

## ***The Weekly Observer***

December 4-8, 2023

*The 99<sup>th</sup> edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the G7 virtual leaders' summit, LDP and Komeito talks on loosening defense export rules, the Japan-Norway summit, the defense tax hike postponement, the LDP's political fundraising scandal, LDP talks about tax reform, the GOJ's childcare policies and funding, Toshiba and ROHM's power semiconductor partnership, the yen's abrupt strengthening, real consumption stats, and more.*

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## **I. News of the Week**

### **1. G7 Virtual Leaders' Summit**

- On Wednesday, Prime Minister Kishida Fumio [hosted](#) an online G7 summit. The summit was attended by Ukrainian President Volodymyr Zelenskyy.
- The G7 leaders [committed](#) to step up efforts against Russia's actions in Ukraine, evasion and circumvention of sanctions and export control measures, and introduce import restrictions on non-industrial diamonds, mined, processed, or produced in Russia, by January 1, 2024, followed by restrictions on diamonds processed in third countries targeting March 1, 2024.
- They condemned Hamas's terror attacks on Israel and urged the immediate released of all remaining hostages without preconditions. The leaders committed to the two-state solution and called on Iran to cease its development of a nuclear program.
- The leaders acknowledged various pathways to achieving net zero by 2050 and accelerating the phase out of unabated fossil fuels to achieve climate goals. The G7 countries that opt to use nuclear energy supported a global aspirational goal of tripling nuclear energy capacity from 2020 by 2050 endorsed by twenty-three countries on the sidelines of the COP28 climate conference.
- The leaders committed to increase collective assessment, preparedness, deterrence, and response to economic coercion, and further promote cooperation with partners beyond the G7. They also agreed to step up collaboration based on the principles on resilient and reliable supply chains and to coordinate on preventing cutting-edge technologies from being used to further military capabilities.
- The leaders renewed their commitment to advancing international discussions on inclusive artificial intelligence (AI) governance and interoperability between AI governance frameworks. They also committed to working together for further advancing the Data Free Flow with Trust (DFFT).

### **2. LDP and Komeito Partially Agree to Loosen Defense Export Rules**

- On Friday, the LDP and Komeito working team (WT) exploring the revision of the implementation guidelines for the Three Principles on Transfer of Defense Equipment and Technology [finalized](#) recommendations to submit to the GOJ.
- The WT agreed to permit the export of parts and finished equipment licensed by foreign companies to the country the companies are from. Previously, exports of licensed products were limited to parts to the United States.

- The WT also agreed to permit the export of all non-lethal equipment and exports to countries under attack in violation of international law. This would theoretically include countries like Ukraine.
- The WT could not come to a consensus on whether to scrap or add to the five permitted categories of exports — rescue, transport, warning, surveillance, and minesweeping — and on the export of co-developed equipment like the next-gen fighter jet to third countries. Discussions will continue into the new year.
- Though the two parties agreed in principle back in July on promoting the export of co-developed equipment directly to countries like those in Southeast Asia, Komeito has started to [drag its feet](#) due to concerns about Japanese-made equipment being used in lethal combat (goes against nature as the “party of peace”).

### 3. Foreign Policy Developments

- On Friday, Minister for Foreign Affairs Kamikawa Yoko [said](#) that Japan will not appeal the Seoul High Court’s ruling on November 23 in favor of plaintiffs representing so-called comfort women for compensation from the government. She stressed that South Korea should take “appropriate measures” to deal with the issue.
- On Thursday, Kishida [held](#) a summit meeting with Norwegian Prime Minister Jonas Gahr Støre and agreed to upgrade bilateral ties to a strategic partnership. On Friday, Minister of Economy, Trade and Industry Nishimura Yasutoshi [met](#) with his counterpart, Jan Christian Vestre, and signed a green strategic partnership to cooperate on matters including hydrogen and ammonia, offshore wind, and CCS.
- Ambassador in charge of Cyber Policy and Deputy Director-General of Foreign Policy Bureau Ishizuki Hideo [co-chaired](#) the first Japan-U.S.-ROK trilateral diplomacy working group on North Korea’s cyber threats with his counterparts. The three sides discussed diplomatic efforts to advance cooperation to address cyber activities thought to be funding North Korea’s illicit nuclear and missile program.
- On Wednesday, Kishida [held](#) a summit telephone talk with Israeli Prime Minister Benjamin Netanyahu. Kishida stated that Japan unequivocally condemned Hamas’s terror attacks and that it supports a “two-state solution.” He also emphasized the importance of calming the situation and minimizing civilian casualties.
- On Monday, the G7 and partner countries [issued](#) a statement with Ukraine to launch a new, expanded Clean Energy Partnership supporting Ukraine’s goal of building a resilient, efficient, more decentralized smart energy system. The group expanded from the members of the June 2023 Ukraine Recovery Conference in London.

