

The Weekly Observer

September 2-6, 2024

The 136th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the Japan-Australia “2+2,” the Kishida-Yoon summit, Japan’s potential bid for the Australian frigate project, Koizumi Shinjiro’s candidacy announcement, the FY 2025 budget request, the main opposition party’s leadership election, the Biden administration’s reported decision to block the U.S. Steel buyout, Nvidia’s huge investment in Sakana AI, the GOJ’s reskilling promotion efforts, record-high corporate current earnings, and more.

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I. News of the Week

1. Japan-Australia Hold "2+2" Ministerial Meeting

- On Thursday, Minister for Foreign Affairs Kamikawa Yoko and Minister of Defense Kihara Minoru [met](#) with Australian Foreign Minister Penny Wong and Defense Minister Richard Marles for the eleventh “2+2” ministerial meeting in Melbourne.
- The two sides agreed to strengthen cooperation in economic security via the Economic Security Dialogue, in strategic infrastructure cooperation, in enhancing cybersecurity cooperation via the Cyber Policy Dialogue, and in the evacuation of respective nationals from third countries during crises.
- They agreed to cooperate in the Indo-Pacific on initiatives like maritime cooperation with Southeast Asian countries and Japan’s official security assistance (OSA). The two sides also agreed to work together to strengthen connectivity and digital resilience of the Pacific by establishing a Digital Development Initiative.
- The two sides agreed on enhancing bilateral operational capabilities and interoperability through operations and joint exercises, further cooperation between counterstrike capabilities, and cooperation on enhancing technological cooperation.
- The two sides reaffirmed enhanced air cooperation, including reciprocal deployments of United States, Japanese, and Australian F-35s, and cooperation on networked air and missile defense architecture.

2. Foreign Policy Developments

- On Friday, Prime Minister Kishida Fumio [met](#) South Korean President Yoon Suk-yeol for the final time as leader and agreed to continue enhancing bilateral cooperation towards next year’s sixtieth anniversary of diplomatic ties. The two sides [signed](#) a memorandum on cooperation for protecting Japanese and Koreans in third countries.
- The Japanese, U.S., and South Korean foreign ministries [held](#) a trilateral working group meeting on North Korea’s cyber threats in Seoul. The three sides reiterated their concern regarding North Korea’s illicit cyber activities that fund its unlawful weapons of mass destruction and ballistic missile programs.
- On Thursday, Kishida [received](#) a courtesy call from incoming South Korean Ambassador to Japan Park Cheol-hee, a known Japan expert, and concurred to continue developing bilateral ties in a wide range of fields.
- On Tuesday, Kishida [held](#) a summit video teleconference with the new Vietnamese President To Lam and agreed to promote people-to-people exchanges and strengthen

economic relations, including revitalizing ODA cooperation and advancing cooperation in new areas like DX, GX, and high-skilled talent development.

- *Asahi* [reported](#) Monday that Kishida is planning to skip the UN General Assembly speech scheduled for September 26 to prioritize the LDP presidential election the following day. He still plans to attend the Summit of the Future on September 22-23.
- Japanese Ambassador to China Kanasugi Kenji [met](#) with the recently indicted Japanese national who works for Astellas Pharma. Kanasugi informed him that the GOJ continues to work toward his release.












