

The Weekly Observer

December 2-6, 2024

The 149th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the GOJ's reaction to the political crisis in South Korea, signs of improving Japan-PRC relations, new "official security assistance" recipients, the extraordinary Diet session, the deliberations between the ruling parties and DPFP on tax system reform, the prospect of additional Diet testimony on the slush fund scandal, Nippon Steel's response to President-elect Trump's opposition to the U.S. Steel buyout, corporate tax reform, Japan's projected real growth rate in 2024 and 2025, and more.

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I. News of the Week

1. Uncertainty in Japan-ROK Relations After Martial Law Situation

- On Wednesday, Prime Minister Ishiba Shigeru [told](#) reporters that the GOJ is watching the situation in South Korea, where President Yoon Suk-yeol imposed martial law for six hours, with “particular and grave concern.”
- GOJ sources have [told](#) the media that political instability in South Korea could potentially negatively affect momentum for improved bilateral relations, especially if Ishiba’s reported visit to Seoul in January is postponed.
- Minister of Defense Nakatani Gen, who was scheduled to visit South Korea by the end of the year, [stated](#) that bilateral defense relations remain “very important” to the GOJ, particularly with regards to North Korea.
- The situation in South Korea has already affected bilateral engagements, with ruling Liberal Democratic Party Vice President and Japan-ROK Parliamentarians’ Association Chairman Suga Yoshihide’s [visit](#) from December 15-16 getting canceled.
- The situation, which could potentially lead to Yoon’s impeachment, has [spread concern](#) among Japanese companies in South Korea, many of whom are chip and electronic components manufacturers. As of 2023, there are 3,003 Japanese business locations and approximately 42,000 nationals residing in South Korea.

2. Foreign Policy Developments

- On Friday, the GOJ [announced](#) that it will hold the inaugural high-level officials’ maritime dialogue with the United States and the Philippines on December 10. The sides are expected to discuss the South China Sea and Chinese maritime activities.
- On Wednesday, Minister for Foreign Affairs Iwaya Takeshi [delivered](#) remarks at the Tokyo-Beijing Forum, where he emphasized that Japan-PRC relations are moving forward strongly again with the resumption of short-term visa waivers for Japanese nationals, and [indicated](#) a desire to visit China at the earliest convenience.
- Following news of Beijing’s decision, *Nikkei* [reported](#) that Tokyo is also considering relaxing visa requirements for Chinese nationals by reducing the amount of paperwork required for applications. This comes as Genron NPO’s survey [found](#) that Chinese perceptions of Japan have worsened over twenty-four points to 87.7 percent in 2024 — the second highest only surpassed by 2013 (Senkaku nationalization).
- Ishiba [held](#) a summit meeting with Swedish Prime Minister Ulf Kristersson, where the two sides confirmed the upgrading of relations to a strategic partnership and

agreed to bolster defense equipment and technology cooperation based on the agreement concerning the transfer of defense equipment and technology.

- Taiwan's ruling Democratic Progressive Party [announced](#) that Secretary General Lin Yu-chang will visit Osaka and Tokyo from December 7-10 to meet Diet members as a representative of President Lai Ching-te.
- On Tuesday, Iwaya [held](#) a telephone meeting with Vice President of the European Commission and High Representative of the European Union for Foreign Affairs and Security Policy Kaja Kallas. The two sides agreed to continue cooperation to ensure the security of the Euro-Atlantic and the Indo-Pacific regions.