- On Saturday, Kishida [held](#) a telephone meeting with French President Macron and issued a five-year roadmap on bilateral cooperation under the “exceptional partnership,” covering security to economics. The countries [agreed](#) to establish a working group on economic security to deepen cooperation on critical minerals.

#### 4. Defense/Security Developments

- On Sunday, National Security Secretariat Director-General Akiba Takeo [met](#) with U.S. National Security Advisor Jake Sullivan and South Korean National Security Advisor Cho Tae-yong in Seoul to discuss security cooperation amid the North Korean satellite launch and Russia-North Korea cooperation. They also agreed to bolster cooperation on disinformation.
- On Friday, the GOJ and ruling coalition [began](#) discussions toward postponing the start of the defense tax hikes likely to 2026, following strong opposition on starting it while implementing the income tax cut and amid the political fundraising scandal.
- On Thursday, Japan and the United States [concluded](#) their three-day Extended Deterrence Dialogue to discuss ways to strengthen deterrence and response capabilities of the alliance amid mounting security challenges like North Korea.
- On Wednesday, METI [updated](#) its End User List, which provides exporters with information on foreign entities of concern who may be involved in the development of weapons of mass destruction, among other things. It added thirty-six entities, [including](#) the China Academy of Engineering Physics, which allegedly siphoned sanctioned machine tools from Japan and other countries to develop nuclear weapons.
- On Monday, the JSDF, U.S. Military, and Australian Defense Force (first time) [commenced](#) the first joint command post exercise “Yama Sakura,” simulating the defense of Japan’s remote islands at JSDF bases like Camp Asaka in Tokyo/Saitama and Camp Higashi-Chitose in Hokkaido. The Philippines participated as an observer.
- On Saturday, the Japanese and German governments came to a [substantive agreement](#) on the Acquisition and Cross-Service Agreement (ACSA; supply transfers), which will deepen bilateral security and defense cooperation in the Indo-Pacific region.

#### 5. PM Looks to Purge Abe Faction Over Fundraising Scandal

- On December 11, *Hokkaido Shimbun* [reported](#) that Kishida is planning to reshuffle the Cabinet and LDP leadership on December 14, once the extraordinary Diet session comes to an end, to remove all Abe faction members from senior leadership positions.

- The latest reports [suggest](#) that at least ten Abe faction members received several hundred million (total) in “kickbacks” for excess fundraising party ticket sales above quotas based on seniority of their positions. The kickbacks have been characterized as a norm [created](#) over decades, designed to reward lawmakers for exceeding quotas.
- Among those [reported](#) to have received kickbacks include Chief Cabinet Secretary Matsuno Hirokazu, LDP Diet Affairs Chair Takagi Tsuyoshi, LDP Upper House Secretary-General Seko Hiroshige, LDP policy chief Hagiuda Koichi, METI Minister Nishimura Yasutoshi, ex-Olympics Minister Hashimoto Seiko, Ikeda Yoshitaka, Ohno Yasutada, and Tanigawa Yaichi. Each [received](#) anywhere from several thousand to tens of millions in kickbacks over five years between 2018 and 2022.
- Main opposition Constitutional Democratic Party [submitted](#) on December 11 a no-confidence motion against CCS Matsuno. It [plans](#) to submit one against the Kishida Cabinet on December 12, before the end of the extraordinary Diet session.
- Prosecutors have [brought](#) in Abe faction staff and lawmaker secretaries for questioning over the systematic and organized kickback of funds. The problem is less about the kickbacks, but that the LDP’s largest faction [underreported](#) excess sales on the faction or individual lawmaker’s expense reports, a violation of the law.
- Kishida is said to be [considering](#) a full purge of the Abe faction from the Cabinet and LDP leadership, likely to save his already low approval, but may [face resistance](#) from those concerned that it would be an upheaval of the intra-party power balance, and from Abe faction members with fewer terms who are “clean” so far. Some sources suggest that Kishida may spare parliamentary vice ministers from the purge.

