

## ***The Weekly Observer***

February 12-16, 2024

*The 107<sup>th</sup> edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on Japan-ROK and Japan-DPRK developments, the Japan-Ukraine economic recovery and reconstruction meeting, LDP-Komeito discussions on defense exports to third countries, the back-and-forth on a Political Ethics Hearing Committee session, the LDP's surveys on the political fundraising scandal, the Nikkei 225 and weak yen, chip-related developments, the LDP proposal of a hard AI law, Germany overtaking Japan in nominal GDP, and more.*

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## I. News of the Week

### 1. Japan and the Two Koreas

- FNN [reported](#) Wednesday that Prime Minister Kishida Fumio is considering visiting South Korea to hold a summit meeting with President Yoon Suk-yeol on March 20.
- This would be the first time since March 20 that the leaders conduct “shuttle diplomacy” and would coincide with Ohtani Shohei’s debut match for the Dodgers in Seoul. Kishida could also [attend](#) the Summit for Democracy held around this date.
- Whether the meeting takes place may hinge on how the South Korean public responds to Japan-South Korea ties ahead of the April legislative elections, which is [viewed](#) as a referendum on Yoon amid low approval ratings.
- Meanwhile, Kim Yo Jong, sister of Kim Jong Un and Deputy Department Director of the Publicity and Information Department of the WPK, [issued](#) a statement on Thursday hinting that Kishida could visit North Korea if Japan makes a “political decision” to compromise on the abduction issue.
- Kishida said last week that he aims to hold a summit with Kim Jong Un. On Friday, Chief Cabinet Secretary Hayashi Yoshimasa [said](#) that the GOJ has taken her comments into account but stressed that the DPRK’s position on the abduction issue cannot be accepted.

### 2. Foreign Policy Developments

- *Jiji* [reported](#) Friday that Reuters said that the Italian government plans to host a virtual G7 Summit on February 24, which marks the second year since the onset of the Russian invasion of Ukraine.
- On Thursday, the GOJ [revealed](#) during a Diet session that Minister for Foreign Affairs Kamikawa Yoko will visit Brazil and Panama from February 20-25. She will visit Brazil from Feb. 21-22 for the G20 foreign ministers’ meeting.
- *Asahi* [reported](#) that Japan and Ukraine will agree to cooperate in seven areas — demining and debris removal; humanitarian assistance and rebuilding livelihoods; ag development; biotech; digital and IT; electricity and transportation infrastructure; anti-corruption and strengthening governance — for public-private partnerships at the Japan-Ukraine Conference for Promotion of Economic Growth and Reconstruction to be held in Tokyo on February 19.

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- On Wednesday, Kamikawa [held](#) a phone conference with Australian Foreign Minister Penny Wong. The two agreed to work together to strengthen relations with the Pacific Island countries and to closely coordinate on other international issues.
- On Monday, Kamikawa [participated](#) in the Fifth Ministerial Interim Meeting of the Pacific Islands Leaders Meeting (PALM) held in Suva, Fiji. The participating countries agreed on the importance of a rules-based international order and strongly opposed unilateral attempts to change the status quo by force or coercion (China).

### 3. Defense/Security Developments

- On Friday, Minister of Defense Kihara Minoru [began](#) a two-day visit to Okinawa, in which he is expected to meet Okinawa Governor Tamaki Denny and local mayors in areas related to the MCAS Futenma relocation. Tamaki [said](#) the same day that he hopes the GOJ convenes a meeting between national and local government on this.
- Kihara [said](#) at a press conference that the JMSDF will pilot test the MQ-9B SeaGuardian unmanned autonomous vehicle (UAV) starting in April at Kanoya Air Base in Kagoshima, which will be used for air reconnaissance in the East China Sea.
- On Thursday, LDP policy chief Tokai Kisaburo and Komeito policy chief Takagi Yosuke [agreed](#) to begin discussions next week toward concluding party talks on relaxing rules on exporting defense equipment to third countries. The party leaders [agreed](#) on Tuesday to resume talks at the policy chief level, after working level talks broke down due to Komeito resistance to permitting these exports.
- On Wednesday, U.S. Ambassador to Japan Rahm Emanuel [met](#) Kihara and revealed that the two countries will begin joint exercises in late March toward the deployment of U.S. Tomahawk missiles to be put on Aegis-equipped vessels. The GOJ purchases as many as four hundred Tomahawk missiles and plans to deploy in FY 2025.
- On Tuesday, Hayashi [said](#) that the GOJ aims to produce guidelines for the location and specifications for evacuation shelters to protect citizens in the event of an armed attack against Japan in late March.