3. Defense/Security Developments

- On Friday, Nakatani [announced](#) that U.S. Secretary of Defense Lloyd Austin will visit Japan early next week — likely on December 10 — to confirm continued cooperation ahead of Donald J. Trump's return to the White House.
- On Thursday, Ambassador to the Philippines Endo Kazuya and Secretary for Foreign Affairs Enrique A. Manalo [signed and exchanged notes](#) for ¥1.6 billion in “official security assistance” (OSA) for FY 2024, providing the Philippine Navy with rigid-hulled inflatable boats and coastal radar systems and the Philippine Air Force with air surveillance radar systems.
- *Nikkei* [reported](#) that the GOJ plans to set up a joint public-private committee toward potentially exporting the JMSDF's Mogami-class frigate to the Australian Navy, which plans to co-develop its next generation of frigates by 2030.
- *Asahi* [reported](#) Monday that the GOJ has started crafting a “defense industrial strategy” to indicate clearly at home and abroad a desire to expand exports of domestic defense equipment. This may become challenging as the incoming Trump administration puts pressure on the GOJ to “buy American.”
- *Yomiuri* [reported](#) Saturday that the GOJ plans to select the Philippines, Indonesia, Mongolia, and Djibouti as recipients of “official security assistance” in FY 2024, transferring surveillance radars and air traffic control systems worth approximately ¥5 billion. Agreements with the four countries are expected soon.
- *Yomiuri* [reported](#) that Japan, the United Kingdom, and Italy plan to include Saudi Arabia in the Global Combat Air Programme (GCAP), with an agreement expected by year-end. Though concerns exist about Saudi Arabia's capacity to develop defense equipment, the three countries want to tap into its financial resources.

4. Ishiba's First Test Begins in the Diet

- The extraordinary Diet session began on November 28 and runs through to December 21. The minority government [faces](#) three major tests: the FY 2024 supplementary budget, political reform, and additional testimony over the slush fund scandal.
- The GOJ and ruling parties aim to move forward with both the FY 2024 supplementary budget and discussions over the separate bills being put forth regarding political reform.
- The [three main areas](#) of discussion for political reform are 1) abolishing so-called policy activity fees, 2) establishing an effective third-party oversight body, and 3) banning corporate/organizational donations.
- Ruling parties [agree](#) on legally abolishing policy activity fees, aside from the LDP's proposal of an [exemption](#) for spending related to trade secrets or classified diplomatic activities. Komeito and the Democratic Party for the People (DPFP) plan to submit separate legislation to establish a Diet oversight body, separate from the LDP plan, which was deemed too weak to exercise oversight. The ruling parties [agreed](#) to postpone a decision on corporate donations until hearing from an expert panel.
- Meanwhile, the opposition parties are in [agreement](#) on abolishing policy activity fees, co-sponsoring a bill together, but differ on corporate donations, with the DPFP and Japan Innovation Party [demanding](#) that the main opposition Constitutional Democratic Party (CDP) close a loophole enabling political organizations to donate.
- Ishiba's first major test was the leaders' Q&A sessions in both Houses, where he went on the [defensive](#) to prevent committing to opposition demands on key policy areas like separate surnames for married couples and the Constitution. Ishiba [said](#) that the party will take the same approach to slush fund implicated candidates (unendorsed or lose PR listing) in next summer's Upper House race as October's Lower House race.

5. Potential Rift Between Ruling Parties and DPFP on Tax System Reform

- On Friday, the LDP, Komeito, and DPFP tax research commissions [agreed](#) to raise the threshold for "specified dependents deduction" — providing households with fixed income and resident tax deductions — from ¥1.03 million. The measure is expected to enable dependents to earn more income without sacrificing parent's tax deduction.
- The three parties also agreed to focus on raising the income tax threshold over the resident tax threshold in ongoing discussions over the income tax exemption threshold, as local governments rely heavily on the resident tax for tax revenue.

- The ruling parties and the DPFP [disagree](#) on the amount to raise the threshold and when to implement the change. The LDP wants the raise pegged to price increases — a smaller raise — while the DPFP wants it fixed to wage hikes. The ruling parties [believe](#) a transition period until January 2026 is necessary, while the DPFP is demanding that the new tax scheme be implemented on January 1, 2025.
- LDP Tax Research Commission Chair Miyazawa Hiroyuki [told](#) reporters on Wednesday that the ruling parties will agree on tax items before concluding talks with the DPFP. The gas tax cut is another sticking point in discussions, which the LDP aims to [postpone](#) a conclusion on until next year.
- At the moment, the DPFP does not plan to compromise on the income tax exemption threshold, with suspended leader Tamaki Yuichiro [telling](#) *Sankei* in an interview that raising the threshold to ¥1.78 million is necessary to increase take home pay. He also [said](#) that the party may vote against the FY 2024 supplementary budget if the ruling parties do not agree to the party's demands on the tax threshold.
- Another major issue is the timing of the defense tax hike, which *Sankei* [reports](#) could be postponed to accommodate the DPFP's desire to focus on the income tax threshold. The GOJ [released](#) an estimate on Thursday suggesting that a one year delay in the tax hike could result in a ¥300 billion funding shortfall.