#### 6. LDP Continues to Discuss Tax System Reform Plan

- *Jiji* [reported](#) Friday that the GOJ and ruling coalition are considering a proposal to revise the standards for the dual corporate tax system, raising the income criteria from ¥100 million in capital to ¥1 billion in capital and capital surplus to prevent large firms avoiding taxes by getting categorized as SMEs.
- NHK [reported](#) Thursday that the GOJ plans to reduce education costs for families with more than three children by making college education free without any income restrictions, as part of efforts to redress the declining population. The GOJ also [presented](#) a proposal to set the maximum tax break for manufacturing critical commodities like semiconductors at 20 percent of the corporate tax rate.
- *Nikkei* [reported](#) Wednesday that the GOJ plans additional cash handouts of ¥50,000 per child under the age of eighteen in February-March next year, on top of the ¥100,000 handouts for low-income households. The LDP also [wants](#) to set the income

ceiling for the ¥40,000 income tax cut at ¥20 million, which is roughly equivalent to the annual salary of a Diet member.

- The ruling coalition also [plans](#) to reduce the dependent deduction per child from the income tax and resident tax from ¥380,000 and ¥330,000 to ¥250,000 and ¥120,000, respectively, to balance out the expansion of the child allowance to include high school students.
- On Tuesday, the ruling coalition [finalized](#) tax reform plans, including additional taxation on cryptocurrencies and extending tax breaks for SME's entertainment and social expense taxes. They also [agreed](#) to expand tax breaks for the costs of mergers and acquisitions — 70 percent for the first, 90 percent for the second, and 100 percent for the third M&A.
- *Nikkei* [reported](#) Monday that the GOJ plans to revise medical insurance fees to collect revenue for the “financial support program” to redress the declining population. It also [plans](#) to increase the tax burden on senior citizens by including financial assets and income as part of social security revenue. At the same time, it [plans](#) to expand the pool of senior citizens paying for 20 percent of elderly care services by lowering the income standard. The reform plan includes short- to long-term policies (2024-2040).

## 7. Political Developments

- On Friday, the GOJ [approved](#) its basic approach to the FY 2024 budget, which aims for sustainable economic growth and structural wage hikes to completely exit from the deflationary period. It also stressed social security and childcare reform.
- NHK [reported](#) that the GOJ plans to secure ¥3.6 trillion by FY 2028 to reinforce childcare policies. The plan is to secure ¥1.5 trillion through the existing budget, ¥1.1 trillion from social security budget cuts, and ¥1 trillion from the “financial support program” to be made up of funds collected from firms and individual citizens.
- The health ministry [presented](#) its basic approach to the FY 2024 medical payment system reform to its social security council working group. It states that the ministry aims to raise the wages for medical workers to secure personnel and achieve workstyle reform.
- *Yomiuri* [reported](#) Thursday that the GOJ plans to expand its child allowance program for single-parent families. It will raise the maximum monthly allowance for the third child onward to ¥10,420 from ¥6,250, equivalent to allowance for the second child. It will also raise the income ceiling from ¥1.6 million annually to ¥1.9 million.

- On Wednesday, General Secretary Shimizu Hideyuki of the Japanese Trade Union Confederation (RENGO) [indicated](#) that the union will reconsider its endorsement of Maehara Seiji and other ex-DPFP lawmakers who left the party and created a new one. RENGO will consider revoking the endorsement too.
- On Tuesday, the LDP-Komeito-DPFP bill to secure the Unification Church's financial assets for victim relief was [passed](#) by the Lower House. The CDP and Japan Innovation Party, which had their own bill, opposed it but supported a provisional measure to review policies securing the Church's assets within three years.

