

The Weekly Observer

December 9-13, 2024

The 150th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on Ishiba's reported visit to Southeast Asia next year, the inaugural Japan-U.S.-Philippines maritime dialogue, Japan-U.S. engagements in defense, the prospects of FY 2024 supplementary budget passage, the LDP-Komeito-DPPF agreement on tax system reform, progress on political reform legislation, the upcoming Political Ethics Hearing Committee sessions, Nippon Steel's dilemma over the U.S. Steel deal, Japan's projected digital deficit, Japan and nuclear power use, the BOJ's TANKAN survey, and more.

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I. News of the Week

1. Ishiba to Visit Indonesia and Malaysia in January, Cancels Korea Visit

- *Yomiuri* [reported](#) Sunday that Prime Minister Ishiba Shigeru plans to visit Indonesia and Malaysia in January, the two countries that hold the ASEAN chair in 2023 and 2025, respectively.
- This comes on the heels of a [decision to postpone](#) his reported trip to South Korea, taking into consideration the political crisis in South Korea following President Yoon Suk-yeol's short-lived martial law.
- With continued improvement of bilateral relations in doubt, Minister for Foreign Affairs Iwaya Takeshi and Foreign Minister Cho Tae-yul [spoke](#) over the phone on Wednesday, confirming that the importance of bilateral relations remain unchanged and reaffirming the importance of close coordination with the United States.
- Trilateral relations are on a positive track, with Director General of the Foreign Policy Bureau Kabe Yasuhiro [meeting](#) his counterparts for the second trilateral Indo-Pacific dialogue. The three sides reaffirmed the importance of trilateral cooperation to the peace and stability of the region and to address a range of issues like maritime and economic security. They also discussed North Korea-Russia military cooperation.
- On Monday, Director General of the Asian and Oceanian Affairs Bureau Namazu Hiroyuki [held](#) a trilateral meeting with his counterparts to discuss the current situation surrounding North Korea, including North Korea-Russia cooperation, and reaffirmed the importance of close coordination even in the face of various complications.

2. Foreign Policy Developments

- NHK [reported](#) Friday that Ishiba will participate in a virtual G7 summit later that night, focusing on discussions related to Ukraine and the Middle East. The leaders also aim to confirm close coordination ahead of Donald Trump's inauguration.
- On Thursday, the G7 leaders [issued](#) a statement on Syria, reiterating support for the transition in power following President Bashar al-Assad's ouster. The leaders also emphasized the importance of holding the Assad regime accountable for its crimes.
- On Tuesday, Ishiba [hosted](#) Prime Minister Petteri Orpo of Finland, where the two welcomed the commencement of negotiations on the Agreement concerning the Transfer of Defense Equipment and Technology. They agreed to continue working together as the security of the Euro-Atlantic and Indo-Pacific are increasingly inseparable.

- On Tuesday, Minister for Foreign Affairs Iwaya Takeshi [issued](#) a statement congratulating Nihon Hidankyo (Japan Confederation of A- and H-Bomb Sufferers Organization) for receiving the Nobel Peace Prize. Ishiba [reiterated](#) at a Diet session that it is “extremely difficult” to envision Japan joining the Treaty on the Prohibition of Nuclear Weapons (TPNW) given its reliance on the U.S. nuclear umbrella.
- The Japan-U.S.-Philippines Maritime Dialogue was [held](#) in Tokyo for the first time, where government representatives confirmed their commitment to strengthening cooperation amid recent developments in the South China Sea.

3. Defense/Security Developments

- On Friday, the Ministry of Defense (MOD) [held](#) the first session of the joint public-private committee promoting Japan’s bid to jointly develop Australia’s next-generation naval frigates. The committee includes Mitsubishi Heavy Industries, Mitsubishi Electric, NEC, Hitachi, and Japan Marine United from the private sector.
- On Thursday, Acquisition, Technology, and Logistics Agency (ATLA) Commissioner Ishikawa Takeshi and U.S. Department of Defense Under Secretary for Acquisition and Sustainment William LaPlante [co-hosted](#) the third Defense Industrial Cooperation, Acquisition, and Sustainment (DICAS) Forum. They confirmed further expediting discussions on missile co-production next year.
- The Japanese and U.S. government [held](#) the extended deterrence dialogue in Tokyo from December 10-12, where the representatives reiterated commitment to strengthen U.S. extended deterrence and discussed Russia and alliance priorities to prevent invasions against the alliance and in the region.
- *Nikkei* [reported](#) that the investment ratio will be equal between Japan, the United Kingdom, and Italy in the Global Combat Air Programme (GCAP) joint venture. This enables all three countries to equally influence design and manufacturing of the jet.
- On Wednesday, Japan and Mongolia [signed](#) the agreement concerning the Transfer of Defense Equipment and Technology, enabling smoother transfers between the two governments. Mongolia is the sixteenth country to [sign](#) such an agreement.
- On Tuesday, Minister of Defense Nakatani Gen and U.S. Secretary of Defense Lloyd Austin [met](#) in Tokyo, where the two discussed the regional security situation and agreed to continue strengthening the alliance amid the severe security environment.