3. Defense/Security Developments

- On Wednesday, Kihara [met](#) with Richard Marles and agreed to continue cooperation between counterstrike capabilities that leverage Japanese stand-off defense capabilities and Australia's long-range strike capabilities.
- *Yomiuri* [reported](#) earlier in the week that the GOJ informed Canberra that Japan plans to bid for the frigate project, utilizing the JMSDF's Mogami-class frigate as a model. Mitsubishi Heavy Industries will be up against Spain, South Korea, and Germany.
- On Tuesday, Kihara [met](#) with Norwegian Defense Minister Bjørn Arild Gram, and welcomed the signing of a memorandum of understanding on defense equipment and technology cooperation. This was the [first visit](#) to Japan by a Norwegian defense minister in forty years.
- On Sunday, the Ministry of Defense (MOD) [finalized](#) measures to address the manpower shortage, including raising the lump sum compensations for temporary JSDF officers and reducing administrative work by utilizing technology like AI.
- On Saturday, the GOJ [protested](#) a Chinese naval survey vessel navigation in Japanese territorial waters southwest of Kuchinoerabu Island, Kagoshima and strongly protested the act taking into account recent Chinese activities around Japan. In response, the Chinese foreign ministry [justified](#) the act as "lawful passage."

4. Koizumi Announces Bid for LDP President

- On Friday, ex-Environment Minister Koizumi Shinjiro — the de facto frontrunner in the LDP presidential race — [announced](#) his candidacy with an emphasis on "settling debates of the past" toward a new Japan.
- Koizumi pledged to achieve three policies within the first year of his presidency — political reform, regulatory reform without boundaries, and enhancing life's options through measures like revising labor hour regulations.

- His announcement came after Chief Cabinet Secretary [Hayashi Yoshimasa](#) and LDP Secretary General [Motegi Toshimitsu](#) announced their candidacies earlier in the week. Minister for Foreign Affairs Kamikawa Yoko reportedly secured endorsements too.
- On Thursday, Digital Minister Kono Taro followed up last week’s candidacy announcement with his policy vision, which [includes](#) lowering the eligibility to run for elected office to eighteen years of age and establishing a “digital safety net” utilizing digital technologies to target social welfare to those in need.
- With the filing period set to end on September 12, the LDP Election Commission [announced](#) new rules for candidates and campaigns between September 4-27, including a ban on paid advertisements and automated “get out the vote” calls.

LDP Candidate Status (September 9)	
Announced	 Takayuki Kobayashi  Shigeru Ishiba  Taro Kono  Yoshimasa Hayashi  Toshimitsu Motegi  Shinjiro Koizumi  Sanae Takaichi
Announce this week	 Katsunobu Kato  Yoko Kamikawa
Securing endorsements	 Ken Saito
Expressed Interest	 Seiko Noda

5. FY 2025 Budget Request Hits a Record High

- On Wednesday, the Ministry of Finance (MOF) [confirmed](#) that the FY 2025 budget request by ministries and agencies amounted to ¥117.61 trillion, a record-high for the second consecutive year.
- This is the fourth consecutive year that the budget request topped ¥117 trillion, mostly due to higher social security, defense, and JGB bond interest payments.

- The final budget is expected to increase further as the GOJ has allowed for “discretionary spending” items, in which ministries and agencies do not have to request specific amounts for priority policies like wage hikes and childcare.
- The GOJ also [opened](#) slots for “critical policy promotion” in areas like childcare and defense, in which ministries and agencies could request up to triple the amount of discretionary spending cuts made — 10 percent from FY 2024 levels. Of the budget, approximately ¥4.16 trillion was requested under this category.
- The ministries and agencies also [requested](#) tax reforms on August 29, including tax benefits for SMEs looking to raise ¥10 billion in profits, loosening restrictions on individual investments in startups, and expanding the scope of Nippon Individual Savings Account (NISA).