## 8. Economic Security Developments

- On Friday, Toshiba and ROHM Semiconductor [announced](#) that they will jointly manufacture power semiconductors at Toshiba's new plant in Nomi, Ishikawa, and ROHM's new plant to begin operations next year in Kunitomi, Miyazaki. The total project cost will be ¥388.3 billion, with ¥129.4 billion in subsidies from METI.
- On Wednesday, Nikon [announced](#) that it will begin selling a new photolithography device for semiconductor manufacturing in January 2024. It is the latest model that responds to the miniaturization of circuit patterns and the 3D structure of chip devices. It uses the compound argon fluoride (ArF) as a light source to form circuits on a wafer that serves as a substrate.
- On Tuesday, METI [announced](#) that it will provide ¥20 billion in subsidies to Preferred Networks, Internet Initiative Japan, and the Japan Advanced Institute of Science and Technology for R&D between 2028-2032 into semiconductors and super computers, reducing electricity consumption for AI development.
- Nvidia CEO Jensen Huang [indicated](#) in a meeting with Minister of Economy, Trade and Industry Nishimura Yasutoshi that his company will develop an R&D hub in Japan for AI-related projects. It plans to cooperate with universities and research institutes to promote the development of domestic AI technologies.
- Kishida [said](#) at the Eurasia Group's GZERO Summit that Japan will accelerate discussions with the United States and European countries toward securing trustworthy supply chains and maintaining fair markets and business environments.
- On Monday, Kishida [met](#) with Nvidia CEO Huang to request that the company supply as many graphic processing units for generative AI development as possible. Huang said his company plans to cooperate with SoftBank, Sakura Internet, NEC, and NTT.

## 9. Key Economic/Financial Developments



- On Friday, the MHLW [initiated](#) plans to move forward the period between the determination of eligibility to receive unemployment insurance benefits and the start of benefits by around one month from two, in cases of resignation for personal reasons. The plan is to lower hurdles for changing jobs and to promote labor mobility into growth sectors.
- On Thursday, the yen [strengthened](#) to ¥141 to the dollar, amid heightened speculation that the Bank of Japan will move forward with the revision of monetary easing. BOJ Governor Ueda Kazuo's statement that "it will get challenging into the end of the year and toward early next year," coupled with indications that the BOJ sees positive effects of interest rate hikes, has prompted investors to buy back the yen rapidly.
- On Wednesday, the Nuclear Regulation Authority [decided](#) that TEPCO's Kashiwazaki-Kariwa nuclear power plant has met standards for dealing with terrorism, moving half a step forward toward ending the operation ban by year-end.
- The Ministry of Finance [announced](#) that it will issue ¥1.6 trillion in green transformation bonds, ¥800 billion each of five and ten year bonds starting FY 2023. The first bid for ten-year bonds and five-year bonds will begin on February 14 and 27, respectively. The bonds will be used to finance projects like converting renewable energy to primary energy source and the use of nuclear power.
- *Nikkei* [reported](#) Monday that Nippon Export and Investment Insurance (NEXI) will provide insurance for the first time for a domestic loan by Sumitomo-Mitsui Banking Corporation to power generation company JERA amounting to ¥100 billion. The aim is to reinforce supply chains by diversifying LNG suppliers.
- The Organisation for Economic Co-operation and Development (OECD) [decided](#) to establish a new organization to promote data flows across borders, a key issue pushed by Japan as G7 President. It includes thirty-eight countries, excluding China, to explore methods to streamline data exchanges by using technologies like encryption.

#### 10. State of the Economy

- On Friday, MOF [released](#) its October Household Survey, which found that real consumption by households of more than two members fell 2.5 percent from the same month last year to ¥301,974, the [eighth consecutive month](#) in the red.
- *Nikkei* [reported](#) that the BOJ is having trouble deciding whether real consumption is actually falling, as government statistics show a plummet while the BOJ's has stayed relatively stable. The BOJ needs accurate statistics to decide whether it can revise its monetary easing policy.

