

## ***The Weekly Observer***

December 11-15, 2023

*The 100<sup>th</sup> edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the LDP-Komeito agreement to partially loosen defense export rules, the third application of “official security assistance,” the Japan-U.K.-Italy next-gen fighter jet program, the Cabinet reshuffle, the FY 2024 tax system reform plan, the numerical targets for childcare policies, Unification Church-related legislation, chip-related developments, the three winning bids for the offshore wind projects, the BOJ’s TANKAN, and more.*

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

1. 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 [submitted](#) recommendations to Prime Minister Kishida Fumio.
  - 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. Japan will [require](#) prior approval for third countries exporting domestically manufactured equipment abroad.
  - The WT also agreed to permit the export of all non-lethal equipment parts, even if the final product is lethal (for example, used jet engines). In addition, lethal equipment exports used for the five permitted categories — rescue, transport, warning, surveillance, and minesweeping — and for self-defense will be permitted.
  - The WT could not come to a consensus on [whether](#) to scrap or add to the five permitted categories of exports and on whether to permit the export of finished co-developed equipment to third countries (next-gen fighter jet), which the LDP wants but Komeito does not. Discussions will continue into the new year.
  - The GOJ plans to [reflect](#) the recommendations in the revisions to the implementation guidelines, to be adopted as early as December 22. Meanwhile, Kishida [instructed](#) the WT to resume discussions toward permitting direct exports of co-developed equipment to third countries as soon as the new year begins.
2. Foreign Policy Developments
  - On Friday, the GOJ [introduced](#) export bans against two UAE, one Armenian, one Syrian, and two Uzbek entities for helping Russia evade sanctions. It also implemented export bans on fifty-seven new Russian entities, banned imports of non-industrial diamonds, and froze the assets of nineteen individuals and forty-three entities, as well as sixteen in relation to Crimea and one entity in relation to Belarus.
  - *Jiji* [reported](#) that the GOJ plans to provide Malaysia with rescue boats and small surveillance drones as part of the third case of “official security assistance” to a like-minded country, likely on December 16 when the leaders meet in Tokyo.
  - On Wednesday, Minister for Foreign Affairs Kamikawa Yoko [participated](#) in the Second Global Refugee Forum in Geneva, Switzerland, as one of the co-hosts. She stated that in order to realize the dreams of refugees and displaced persons and assist

the people of the host communities, Japan has launched the “Humanitarian Development Peace (HDP) Nexus” as a multi-stakeholder platform for cooperation.

- Kamikawa [met](#) with Iranian Foreign Minister Hossein Amir Abdollahian on the sidelines of the Global Refugee Forum. She called on Iran to urge the Houthis for the early release of a Japanese vessel and its crew members and to urge restraint on other relevant forces with which it has influence.
- On Monday, Kishida [held](#) a telephone talk with UAE President Sheikh Mohamed bin Zayed Al Nahyan. The two discussed the need for close cooperation to calm the situation in the Gaza Strip and to deepen bilateral ties, including in the energy sector.
- *Mainichi* [reported](#) that Kishida is considering scrapping a trip to South America at the beginning of next year due to the ongoing political scandal involving the LDP. Kishida had plans to visit 2024 G20 Chair Brazil and Chile starting around January 9.

### 3. Defense/Security Developments

- On Friday, MOD [announced](#) that the improved Type-12 surface-to-ship missile, a long-range standoff missile scheduled for deployment in FY 2026, will be deployed a year earlier in FY 2025 to respond to the deteriorating security environment.
- *Sankei* [reported](#) that the MOD plans to name the new organization to command the ground, maritime, and air forces starting the end of FY 2024 the “Joint Operations Command,” which will lead the units during contingencies instead of the Joint Staff.
- On Thursday, Minister of Defense Kihara Minoru, U.K. Secretary of Defense Grant Shapps, and Italian Minister of Defense Guido Crosetto [signed](#) the Convention on the Establishment of the “[Global Combat Air Programme — GCAP International Government Organization \(GIGO\)](#).” Each country will [dispatch](#) a total of several hundred officers to staff the organization, which includes a steering committee and GCAP agency.
- MOFA [issued](#) a joint press release by the Quad Senior Cyber Group, which met on December 5-6, reaffirming capacity building efforts to strengthen government networks and critical infrastructure from cyber disruptions. The group discussed the importance of enhanced cooperation on securing the resilience of IT and OT systems.
- On Wednesday, the chiefs of the ground forces in Japan, the United States, Australia, and the Philippines [met](#) for the first time together in Ichigaya for the “Land Forces Summit” to reaffirm cooperation in the face of Chinese maritime assertiveness.
- On Monday, the GOJ [publicly notified](#) 180 new locations in twenty-five prefectures, including New Chitose Airport and U.S. facilities like Itazuke Air Field in Fukuoka,

that now fall under land use restrictions based on national security. These areas require greater disclosure of land user information and stronger enforcement of the law on activities interfering with the activities at the facilities.