6. Other Political Developments

- On Saturday, the main opposition Constitutional Democratic Party (CDP) [closed](#) the filing period for its leadership election slated for September 23. Four candidates — ex-Prime Minister Noda Yoshihiko, ex-leader Edano Yukio, incumbent leader Izumi Kenta, and one-term Diet member Yoshida Harumi — will compete for the top spot.
- *Nikkei* [reported](#) Thursday that Komeito plans to replace Chief Representative Yamaguchi Natsuo, who has served as party leader since 2009, at its biennial party convention on September 28. Secretary General Ishii Keiichi is widely viewed as the likely uncontested successor to be announced on September 18.
- On Tuesday, the GOJ [approved](#) the expenditure of ¥989.1 billion from the FY 2024 reserve funds for inflation relief and wage hike promotion to extend the utility and gas subsidies until October and December, respectively.
- LDP Secretary General Motegi Toshimitsu [announced](#) that a working team was established under the party’s Political Reform HQ to design the scheme for disclosing “policy activity fee” expenditure after ten years. The team will discuss a cap on fees, disclosure methods, and the establishment of a third-party oversight body.
- The Kishida faction (*Kochikai*) [officially submitted](#) paperwork to dissolve its political organization (fundraising arm), ending the existence of the oldest political faction in the party (sixty-seven years) which produced five prime ministers.
- *Mainichi* [reported](#) Monday that the Aso faction (then-*Ikokai*) had also been involved in the slush fund scandal, despite not being implicated in last year’s scandal involving the Abe, Nikai, and Kishida factions. Some sources [argue](#) that the statute of limitations has passed for the faction’s involvement in the scandal.

7. White House Plans to Block U.S. Steel Acquisition

- The *Financial Times* [reported](#) Thursday that the Biden administration is set to block Nippon Steel's acquisition of U.S. Steel, with the Committee on Foreign Investment in the United States (CFIUS) having already notified the company that the deal posed national security concerns that could not be overcome.
- Democratic presidential nominee and Vice President Kamala Harris said on Monday that U.S. Steel should remain "American owned and American operated," echoing President Joe Biden's stance that the deal should not go through.
- Both nominees Harris and Donald Trump oppose the deal, raising questions about whether the deal would go through after the presidential election in November.
- Nippon Steel [issued](#) a statement on Thursday stating that it has not received screening results from CFIUS. It also [said](#) Wednesday that core senior management and a majority of board members would be U.S. citizens if the deal goes through.
- The Japan-U.S. Business Council [issued](#) a statement on Thursday voicing concerns about the "political use" of the deal and urging for a strict and fair screening process.

8. Economic Security and Tech Developments

- *Nikkei* [reported](#) Thursday that Taiwanese chip design company CSMC, Inc. plans to establish a subsidiary in Fukuoka prefecture by the end of the year to design "system on chip" (SoC), which integrates all necessary functions for equipment and system movement in one chip. CSMC will also provide internship opportunities to students at Kyushu University to develop chip design talent in Japan.
- Rohm Semiconductor [signed](#) a five year long-term procurement contract with Chinese auto parts giant United Automotive Electronic Systems (UAES) for silicon carbide (SiC) power semiconductors. The two companies have been in partnership [since](#) 2015 and plan to utilize the chips in EV chargers and power inverters.
- On Wednesday, AI startup Sakana AI [announced](#) that it secured billions in investment from Nvidia, a move that enables the company to procure high-quality Nvidia chips for generative AI development. Nvidia, now a large shareholder, joined venture capital Enterprise Associates, Khosla Ventures, and Lux Capital to invest ¥20 billion.
- *Nikkei* [reported](#) Tuesday that Intel and the METI-managed National Institute of Advanced Industrial Science and Technology (AIST) will establish a domestic R&D hub for advanced chip equipment and materials within three to five years, with the aim of securing EUV lithography machines in Japan to facilitate chip development.

- The Ministry of Economy, Trade and Industry (METI) [announced](#) that the self-sufficiency ratio for oil and natural gas in FY 2023 rose 3.8 percent to 37.2 percent. This is still lower than the record-high of 40.6 percent recorded in FY 2020.
- *Nikkei* [reported](#) Sunday that the Ministry of Internal Affairs and Communications (MIC) plans to subsidize the development of optical technology to disperse data centers across the country. It believes that the energy-saving technology will enable data centers to be located away from high-energy use metropolitan areas.