- MHLW [released](#) its October Monthly Labor Survey, which found that real wages per person fell 2.3 percent from the same month last year, the nineteenth consecutive month in the red. Though the rate of decrease [narrowed](#) by 0.1 point, wage hikes continue to be outpaced by inflation.
- MOF [released](#) its October balance of payments statistics, which found that the current account balance was at ¥2.58 trillion, the ninth consecutive month surplus. Inbound tourism has [contributed](#) to record-high tourism income and a massive improvement in the current account balance from a ¥149 billion deficit in the same month last year.
- CAO [revised downward](#) its real GDP statistics for the July-September period from 0.5 to 0.7 percent on a monthly basis, and 2.1 to 2.9 percent on an annual basis, as individual consumption [pushed down](#) the statistic. This is the first time in four quarters that Japan is experiencing negative growth rates.

## **II. Public Opinion Poll**

- A FNN/*Sankei* poll [released](#) on Monday showed Cabinet approval rating was 23 percent, down five points from November, while disapproval was 72 percent, up three points, a record low for the Kishida Cabinet.
  - 41 percent of respondents said that they approve of the Cabinet because it seems better than other ones; 26 percent said because it is centered around the LDP; and 13 percent said because they trust the prime minister.
  - 33 percent of respondents said that they disapprove of the Cabinet because they have no expectations for its executive ability; 31 percent said because its policies are no good; and 22 percent said because it is centered around the LDP.
  - 46 percent of respondents said that they want Kishida to continue as prime minister until the end of his LDP presidency in September 2024; 41 percent said he should be replaced as soon as possible; and 9 percent said he should continue beyond his term as LDP president comes to an end in September.
  - 73 percent of respondents said that they believe there is a massive problem with the LDP and its faction's response to the slush fund scandal; 21 percent said there is somewhat of a problem; 5 percent said there is a minor problem; and 1 percent said there is no problem.
  - 87 percent of respondents said that they cannot accept Chief Cabinet Secretary Matsuno's explanation that he will examine his political organization's expenses regarding the slush fund scandal, while 9 percent said they accept it.
  - 51 percent of respondents said that Kishida is greatly responsible for the political funding scandal; 37 percent said he is somewhat responsible; 9 percent said he is slightly responsible; and 2 percent said he is not responsible.

- 52 percent of respondents said there is a massive problem with factions and political fundraising; 36 percent said there is somewhat of a problem; 8 percent said there is a slight problem; and 2 percent said there is no problem.
- 38 percent of respondents said that they have no expectations for the Cabinet's stimulus package; 37 percent said they have little expectation; 17 percent said they have some expectations; and 7 percent said they have great expectations.
- 65 percent of respondents said that they approve of the prime minister's consideration of removing the "trigger clause" to lower gas prices, while 29 percent said they disapprove of it.
- 45 percent of respondents said that they believe the bill to secure financial assets from the Unification Church for victim relief will help victims, while 44 percent said it will not help victims.
- 61 percent of respondents said that the Osaka EXPO 2025 should be held with reduced expenses; 20 percent said it should be canceled; and 17 percent said it should be held as scheduled.
- 26 percent of respondents said that there are no candidates they believe should be next prime minister; 18 percent said Ishiba Shigeru; 16 percent said Koizumi Shinjiro; 12 percent said Kono Taro; 5 percent said Takaichi Sanae; 4 percent each said Kamikawa Yoko and Suga Yoshihide; 3 percent said Kishida Fumio; 1 percent each said Izumi Kenta, Hayashi Yoshimasa, Noda Seiko, Motegi Toshimitsu, and Nishimura Yasutoshi; 0.4 percent said Hagiuda Koichi; and 0.1 percent said Baba Nobuyuki.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	27 (-2)
Constitutional Democratic Party	8 (+2)
Japan Innovation Party	8 (+1)
Komeito	3 ( $\pm 0$ )
Japan Communist Party	4 (+2)
Democratic Party for the People	1 (-1)
Reiwa Shinsengumi	3 ( $\pm 0$ )
Social Democratic Party	0 ( $\pm 0$ )
Party Created by Everyone (NHK)	0 ( $\pm 0$ )

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Suffrage Party (Sanseitō)	1 ( $\pm 0$ )
Independent (No Party)	42 (-1)