### 4. Diet Leaning Toward Holding Political Ethics Hearing Committee Session

- On Friday, the opposition [demanded](#) that the fifty-one Abe and Nikai faction members who underreported political fundraising party income (more details in below section) appear before the Political Ethics Hearing Committee.
- On Thursday, the opposition [informed](#) the LDP that four parties plan to request next week that the Diet convene the Political Ethics Hearing Committee. The Upper House

Committee requires five of fifteen members to request a session. The opposition has five members in the Committee.

- NHK [reported](#) that one of the five senior Abe faction members, the main target for the opposition to appear before the Committee, has indicated reservations about participating, while former LDP policy chief Hagiuda Koichi said he would leave the decision on participation up to the party.
- The LDP is likely to [comply](#) with the opposition request to hold a Committee session, as criticism is mounting over its inadequate response to the scandal. Kishida [said](#) during a Diet session on Wednesday that the Diet should decide whether to hold the session and that the final decision on participation lies with the members in question.
- Meanwhile, Kishida [indicated](#) that the LDP will tighten rules around Diet member responsibilities over involvement in political scandals at its party convention in March. He also [indicated](#) reservations about introducing guilty-by-association rules, but is said to be considering [requiring](#) Diet members to pay taxes on “miscellaneous income,” or the kickbacks they underreported in expense reports.

## 5. LDP Presents Results from Survey on Political Scandal

- On Thursday, the LDP [revealed](#) the results of its survey of eighty-two Diet members, three candidates, and eight secretary-generals of factions and policy groups aiming to improve transparency on the political fundraising scandal.
- Key findings [include](#):
  - A total of eighty-five Diet members and candidates in the upcoming general election underreported fundraising party income between 2020-2022, of which fifty-three used the kickbacks for some sort of expense.
  - Of the eighty-five, thirty-two knew about the kickback scheme, while eleven of them knew about the systematic underreporting of kickbacks in expense reports.
  - Twenty-nine of fifty-three individuals who said they did not know about the kickbacks said they were instructed by their factions not to report the income in their respective expense reports.
  - Abe faction members said the practice likely started anywhere from ten to thirty years ago, while Nikai faction members said around ten years ago.
  - The kickbacks were used for a range of expenses including for meeting fees, car purchases, personnel costs, food, leases, trip and travel expenses, and to purchase faction fundraising party tickets to meet their individual quotas.

- Lawyers who oversaw the hearings recommended reforms including stricter disciplinary measures, compliance training, external centers to report fraudulent activity, and the digitalization of documents and information.
- This week, all three of the LDP Political Reform HQ's working groups [met](#) for the first time to discuss revising the law (Political Funds Control Act), strengthening party control over money and personnel affairs, and revising the party constitution.
- On Tuesday, the LDP [released](#) the results from its survey of all 384 Diet members and party candidates questioning their involvement in the kickback scheme. A total of eighty-two Diet members and three candidates admitted to underreporting a total of ¥580 million between 2018-2022. Ex-Secretary-General Nikai Toshihiro underreported the most among active members at ¥35.26 million.
- While the LDP [concluded](#) that no additional investigations were necessary following the self-conducted survey — which only asked if the members had underreported kickbacks and how much; nothing on the use of kickbacks — the opposition [criticized](#) the survey for barely scratching the surface of the scandal.

## 6. Political Developments

- On Friday, Kishida [announced](#) that the GOJ will begin coordinating the use of FY 2023 reserve funds for additional financial support to those affected by the Noto Peninsula earthquake. The GOJ has indicated that it will expand the pool of households (whose homes were destroyed) eligible for subsidies up to ¥6 million.
- The Cabinet [approved](#) the revised Act on Strengthening Industrial Competitiveness, which designates five items including semiconductors as goods eligible for manufacturing subsidies, establishes an innovation box tax scheme for new intellectual property, and creates a new classification of “medium-sized enterprises” of fewer than two thousand employees eligible for new tax breaks and subsidies.
- The Cabinet also [approved](#) laws related to child care, which expands the child allowance up to eighteen year olds and up to ¥30,000 per month for the third child onward, raises the rate of cash handouts for childcare leave, and establishes a “financial support program” using medical insurance fees to fund new policies. The GOJ [estimates](#) that each citizen will pay on average ¥300 per month for the program.
- On Thursday, former Diet member and Abe faction member Tanigawa Yaichi and a staff member responsible for accounting at the Kishida faction were [found guilty](#) of violating the Political Funds Control Act and sentenced to pay a ¥1 million fine and were banned from running for public office for three years. The LDP [plans to field](#) a candidate for Tanigawa's seat in the Nagasaki-3 by-election set for April 28.