#### 4. PM Reshuffles Out Abe Faction Ministers From Cabinet

- On Thursday, Kishida [reshuffled](#) his Cabinet and removed four Abe faction members
  - Chief Cabinet Secretary Matsuno Hirokazu, Minister of Economy, Trade and Industry Nishimura Yasutoshi, Minister of Agriculture, Forestry, and Fisheries Miyashita Ichiro, and Minister of Internal Affairs and Communications Suzuki Junji
  - over their faction's alleged involvement in creating a ¥500 million+ slush fund.
- Kishida appointed former Foreign Minister Hayashi Yoshimasa, former Justice Minister Saito Ken, former Regional Revitalization Minister Sakamoto Tetsushi, and former Minister of Internal Affairs and Communications Matsumoto Takeaki to the respective positions.
- LDP policy chief Hagiuda Koichi, Diet Affairs Chairperson Takagi Tsuyoshi, and Upper House Secretary-General Seko Hiroshige also submitted letters of resignation, stepping down from their posts in relation to the ongoing scandal. Kishida [informed](#) Komeito leader Yamaguchi Natsuo that party leadership would be reshuffled after the FY 2024 budget draft is approved by the Cabinet around December 22.
- Kishida also [reshuffled](#) out five state ministers and a parliamentary vice minister from the Abe faction, while allowing five other PVMs to stay in place as they insist to have no ties to the slush fund scandal. In addition, Special Advisor to the PM Ueno Michiko and Special Advisor to the Defense Minister Wada Yoshiaki also [resigned](#).
- On Wednesday, Kishida [held](#) a press conference and explained that he will stand at the front of the line to combat corruption within his party. He said that the focus now is on examining the situation and preventing further delays in political actions. This comes as reports [surfaced](#) that the Kishida faction may have also been involved in underreporting fundraising party ticket sales.
- Evidence seems to continue to mount, suggesting that the Abe faction systematically underreported ticket sales and created a slush fund. *Sankei* [reported](#) that the Tokyo District Public Prosecutors Office plans to begin questioning multiple lawmakers over slush fund amounts, use, and their direct involvement in creating the slush fund. State Minister of Defense Miyazawa Hiroyuki [revealed](#) on Wednesday that he had been instructed by the faction to conceal kickbacked amounts in his expense reports.

#### 5. LDP and Komeito Submit FY 2024 Tax System Reform Plan

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- On Thursday, the LDP and Komeito [revealed](#) their FY 2024 tax system reform plan, which focuses on wage hikes, domestic investment, and the income tax cut plan.
- To realize structural wage hikes, the ruling coalition proposes tax cuts for individuals with less than ¥20 million in income, revising upward tax breaks based on wage hike rates, and new incentives to promote SME growth like the dual tax system.
- To promote domestic investment, they propose establishing an innovation box tax scheme and supporting startups by fostering a better investment environment.
- To promote economic growth amid changing socioeconomic conditions, the coalition proposes intensified support for childcare, adhering to the global minimum corporate tax plan, and considering further hikes in corporate taxes in the future to ensure the effectiveness of tax cuts.
- On defense spending, the coalition proposes raising the tobacco tax on e-cigarettes to match paper cigarettes, thereby creating revenue to pay for increased defense funds.
- Interestingly, the LDP and Komeito [scrapped](#) mention of the “trigger clause” on the gas tax, which was being discussed with the DPFP prior to the latter’s support of a no-confidence motion against the Kishida Cabinet.

## 6. GOJ Finalizes Numerical Targets for Unprecedented Childcare Policies

- On Monday, the GOJ [presented](#) a draft of its future childcare strategy, which amounted to ¥3.6 trillion. The GOJ [finalized](#) four new pillars to include in the “accelerated plan” to be implemented between 2024-2026.
- The four pillars are: free university education for households with multiple children through subsidies; countering child abuse; countering poverty; and supporting healthcare for children with disabilities and special medical needs.
- The accelerated plan has three pillars: ¥1.7 trillion for “economic assistance” including child allowances and tuition subsidies; ¥1.3 trillion for assistance to households with children, including supporting nurseries for children; and ¥600 billion to promote co-working and co-rearing households.
- Funding will be generated by combining ¥1 trillion or so in financial assistance from health insurance premiums (around ¥500 per person) [by](#) FY 2028; ¥1.1 trillion from social security budget cuts; and ¥1.5 trillion from existing funds like employment insurance fees. Shortage of funds will be covered by “transition bonds.”
- On Tuesday, the GOJ also [presented](#) twelve numerical targets for childcare policies in the next five or so years, including raising the percentage of people who feel society

encourages child rearing from 28 percent to 70 percent and the number of children who can live their daily lives normally from 52 percent to 70 percent.

## 7. Political Developments

- On Friday, MIC Minister Matsumoto [indicated](#) that the GOJ plans to submit legislation to the ordinary Diet session next year to revise the NTT's status within Japan's telecommunications industry. The LDP proposed earlier this month to scrap the R&D disclosure mandate and abolish the NTT Act altogether in two years time.
- On Thursday, former State Minister of Justice Kakizawa Mito [left](#) the LDP over a search of his home and office, related to his involvement in the violation of the Public Offices Election Act in the Koto Ward mayoral election held in April.
- The LDP's Special Committee on Foreign Workers [submitted](#) recommendations to Justice Minister Koizumi Ryuji proposing a new system replacing the Technical Intern Trainee Program. It requested that foreigners stay in their jobs for two years before searching for new jobs, once the new program is in place.
- On Wednesday, the Diet [enacted](#) legislation reinforcing surveillance of asset sales by the Unification Church, thereby ensuring that the Church's funds are used for victim relief. The bill has a time limit of three years, at which point it may be amended. The LDP, Komeito, CDP, and Japan Innovation Party agreed to merge parts of their bills.
- On Tuesday, Kishida [indicated](#) that the GOJ still plans to abolish the health insurance card and merge it with the My Number Card in fall 2024. The GOJ also [finalized](#) a report, which found that errors in linking personal information were human errors and proposed that users go through multiple authentication layers and that the central and local governments conduct regular screenings to ensure data is accurate.
- On Monday, the GOJ [heard](#) from the Agency for Cultural Affairs and game companies utilizing AI in their products to continue discussions on AI and intellectual property. The working group will consider legislation to protect patented products.

## 8. Economic Security Developments

- On Thursday, Kishida [reiterated](#) that the GOJ positions semiconductor technology as a key pillar of its growth strategy and that it will continue to support manufacturing and investment in the domestic semiconductor industry.
- MOFA [released](#) a joint statement signed by Japan and the United Kingdom during the twelfth meeting of the Joint Committee on Cooperation in Science and Technology,

which emphasized the importance of joint research and cooperation in areas like semiconductors, general innovation, and space.

- On Wednesday, chemical company Resonac Holdings [revealed](#) that its consortium of semiconductor material and manufacturing equipment makers, “Joint 2,” has added a new member and now stands at fourteen companies. The consortium plans to jointly develop high-quality chip materials necessary for generative AI-related products.
- On Tuesday, METI Minister Nishimura [held](#) a meeting with Italian Minister of Enterprises and Made in Italy Adolfo Urso. A public-private workshop was held to discuss bilateral cooperation on semiconductors.
- *Nikkei* [reported](#) Monday that Dai Nippon Printing developed “photomasks,” original plates used to form circuits for cutting-edge semiconductors. It can be used in manufacturing three-nanometer chips, which only two companies in Taiwan and South Korea produce.
- Mitsui Chemicals [announced](#) that it will renovate its semiconductor-related research facility in Nagoya City, adding new facilities previously used for film-related projects to reinforce materials-related R&D for high-end chips used for generative AI products. It will spend around ¥3 billion and plans to finish construction in May 2025.

## 9. Key Economic/Financial Developments

- On Friday, new METI Minister Saito [signed](#) a Memorandum of Cooperation with Brunei’s Minister of Finance and Economy Amin Liew Abdullah, outlining cooperation toward the latter country’s energy transition.
- NHK [reported](#) that the GOJ finalized policies utilizing the ¥13 trillion generated from green transition bonds, including around ¥1.3 trillion over ten years for transitioning to low carbon emissions machinery and ¥3 trillion over fifteen years to cut the gap between fossil fuel prices and next-generation energy sources like hydrogen.
- *Mainichi* [reported](#) that the GOJ plans to begin utilizing the Joint Crediting Mechanism (JCM) for reducing carbon emissions in the agriculture sector next year (Philippines and Vietnam first). It plans to use this to reduce methane emissions from rice paddies in Asia and encourage Japanese companies to expand overseas while improving the income of local farmers through the sale of credits (emission rights).
- On Wednesday, METI [announced](#) that JERA, Mitsui Co., and Sumitomo Corp. won bids for offshore wind power projects in Akita, Niigata, and Nagasaki, respectively. They will be allowed to make use of the selected zones for as long as thirty years.