9. Key Economic/Financial Developments

- At the Nikkei Reskilling Summit on Wednesday, Kishida [announced](#) that the GOJ would in the fall add eligible courses for “education training grants” and an increase in grants from 70 to 80 percent for reskilling courses in areas like transportation and construction to encourage labor shifts into industries with severe shortages.
- *Nikkei* [reported](#) that MIC plans to support telecommunications infrastructure projects in Indonesia and Vietnam next fiscal year to promote 5G implementation in Southeast Asia. Plans are already in place to utilize cheaper “Open RAN” technology to conduct pilot projects in the Philippines and Cambodia this year.
- *Nikkei* [reported](#) that the GOJ’s medium- to long-term guidelines for addressing the aging population will include efforts to increase over-the-counter costs for late-stage elderly patients (75 years or older) and discuss expanding the target of those expected to pay 30 percent of over-the-counter fees. This is the first revision in six years.
- On Tuesday, the Japan Patent Office and ASEAN counterparts [announced](#) a joint declaration recognizing the importance of further enhancing transparency and predictability of patent examination practices in emerging technologies like AI and IoT and the necessity of correcting mistranslations in the examination process.
- Tohoku Electric Power [began](#) loading nuclear fuel at its No. 2 Onagawa nuclear power plant ahead of its planned restart in November. The process involves moving 560 nuclear fuel rods from the cooling pool to the reactor pressure vessel.
- *Nikkei* [reported](#) Monday that the GOJ plans to introduce a fine for companies participating in the CO₂ emissions trading scheme to begin operations in FY 2026 that fail to make efforts to trade emissions permits despite not reaching their reduction targets. The effort aims to [redress](#) the disparity between participating industries, where air transport and steel industries take on a stronger commitment than others.

10. State of the Economy

- On Friday, MIC [announced](#) that real consumption for households of more than two persons rose 0.1 percent in July to ¥290,931, the first increase in three months. While incomes [increased](#), spending patterns did not change due to higher prices.
- On Thursday, the Ministry of Health, Labor and Welfare (MHLW) [announced](#) that real wages rose 0.4 percent in July from a year ago, the second consecutive month on the rise as bonuses [pushed up](#) the rate of increase.
- On Monday, MOF [announced](#) that current earnings for companies in all industries in the first quarter of FY 2024 rose 13.2 percent from the same period last year to ¥35.77 trillion, a record high and the sixth consecutive positive quarter.
- Current earnings [rose](#) most significantly in the manufacturing sector, which experienced a 13 percent growth as exporters benefited from historic yen depreciation. Transport machinery and telecommunications equipment benefited immensely, rising 19.9 percent and 52.2 percent, respectively.
- The same MOF survey [found](#) that human capital costs rose 6.7 percent among small- and medium-sized enterprises, compared with a 1.1 percent increase among large enterprises, suggesting a “defensive wage hike” to secure talent despite comparatively lower earnings than larger firms.

II. Public Opinion Poll

- A NTV poll [released](#) on Thursday asked prospective LDP voters (members and supporters) about the upcoming LDP presidential election.
 - 28 percent of respondents said that they plan to support Ishiba Shigeru; 18 percent said Koizumi Shinjiro; 17 percent said Takaichi Sanae; 10 percent said undecided; 5 percent said Kobayashi Takayuki; 4 percent said Hayashi Yoshimasa; 3 percent each said Kono Taro and Aoyama Shigeharu; 2 percent each said Motegi Toshimitsu and Kato Katsunobu; and 1 percent said Noda Seiko.
 - 25 percent of respondents said that the LDP must adhere to laws related to “politics and money”; 23 percent said a change in generations; 13 percent said removing political factions from politics; 8 percent each said women’s empowerment and preserving traditions and practices; and 4 percent said accepting diversity.
 - 30 percent of respondents said that the LDP should not endorse Diet members implicated in the political scandal in national elections; 25 percent said the implicated members should return the slush fund money; 19 percent said they should not be allowed to take leadership positions until re-elected; and 11 percent said there is no need for further action.