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- On Wednesday, Kishida [tied](#) former Prime Minister Suzuki Zenko to become the tenth longest-serving prime minister in the post-World War II period. At 864 days, he is still miles behind Ikeda Hayato, the founder of Kishida's faction (1,575 days).
- On Tuesday, the Cabinet [approved](#) laws that would provide new subsidies to firms utilizing hydrogen and ammonia by covering the price differential with LNG, and that would create the framework for geological storage of carbon dioxide emissions from factories. It establishes test drilling and reservoir rights to identify areas for storage.

### 7. Nikkei 225 Reaches Historic Highs as Yen Weakens

- On Friday, the Nikkei Stock Average (Nikkei 225) [reached](#) the ¥38,600 mark at one point, rising ¥450 from the previous day and [coming close](#) to ¥38,957, the highest ever recorded stock value in history (December 1989).
- The Nikkei 225 has been on the rise as of late due to good performance in the U.S. stock exchange and the rise in stock value of semiconductor-related firms due to the increasing demand for AI-related chips.
- Minister of Economy, Trade and Industry Saito Ken [said](#) that the tide is changing from a cost-cut economy during deflation to an economy with changes to domestic macroeconomic conditions and proactive industrial policy.
- The index has also seen a rise [due](#) to the Bank of Japan's (BOJ) signaling of sustained monetary easing policy. This had an impact on the yen exchange rate, which at one point this week [reached](#) the latter half of ¥150 for the first time since November 2023.
- Vice Minister of Finance for International Affairs Kanda Masato [said](#) Wednesday that the ministry will take the "appropriate response" to what he described as fast swings in the exchange rate of late.

### 8. Economic Security Developments

- On Thursday, Renesas Electronics [announced](#) that it will acquire U.S. software company Altium for AUD 91 billion (around ¥900 billion), a company that develops and provides software enabling design of printed circuit boards on a cloud. Renesas aims to speed up the development of electronic components with this takeover.
- The Japan Business Federation [issued](#) a set of recommendations regarding the envisioned security clearance system, requesting that the GOJ clarify standards for information to be covered by the system and to ensure that it meets international standards without causing harm to business opportunities.

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- *Nikkei reported* Wednesday that SoftBank will team up with Nvidia, Ericsson, Nokia, and others to establish the “AI-RAN Alliance,” which aims to operationalize use of AI at cellular phone base stations to diversify data processing, thereby reducing electricity consumption at each station.
- *Nikkei reported* Tuesday that chemical manufacturer Resonac Holdings will invest around ¥15 billion to build two new facilities in 2027 to increase manufacturing capacity of materials for high-performance AI chips by three to five times.
- *Nikkei reported* Monday that the Development Bank of Japan will concentrate investment between FY 2024-2025 to reinforce domestic supply chains for semiconductors, storage batteries, and other key commodities. The new fund aims to promote the competitiveness of industries critical to Japan’s economic security.
- METI announced last Friday that it will subsidize as much as ¥45 billion for R&D into one-nanometer chips and chips for “edge AI” (allows computing on site and not at data centers) at the Leading-edge Semiconductor Technology Center (LSTC), which includes Rapidus and the National Institute of Advanced Industrial Science and Technology (AIST) as members.

### 9. Key Economic/Financial Developments

- On Friday, the LDP project team working on AI issues crafted a draft proposal recommending the development of a “Basic Act Promoting Responsible AI” to regulate generative AI development and use hard law to penalize wrongful acts.
- TV Tokyo reported Thursday that Microsoft will also provide its supercomputer for lease, similar to Google, to the GOJ’s GENIAC project, which will have seven startups and research institutes develop a domestic foundation model by August.
- On Thursday, Director-General Inoue Hiroo of METI’s Energy Conservation and Renewable Energy Department met with Director-General Chan Ki Part of the South Korean MOTIE’s Hydrogen Economy Policy Bureau to discuss cooperation in hydrogen and its derivatives such as ammonia.
- On Wednesday, METI announced the establishment of the AI Safety Institute (AISI) within the Information-technology Promotion Agency (IPA) to examine evaluation methods for AI safety. Chaired by Sompo Japan’s Chief Digital Officer Murakami Akiko, it will collaborate with other institutes including the U.S. and U.K. ones.
- The Japan-U.S. Task Force on the Promotion of Human Right and International Labor Standards in Supply Chains met for the first time to discuss their respective efforts

toward ensuring human rights due diligence in supply chains. The Council will meet regularly to conduct government-to-government and government-to-industry talks.