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- NHK [reported](#) that the GOJ issued a policy plan to realize an asset management country, including industry reform like transparency in governance and asset owner reform like crafting “asset owner principles” regulating pensions and insurance/university fund asset ownership.
- MOF’s expert panel on the digital yen [summarized](#) discussion points, including having commercial banks circulate BOJ-issued digital currency, ahead of GOJ-BOJ discussions starting January 2024.

### 10. State of the Economy

- *Nikkei* [reported](#) Saturday that capital investments in all industries in FY 2023 hit a record-high of ¥31.99 trillion, up 17.3 percent from the previous year, likely as a result of greater investment in EV manufacturing and AI-related businesses.
- On Thursday, CAO [announced](#) that machinery orders, a leading indicator of capital investment, rose 0.7 points to ¥858.7 billion in October, the [second straight month](#) orders have increased. Non-manufacturing orders increased particularly in the wholesale and retail sectors, while manufacturing also turned positive.
- On Wednesday, the Bank of Japan (BOJ) [issued](#) its Short-Term Economic Survey of Enterprises (TANKAN) for December, which [found](#) that the diffusion index for large manufacturers improved three points to +12, the third consecutive month it has improved. SME manufacturers also improved six points to +1, the first time in the positive range in four-and-nine months.
- On Tuesday, the BOJ [announced](#) that the corporate goods price index in November was 119.5, up 0.3 points from the same month last year. As utility prices [fall](#) and firms fail to transfer costs onto consumers, the rate of increase has dropped below one percent for the second consecutive month.
- On Monday, CAO and MOF [released](#) the Business Outlook Survey for the October-December period, which [found](#) that the business sentiment index for large manufacturers rose for a third consecutive quarter to +4.8. Manufacturers stood at +5.7, while non-manufacturers stood at +4.4.

## **II. Public Opinion Poll**

- An NHK poll [released](#) on Monday showed that Cabinet approval rating was 23 percent, [down](#) six points from November, while disapproval was 58 percent, up six points.
  - 40 percent of respondents said that they approve of the Cabinet because it seems better than other ones; 28 percent said because it includes a party they support; and 15 percent said because they trust the prime minister’s character.

- 50 percent of respondents said that they do not approve because they have no expectations for its policies; 26 percent said because it lacks executive ability; and 11 percent said because they distrust the prime minister's character.
- 66 percent of respondents said that they believe Kishida's response to the LDP's fundraising scandal has been "too slow," while 22 percent said that it has been appropriate.
- 81 percent of respondents said that they believe rules related to political funding should be tightened, while 9 percent said it should remain as is.
- 38 percent of respondents said that they have little expectation for the GOJ's stimulus package; 28 percent said they have some expectations; 23 percent said they have no expectations; and 5 percent said they have great expectations.
- 51 percent of respondents said that they support the GOJ's plan to exclude high-income households from the income tax cut next June, while 32 percent said they oppose the plan.
- 69 percent of respondents said that they do not believe wages will be raised at a higher rate than this year in 2024, while 18 percent said they do believe it will.
- 53 percent of respondents said that they believe there will be some impact of China's economic slowdown on Japan's economy; 25 percent said there will be a great impact; 11 percent said there will be a small impact; and 3 percent said there will be no impact.
- 38 percent of respondents said that they have little interest in the Osaka 2025 EXPO; 31 percent said they have no interest; 21 percent said they have some interest; and 5 percent said they have strong interest.
- 42 percent of respondents said that they sometimes engage in actions to prevent global warming; 30 percent said not a lot; 12 percent said constantly; and 9 percent said not at all.
- 64 percent of respondents said that they do not plan to return home or travel during the end of year/beginning of year season; 17 percent said they have not decided; and 14 percent said they plan to travel in some way.

● The survey also collected data on the latest approval ratings of political parties.

| <b>Political Party</b>          | <b>Approval Rating (%)</b> |
|---------------------------------|----------------------------|
| Liberal Democratic Party        | 30 (-8)                    |
| Constitutional Democratic Party | 7 (+2)                     |
| Japan Innovation Party          | 4 (±0)                     |
| Komeito                         | 3 (±0)                     |
| Japan Communist Party           | 3 (±0)                     |

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|                                 |         |
|---------------------------------|---------|
| Democratic Party for the People | 2 (+1)  |
| Reiwa Shinsengumi               | 2 (+1)  |
| Social Democratic Party         | 0 (±0)  |
| Party Created by Everyone (NHK) | 0 (±0)  |
| Suffrage Party (Sanseitō)       | 0 (-1)  |
| Independent (No Party)          | 43 (+4) |