4. FY 2024 Supplementary Budget to Be Enacted During Diet Session

- On Thursday, the LDP and main opposition Constitutional Democratic Party (CDP) [agreed](#) to hold deliberations on the FY 2024 supplementary budget on December 13 and 16, with plans to enact the budget on December 17.
- The ¥13.94 trillion budget was passed through the Lower House on Thursday. The budget [mainly covers](#) funding for the economic stimulus package — including cash handouts for low-income tax-exempt households — and funding for continued utility subsidies and reconstruction funds for the Noto Peninsula earthquake.
- Following passage in the Lower House, Ishiba [commented](#) that the ruling parties successfully negotiated a compromise package with the opposition parties, even including the first revision to the budget in twenty-eight years.
- The budget passed mainly due to [support](#) from the Democratic Party for the People (DPFP) and the Japan Innovation Party (Ishin), which each got what they wanted from the negotiations with the ruling party (tax issues and education reform).
- The ruling parties also “[put pressure](#)” on the DPFP to back the budget by reaching out to the CDP and making [concessions](#) to the main opposition party on additional funds for reconstruction efforts in the Noto Peninsula region.
- Meanwhile, Ishiba is expected to [receive some criticism](#) from within the LDP for “giving too much” to the opposition parties, setting a precedent for future negotiations where opposition parties can strongarm the ruling parties into making promises that it cannot keep.

5. Ruling Parties and DPFP Agree on Tax System Reform

- On Wednesday, the secretary generals of the LDP, Komeito, and the DPFP [agreed](#) to raise the ¥1.03 million income tax exemption threshold starting next fiscal year, including a commitment to eventually raise the threshold to ¥1.78 million.
- The secretary generals also agreed to abolish the provisional tax rate on gas taxes, in a compromise by the ruling parties to ensure DPFP support for the FY 2024 supplementary budget.
- As a first step, the ruling parties [proposed](#) raising the threshold to ¥1.23 million next year, increasing income and salary income deductions by ¥100,000 each, based on price increases from 1995. The DPFP rejected the proposal as insufficient.
- The DPFP is [demanding](#) that the threshold be raised to ¥1.78 million, in line with minimum wage hikes since 1995. The ruling parties and the DPFP disagree on the rate of increase and the timing of implementation, as the former wants a gradual hike while the latter wants to see a full hike next fiscal year.

- The ruling parties did, however, reportedly [agree](#) to the DPFP’s demands to raise the “specified dependents deduction” — the income threshold at which deductions for parents for dependents’ earned income phases out — from ¥1.03 million to ¥1.50 million for income made in FY 2025. It will enable part-time students to earn more income without sacrificing parents’ tax deductions.
- Meanwhile, the ruling parties [decided to postpone](#) the commencement of income tax hikes for defense spending from January 2027, given Komeito and DPFP concerns over contradictions with the income tax exemption threshold discussion. The GOJ still plans to [commence](#) corporate and tobacco taxes in April 2026.

6. Parties Continue to Work Toward Reconciling Political Reform Bills

- On Friday, the ruling and opposition parties [agreed](#) to hold deliberations on December 16 toward reconciling the various bills submitted concerning political reform.
- The ruling and opposition party debates on political reform have [centered](#) around three areas: abolishing policy activity fees, establishing a third-party oversight body, and banning corporate and organizational donations.

	Ruling Parties	Opposition Parties
Abolishing Policy Activity Fees	<p>LDP and Komeito agree on need to legally abolish fees and improve transparency</p> <p>LDP bill leaves an exception for the disclosure of specific expenditures related to confidential information</p>	<p>Six opposition parties co-sponsored a bill to abolish fees and ban unaccounted expenses by Diet members without exception</p>
Establishing a Third Party Oversight Body	<p>LDP bill proposed setting up third-party oversight body within the Diet or as a government body</p> <p>Komeito and DPFP co-sponsored a bill to establish a “Political Funding Oversight Committee” in the Diet, which will be empowered to monitor expenditure and take measures to require Diet members to revise expense reports</p>	<p>CDP submitted a bill to establish third-party oversight body within the Diet, with authority to reprimand Diet members for violations</p>

Banning Corporate and Organizational Donations	LDP and Komeito agreed to postpone discussions until after hearing from third-party expert panel	CDP, Sanseito, and independents co-sponsored bill to ban corporate and organizational donations Ishin is working on a separate bill closing a loophole for political organizations in the CDP bill, which it hopes to co-sponsor with the DPFP
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- The opposition parties have [strongly criticized](#) the LDP proposal for an exception to disclosing political expenditures related to classified information, as it could become the hotbed for slush funds that the bill is supposed to address.
- Ishiba also [said](#) during a Diet session on Wednesday that these specific expenditures would not be subject to a cap or disclosure, leading to questions about the LDP’s commitment to political reform. The LDP has since expressed a desire to consult with other parties toward reconciling their respective proposals.
- Parties are split on banning corporate donations, with Ishin and the DPFP criticizing the CDP for making exceptions for political organizations created by groups like labor unions, which support the CDP, in the proposed ban. Ishiba [walked back](#) remarks suggesting a corporate donation ban would violate Article 21 of the Constitution guaranteeing freedom of assembly, speech, and expression.
- Meanwhile, the ruling and opposition parties [agreed](#) on Wednesday in principle to revise the Act on Annual Payment, Travel Expenses, Allowances, etc., mandating disclosure and return of remaining balances from regular allowances for Diet members. