semiconductor plant in Kumamoto. Major projects include: (1) TSMC cooperating with Sony to build a front-end plant in Kyushu; (2) TSMC cooperating with related Japanese companies to set up an R&D center in Tsukuba and establish the Tsukuba Innovation Arena (TIA), an open innovation center in Tsukuba; (3) joint technologies for advanced semiconductors, power semiconductors, etc., (4) promoting digital investment (DX) to stimulate domestic demand for logic semiconductors and strengthen semiconductor design, etc.

Thirty years ago, Japan held a majority share of the world's semiconductor market, but due to the U.S.'s Japan bashing and the extremely strong yen, Japan has been overtaken by South Korea, Taiwan and China and is now regarded as a loser in the global high-tech competition. However, including factories owned by US companies (Micron Technology, Western Digital, etc.), Japan maintains a 19% share of the global semiconductor production capacity, almost double that of the US and Europe. In addition, with a 32% share of the global market for semiconductor manufacturing equipment and a 56% share of the global market for semiconductor materials, Japan continues to maintain the world's most extensive industrial base in terms of hardware (according to an Omdia survey).

According to Omdia, Japan still has the largest number of semiconductor factories in the world (84 in Japan, 51 in the US, 42 in China, 40 in the EU, 21 in Taiwan, and 11 in Korea). Of course, most of the remaining factories in Japan are generations old, but even so, it suggests that there are a variety of users out there. It is necessary to take advantage of the strengths of such peripheral technologies that exist in Japan to strengthen the semiconductor ecosystem.

### This time is different Strengthening Japan's high-tech ecosystem is in the US national interest.

Will this lead to a revival of the Japanese semiconductor industry? While South Korea, Taiwan, and China have been supporting their semiconductor industries with national policies, Japan's semiconductor industry has been beaten down by the U.S., companies, internal politics such as the semiconductor division has been regarded as a burden and has lagged far behind in investment. Several government projects to revive the semiconductor industry have failed at every turn.

Is it possible to reverse this trend of decline and defeat? This time, unlike in the past, it may be possible. The U.S. is serious about creating a secure supply chain for semiconductors with Japan at its core. The significance of this first complete alignment of the interests of Japan's semiconductor and high-tech industries with the interests of the United States should be emphasized. As Musha Research has been arguing for the past three years, the reality that the U.S. depends on China, Taiwan and South Korea for more than 70% of its semiconductor supply, a dangerous region in the U.S.-China confrontation, is too risky. In order to change this situation, a shift in production concentration to Japan is essential.

If we see signs of a high-tech revival in Japan, foreign investors may be forced to pay attention to Japan again. It should be noted that the economic policies of the new Kishida administration have two sides, light and dark, for stocks.

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