## 10. State of the Economy

- *Nikkei* [reported](#) Friday that listed firms are expected to reach record-high net profits in the March 2024 quarter for the third straight quarter, up 13 percent to ¥43.5 trillion off the return of socioeconomic activities and the weak yen.
- *Nikkei* [reported](#) Thursday that Japan has been overtaken by Germany as third in the world in terms of nominal GDP (denominated in dollars) in 2023, mostly due to the weak yen and inflation. It did, however, [surpass](#) that of China for the first time since 1977, growing at 5.7 percent compared to China's 4.6 percent.
- The Cabinet Office [announced](#) that the preliminary real GDP growth rate for the October-December 2023 period was -0.1 percent and -0.4 percent annually. This is the [second straight](#) quarter in decline as consumption and capital investment fell.
- On Wednesday, the Japan Research Institute [projected](#) that the number of births in Japan last year would fall 5.8 percent to 726,000, the lowest since statistics became available. Total fertility rate is also expected to fall to a record-low of around 1.20.
- On Tuesday, the BOJ [announced](#) that the corporate goods price index (CGPI) in January was 120.1, up 0.2 percent from the same month last year and the third consecutive month the rate of increase has been above zero. Though GOJ subsidies for utilities pushed prices down, raw material costs pushed prices up.

## II. Public Opinion Poll

- A NHK poll [released](#) on Monday showed that the Cabinet approval rating was 25 percent, down one point from [January](#), while disapproval was 58 percent, up two points.
  - 51 percent of respondents [said](#) that they support the Cabinet because it seems better than other ones; 23 percent said because it includes a party they support; and 11 percent said because they trust the prime minister's character.
  - 45 percent of respondents said that they do not support the Cabinet because they have no expectations for its2-3 policies; 27 percent said because it lacks executive ability; and 11 percent said because they do not trust the prime minister's character.
  - 88 percent of respondents said that they do not believe the Diet members who underreported kickbacks in their expense reports have not done their due diligence in explaining the scandal, while 2 percent said they believe they have.

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- 32 percent of respondents said that they somewhat approve of the LDP Political Reform HQ's interim report; 29 percent said they do not really approve; 28 percent said they do not approve; and 4 percent said they strongly approve.
- 82 percent of respondents said that they believe the guilty-by-association rule for Diet members whose staff responsible for accounting are indicted/arrested should be introduced, while 9 percent said they believe it should not.
- 36 percent of respondents said that they do not really approve of Kishida's response to the fundraising scandal; 33 percent said they do not at all; 22 percent said somewhat; and 1 percent said they strongly approve.
- 84 percent of respondents said that they do not believe Education Minister Moriyama Masahito has done his due diligence in explaining alleged ties to the Unification Church, while 5 percent said they do believe that he has.
- 48 percent of respondents said that they somewhat approve of the GOJ's response to the Noto Peninsula earthquake so far; 28 percent said they do not really approve; 9 percent said they do not at all; and 7 percent said they strongly approve.
- 77 percent of respondents said that they do not believe wage hikes will exceed inflation, as Kishida has requested of the business industry, while 8 percent said they believe it will.
- 33 percent of respondents said that they oppose the GOJ's financial assistance scheme for child care policies through a hike in public medical insurance fees; 31 percent said the hike is not appropriate; 20 percent said it is appropriate.
- 51 percent of respondents said that they oppose the GOJ's efforts to relax rules on exporting defense equipment to third countries, while 31 percent said they support the GOJ's efforts.

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

Political Party	Approval Rating (%)
Liberal Democratic Party	31 ( $\pm 0$ )
Constitutional Democratic Party	7 (+2)
Japan Innovation Party	3 (-1)
Komeito	3 ( $\pm 0$ )
Japan Communist Party	2 ( $\pm 0$ )
Democratic Party for the People	1 ( $\pm 0$ )
Reiwa Shinsengumi	1 (-1)

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Social Democratic Party	0 ( $\pm 0$ )
Suffrage Party (Sanseitō)	1 (+1)
Party for Everyone (former NHK Party)	0 ( $\pm 0$ )
Independent (No Party)	44 (-1)