

## ***The Weekly Observer***

April 29-May 3, 2024

*The 118<sup>th</sup> edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the PM's diplomatic trip to Europe and South America, the Japan-U.S.-Australia-Philippines defense ministers' meeting, Kishida's bilateral meetings in the three countries, postponement of the "active cyber defense" bill, Constitution Day, speculation about an early general election, speculation over exchange rate intervention, Nippon Steel delaying acquisition of U.S. Steel, AI-related developments, annual unemployment and jobs-to-applicants statistics, and more.*

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

### **1. PM Visits France, Paraguay, and Brazil**

- Prime Minister Kishida Fumio [visited](#) France, Paraguay, and Brazil from May 1-6 to attend the OECD Ministerial in Paris and deepen ties with South America.
- In France, Kishida [chaired](#) the OECD Ministerial in Paris from May 2-3 and [announced](#) the “Hiroshima AI Process Friends Group,” a forty-nine member voluntary grouping to push forth deliverables from the G7 Hiroshima Summit.
- The prime minister also [announced](#) a new ¥1.4 billion “Japan-OECD-ASEAN Partnership Program” (JOAPP) to dispatch top OECD researchers to Southeast Asia to provide support in infrastructure development, digital, and other sectors.
- On May 4, Kishida [visited](#) Sao Paulo and delivered a policy speech titled “Paving a Pathway to ‘Human Dignity’ with Latin America and the Caribbean,” in which he spoke about Japan’s foreign policy in the region for the first time as a sitting prime minister in ten years.
- The speech [emphasized](#) the vision of economic relations based on trust, not the threat of force and coercion, in an apparent dig at China’s diplomacy in the region. Kishida also announced new exchange programs for over one thousand people over the next three years, building on the trust in the Nikkei community built over the years.

### **2. Japan-U.S.-Australia-Philippines Defense Ministers’ Meeting**

- On Thursday, Minister of Defense Kihara Minoru [attended](#) the second Japan-U.S.-Australia-Philippines defense ministers’ meeting in Hawaii, where the ministers expressed serious concern about the situation in the East and South China Seas and agreed to further advance defense cooperation, including in these waters.
- Kihara also [attended](#) the trilateral Japan-U.S.-Australia defense ministers’ meeting, in which the ministers signed the Research, Development, Test, and Evaluation (RDT&E) Projects Arrangement to jointly conduct research for operationally-relevant advanced technologies.
- Kihara [met](#) with Secretary of National Defense of the Philippines Gilbert Teodoro on Friday, where the ministers agreed to deepen cooperation toward concluding the Reciprocal Access Agreement (RAA) negotiations, which began in November 2023.
- Kihara [met](#) with U.S. Secretary of Defense Lloyd Austin on Thursday, where the ministers agreed to continue discussions to upgrade command and control

frameworks and to proceed with preparation to hold a Forum on Defense Industrial Cooperation, Acquisition, and Sustainment (DICAS) as early as possible.

- Kihara [met](#) with Australian Deputy Prime Minister and Minister for Defense Richard Marles, where they agreed to discuss cooperation between Japan's counterstrike capabilities and Australia's long-range precision capabilities, and to enhance operational cooperation [based on](#) the 2022 Joint Declaration on Security Cooperation.

### 3. Foreign Policy Developments

- On Friday, Kishida [held](#) a summit meeting with Brazilian President Luiz Inacio Lula da Silva, where the leaders launched the "Japan-Brazil Green Partnership Initiative" and the Initiative for Sustainable Fuel and Mobility. Japanese firms [signed](#) thirty-six memorandum of cooperation agreements ranging from critical minerals to energy.
- Kishida also [held](#) a summit meeting with President Santiago Peña of Paraguay, where the leaders welcomed eleven memorandums of cooperation [signed](#) by both public and private sectors in various fields like communications and space.
- Minister for Foreign Affairs Kamikawa Yoko [held](#) a meeting with Vietnamese Foreign Minister Bui Thanh Son on the sidelines of the OECD Ministerial, where the ministers agreed to deepen bilateral cooperation and through the OECD.
- On Thursday, Kishida [held](#) a summit meeting with French President Emmanuel Macron, where the leaders agreed to begin negotiations on a Reciprocal Access Agreement (RAA) and welcomed the signing of a [joint declaration](#) on critical minerals cooperation to jointly support mining and smelting in third countries.
- On Wednesday, the UN ambassadors of Japan, the United States, South Korea, and around fifty other countries [issued](#) a joint statement criticizing Russia's veto of a resolution that would have extended the term of the 1718 Committee Panel of Experts, who provide analysis of UN sanctions implementation on the DPRK.
- Kamikawa [visited](#) Madagascar, Côte d'Ivoire, Nigeria, France, Sri Lanka, and Nepal from April 26-May 6. In Sri Lanka, she [stressed](#) the importance of signing a memorandum of understanding on debt restructuring and implementing debt restructuring with all creditors in a transparent and comparable manner.