6. Political Developments

- On Friday, the GOJ [approved](#) the basic plan for the FY 2025 annual budget, which positions raising wages and income among all generations as the most important policy priority. Ishiba will also place a focus on regional revitalization in the budget.
- The board members of the Lower House Commission on the Constitution [agreed](#) to hold the first session during this extraordinary Diet session on December 19. The LDP is unlikely to get what it wants in this commission now that the CDP's Edano Yukio has taken the chairmanship following October's Lower House election.
- *Asahi* [reported](#) Thursday that the LDP will ask to convene the Lower House Political Ethics Hearing Committee by year-end to hear testimony from slush fund implicated lawmakers like ex-policy chief Hagiuda Koichi, in an effort to conclude prolonged interest in the scandal. The Upper House will hold a similar session, with twenty-three of twenty-seven Diet members [requesting](#) a session behind closed doors.
- The ruling and opposition parties [plan to discuss](#) legislation banning campaign posters from being used to defame individuals and to advertise things unrelated to elections, following multiple elections in which campaign bulletin boards were “hijacked” by such posters.

- On Wednesday, the DPFP [decided](#) to suspend leader Tamaki Yuichiro from holding leadership positions for three months, following tabloid reports that he had an extramarital affair. Deputy leader Furukawa Motohisa will take over temporarily.
- On Sunday, the Japan Innovation Party [elected](#) Osaka Governor Yoshimura Hirofumi as new leader, replacing Baba Nobuyuki and tasked with reorganizing the party after a disappointing election in October. Yoshimura selected Maehara Seiji as co-leader.

7. Economic Security and Tech Developments

- On Thursday, Nidec Corporation [announced](#) that it began shipping out new cooling equipment used in AI data centers co-developed with Super Micro Computer. Cooling capacity has been improved 2.5 times and can be utilized by servers using next-generation graphics processing units (GPUs).
- On Tuesday, Tokyo Electron [held](#) a groundbreaking ceremony for a new service hub in Tainan City, Taiwan. It will host over one thousand engineers and has been strategically placed close to science parks where local chip-related firms are located.
- Nippon Steel [issued](#) a statement justifying its buyout of U.S. Steel as “strengthening U.S. national security,” following President-elect Donald J. Trump’s post on Truth Social reiterating that he is “totally against” the deal.
- Hokkaido’s Chitose City [unveiled](#) a “future vision” outlining its city planning in anticipation of the development of a chip industry, estimating that an increase in residents and business travelers would yield ¥142.3 billion between 2023-2040 in consumption in the city.
- On Monday, contradicting media reports were published with regards to the GOJ’s tax break scheme for chip foundry Rapidus, designed to ease the burden on the chipmaker as it increases capital investments. *Mainichi* and others [reported](#) that it would be included in the FY 2025 tax system reform, while *Sankei* [refuted](#) it.
- U.S. AI startup Tenstorrent [announced](#) that it received \$6.93 billion in investments from Jeff Bezos, SBI Group, Samsung Securities, and others, which will be used to reinforce R&D capabilities. Tenstorrent has a partnership with Rapidus on technology and workforce development.

8. Key Economic/Financial Developments

- *Yomiuri* [reported](#) Friday that the Ministry of Health, Labor and Welfare (MHLW) plans to raise the threshold to receive company subsidies for insurance fees tied to welfare pensions from ¥1.06 million to ¥1.56 million, in an effort to address loss in

take home pay triggered by insurance fee payments when income exceeds ¥1.06 million. The MHLW will also [scrap](#) the wage and company size conditions for joining welfare pensions, expected to increase the eligibility pool to part-time workers.