### 4. Defense/Security Developments

- *Nikkei* [reported](#) Saturday that the U.S. Department of Defense finalized estimated costs for the joint development of a new interceptor missile, which would cost approximately \$3 billion including hypersonic capability (Japan pays \$1 billion).

- State Minister of Defense Oniki Makoto [visited](#) the Philippines from April 28-30, where he attended the turnover ceremony of a mobile air surveillance radar system at Camp Aguinaldo.
- This is the second radar system Japan has [exported](#) to the Philippines. Both were manufactured by Mitsubishi Electric, with the first fixed radar system having been exported in October 2023.
- *Nikkei* [reported](#) Wednesday that the GOJ plans to set up an expert panel this month toward the introduction of “active cyber defense,” which would enable the GOJ to preemptively identify and respond to cyber attacks on critical infrastructure.
- The GOJ [reportedly decided](#) on Tuesday that it would postpone submission of a bill to introduce the concept, as discussions within the ruling coalition on preserving constitutionally-protected “secrecy of communications” have not progressed.

#### 5. Kishida Reiterates Desire to Amend Constitution on Constitution Day

- On Friday, Japan commemorated the seventy-seventh anniversary of the promulgation of the Japanese Constitution. Kishida [said](#) in a video message that it is the “responsibility of politics” to provide citizens with a pathway to amendment.
- Kishida’s window of opportunity to amend the Constitution before his term as LDP president ends in September is [getting smaller](#), but he technically has the two-thirds supermajority in both Houses of pro-amendment parties (LDP, Komeito, Ishin, and DPFP) to begin the process.
- Diet talks have [stalled](#) as the four parties propose launching talks on the emergency powers clause (empower government to order, not request compliance during disasters), while the CDP rejects talks on grounds that the LDP has no right to discuss amending the Constitution as it “loses the confidence” of the public with the scandal.
- The statements [issued](#) by the political parties on Constitution Day suggest stark differences in approaches, with the LDP, Komeito, Ishin, and DPFP looking to proceed with amendments, while the CDP, JCP, and other opposition parties look to deny this for various reasons like opposing amendments to help maintain power.
- Secretary-General Kato Katsunobu of the LDP HQ for the Realization of Revision of the Constitution [indicated](#) that the party plans to draft up amendments soon and use that as a basis for discussions with the other political parties.

#### 6. Political Developments

- *Yomiuri* [reported](#) Thursday that the LDP reversed course on disclosure of political funds — lowering the threshold for disclosing fundraising party ticket buyers and the activity expenses fees — due to the three by-election defeats over the weekend.
- The special investigative team of the Tokyo District Public Prosecutors Office [dropped charges](#) against ex-LDP policy chief Hagiuda Koichi and ex-Upper House Secretary-General Seko Hiroshige on grounds of “lack of evidence” over their alleged violations of the Political Funds Control Act in the Abe faction political scandal.
- On Wednesday, METI [requested](#) a literature review by the Genkai town government (Saga prefecture) to proceed with the selection of a final disposal site for nuclear waste. The mayor plans to determine whether to proceed with the request this month. If accepted, it would be the first approval in a town with a nuclear power plant.
- *Jiji* [reported](#) Tuesday that there is growing skepticism within the ruling coalition about dissolving the Lower House in June and calling a general election in July, following the three by-election defeats (especially in Shimane-1, a conservative stronghold). Party members are losing faith in Kishida as the face of the party.
- On Saturday, Kishida [attended](#) the ninety-fifth May Day rally by the Japanese Trade Union Confederation (RENGO), where he emphasized the government’s prioritization of sustained wage hikes following record pay raises during the spring wage negotiations in March/April.

## 7. Speculation Mounts Over Exchange Rate Intervention

- On Monday, the yen [sharply appreciated](#) from a thirty-four year low of ¥160 to the dollar to ¥155 to the dollar, raising speculation that the GOJ and Bank of Japan (BOJ) had intervened in the foreign exchange market.
- The volatile swings came after the BOJ decided at its monthly meeting on April 26 to maintain monetary policy, easing investor speculation that the Bank would raise interest rates further to combat the depreciating yen.
- Though Kishida and Vice Minister of Finance for International Affairs Kanda Masato [both denied](#) to comment on possible intervention, reports [suggest](#) that the GOJ and BOJ likely purchased close to ¥5 trillion in yen to stifle depreciation.
- On Wednesday (U.S. time), speculation once again [surfaced](#) that the GOJ and BOJ had intervened for the second time, as the yen appreciated approximately ¥4 to ¥153 to the dollar in a matter of a few hours.

- Analysts [speculate](#) that the GOJ and BOJ intervened right after the Federal Reserve Board's meeting and Chair Jerome Powell's press conference dampened the mood for tighter monetary policy, resulting in downward pressure on dollar appreciation.

#### 8. Economic Security Developments

- On Friday, Nippon Steel [announced](#) that it plans to delay the acquisition of U.S. Steel from April-September 2024 to July-December 2024, as the U.S. Department of Justice requested additional material for its antitrust screening process. This could theoretically push back acquisition to after the U.S. presidential election.
- *Nikkei* [reported](#) that the Ministry of Education, Culture, Sports, Science and Technology (MEXT) plans to launch a graduate exchange program with the European Union in the fall to develop talent in advanced technologies like semiconductors. It also plans a scholarship for high-achieving students studying in the United States.
- On Thursday, Minister of Economy, Trade and Industry (METI) Saito Ken and Foreign Minister Kamikawa [attended](#) the OECD Ministerial, in which the participants [agreed](#) to cooperate on securing supply chains for strategic goods like critical minerals and discussing coordination on industrial subsidies to level the playing field.
- *Nikkei* [reported](#) Tuesday that U.S. chip giant Micron Technology identifies its Hiroshima plant as a "hub for AI memory" manufacturing. The company plans to secure 25 percent of global AI memory chip share by 2025 (over double of 2022).
- Saito [attended](#) the G7 Climate, Energy and Environment Ministers' Meeting in Torino, Italy, from April 29-30, where the countries [agreed](#) to gradually phase out unabated coal power generation by 2030s in advanced countries and by 2040 in all other regions. Japan [relied](#) on coal for 30 percent of electricity supply in 2022.

#### 9. Key Economic/Financial Developments

- On Thursday, the BOJ [released](#) minutes from its policy meeting in March, which showed that several board members [pointed out](#) that inflation could swing upwards, hinting at the possibility of further rate hikes. Several members also indicated that the BOJ could cut down on JGB purchases that suppress long-term interest rates.
- Saito and Kamikawa [attended](#) the Fifth Japan-EU High Level Economic Dialogue, where the ministers discussed economic security, transparent and resilient supply chains, and the WTO. This came after the Second Japan-EU Digital Partnership Council meeting on Wednesday, where the two sides [agreed](#) on further cooperation on AI and toward realizing "Data Free Flow with Trust," as well as establishing expert groups on semiconductor manufacturing.

- *Nikkei* [reported](#) that the GOJ is considering legislation to regulate large AI developers, following global trends toward implementing “hard law” measures to legally punish risky behavior and to grasp the extent of risk involved in AI systems.
- *Reuters* [reported](#) that the LDP will consider introducing “repatriation tax cuts,” or tax breaks to companies converting foreign profits into yen as a way to incentivize firms to return overseas profits to Japan and stem the yen’s depreciation. The measure could be included in the GOJ’s Basic Policy (*Honebuto*) to be compiled in June.
- *Nikkei* [reported](#) Tuesday that the public-private organization “Global Partnership on Artificial Intelligence” (GPAI) plans to establish an Asia office in Tokyo by the summer. The GPAI will examine generative AI development and use in line with the G7 agreements on AI at the Hiroshima Summit in May 2023.
- *Nikkei* [reported](#) Sunday that Japan, China, South Korea, and ASEAN plan to establish a new framework within the Chiang Mai Initiative to enable currency swaps to take place not just during financial crises but during natural disasters. The ASEAN+3 finance ministers and central bank governors met in Tbilisi, Georgia, on Friday.