- *Nikkei* [reported](#) Thursday that the Ministry of Economy, Trade and Industry (METI) plans to approve replacement of retired nuclear power plants in alternative locations in the next Basic Energy Plan, enabling power companies to choose different locations to invest in new power plants.
- NHK [reported](#) Wednesday that the GOJ will add companies with parent companies abroad to its corporate taxation system, in an effort to prevent tax avoidance in Japan. The GOJ has already implemented an added tax scheme for foreign subsidiaries with parent companies in Japan that are taxed at less than 15 percent.
- METI [announced](#) that Minister Muto Yoji met with Swedish Minister for Energy, Business and Industry and Deputy Prime Minister Ebba Busch, signing a memorandum of cooperation regarding energy and innovation cooperation. The two discussed potential cooperation, particularly in nuclear power.
- *Nikkei* [reported](#) Monday that the GOJ effectively postponed its plan to scrap the NTT Act — proposed by the LDP as a way to improve the company's global competitiveness — following the loss of LDP advocates in October's election. Peer telecommunications firms opposed the plan from the perspective of fair competition.
- *Nikkei* [reported](#) that the MHLW plans to lower the employment insurance fee rate in FY 2025 for the first time in eight years, lowering the “unemployment handout” as the employment environment improves from the days of the pandemic.

9. State of the Economy

- On Friday, the Cabinet Office [announced](#) that the preliminary composite index of business conditions in October rose 2.5 points from September to 116.5, the second consecutive month on the rise as chip equipment and auto sales [pushed](#) the index up.
- The MHLW [announced](#) that real wages in October stayed flat from the previous month, [breaking](#) from three straight months in decline as inflation subsided with GOJ utility subsidies and minimum wages went up. Meanwhile, real consumption [fell](#) 1.3 percent to ¥305,819, [declining](#) for the third consecutive month.
- On Wednesday, the Organisation for Economic Co-operation and Development (OECD) [announced](#) that the real growth rate globally next year would be 3.3 percent. Japan's growth rate in 2024 was [revised downward](#) from negative 0.2 percent to 0.3 percent, while the outlook for 2025 was revised upward 0.1 percent to 1.5 percent.

- On Tuesday, the Japan Research Institute [announced](#) that the number of newborns in 2024 is projected to fall below 700,000 for the first time, [down](#) 5.8 percent from last year to 685,000. The total fertility rate also fell to a record-low of 1.15.
- On Monday, the Ministry of Finance (MOF) [announced](#) that current earnings among all industries in the July-September period fell 3.3 percent from last year to ¥23.12 trillion, the [first decrease](#) in seven quarters as competition with foreign companies intensified and manufacturing profits fell due to a temporary yen appreciation.
- MOF [announced](#) that ordinary account tax revenue in October rose 5.3 percent from the previous year to ¥4.92 trillion, with corporate and inheritance tax revenues [increasing](#) by over 10 percent and consumption tax revenue by 5.8 percent.

II. Public Opinion Poll

- A *JNN* poll [released](#) on Sunday found that the Ishiba Cabinet's approval rating was 42 percent, up three points from November, while disapproval was 52 percent, down five points.
 - 61 percent of respondents said that they support raising the income tax threshold from ¥1.03 million, while 17 percent said they oppose it.
 - 52 percent of respondents said that the DPFP should choose its partners on a policy-by-policy basis; 23 percent said it should work with opposition parties to usher in a change in government; and 16 percent said it should join the LDP-Komeito ruling coalition.
 - 64 percent of respondents said that the re-amended Political Funds Control Act should ban corporate/organizational donations, while 25 percent said it does not need to be included.
 - 56 percent of respondents said that they do not take into account information on social media and video sharing platforms for elections, while 43 percent said they do.
 - Almost 60 percent of respondents said that they have concerns about transitioning to the My Number health insurance cards.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	28.2 (+3.6)
Constitutional Democratic Party	8.5 (-4.3)
Japan Innovation Party	4 (±0)
Komeito	3.3 (-0.4)

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Democratic Party for the People	8.8 (-0.3)
Japan Communist Party	2.2 (-0.3)
Reiwa Shinsengumi	2.9 (-0.7)
Social Democratic Party	0.6 (-0.2)
Suffrage Party (Sanseitō)	0.5 (-0.4)
Japan Conservative Party	0.8 (± 0)
Independent (No Party)	35.6 (+3.8)