#### 10. State of the Economy

- On Saturday, the Ministry of Internal Affairs and Communication (MIC) [announced](#) that the number of children below the age of fifteen as of April 1 [fell](#) 330,000 to 14.01 million, a record-low and the forty-third year in decline. Ratio of the entire population also fell to a record-low of 11.3 percent.
- *Nikkei* [reported](#) Wednesday that 69 percent of listed companies in the Prime Market of the Tokyo Stock Exchange saw an increase in profits from the previous year, the second highest ratio of firms with higher profit margins in the last decade.
- Firms saw a rise in profit due to the lifting of restrictions on economic activity during the pandemic and chip shortages, as well as price increases, increase in tourism, and the yen’s depreciation.
- On Tuesday, MIC [announced](#) that the average unemployment rate in FY 2023 [remained the same](#) as last fiscal year at 2.6 percent. The unemployment rate in March 2024 was the same. The number of employed people rose 280,000 to 67.56 people.
- The Ministry of Health, Labor and Welfare (MHLW) [announced](#) that the seasonally adjusted jobs-to-applicants ratio in FY 2023 was 1.29 times, [down](#) 0.02 point from the previous year and the first decline from the previous year in three years, as opening decreased from the rebound immediately following the end of the pandemic.



## II. Public Opinion Poll

- A *Nikkei* poll [released](#) on Wednesday showed Cabinet approval at 26 percent, the same as March, while disapproval was at 69 percent, up three points.
  - 36 percent of respondents said that they want the prime minister to prioritize inflation relief; 33 percent said childcare, education, and policies addressing the declining birth rate; and 32 percent each said the economy, politics and money, and pensions.
  - 71 percent of respondents said that they disapproved of the activities in the Diet, while 21 percent said they approved.
  - 80 percent of respondents said that they disapproved of Kishida's response to the political fundraising scandal, while 13 percent said they approved.
  - 55 percent of respondents said that they want the prime minister to stay on until the LDP presidential election in September; 28 percent said they want him out now; and 10 percent said they want him to continue for as long as possible.
  - 29 percent each said that Kishida should dissolve the Lower House and call a general election by the end of the Diet session at the end of June or by the fall; 25 percent said there is no need to rush; and 10 percent said by the end of the year.
  - 43 percent of respondents said that they want the LDP and Komeito to remain in power but contest evenly with the opposition after the general election; 28 percent said they want a change in government; and 20 percent said they want the ruling coalition to maintain power.
  - 45 percent of respondents said that the opposition parties should field candidates in the general election, while 43 percent said they should unite behind one candidate in individual races.
  - 51 percent of respondents said they approved of Kishida's state visit to the United States, while 38 percent said they disapproved.
  - 58 percent of respondents said that they believe a security clearance system is necessary, while 22 percent said they believe it is not.
  - 28 percent of respondents said that they would vote for the LDP in the general election; 18 percent each said the CDP and undecided; 9 percent said Ishin; 5 percent said Komeito; 4 percent said Reiwa Shinsengumi; 3 percent each said the JCP and DFPF; 2 percent said Sanseitō; and 1 percent said Minna no Tō.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	29 (+1)
Constitutional Democratic Party	13 (+2)

*The Weekly Observer (4/29-5/3)*

Japan Innovation Party	8 (-1)
Komeito	4 (+1)
Japan Communist Party	4 ( $\pm 0$ )
Democratic Party for the People	2 (-1)
Reiwa Shinsengumi	3 (-1)
Social Democratic Party	- (-1)
Suffrage Party (Sanseitō)	1 ( $\pm 0$ )
Independent (No Party)	33 (-1)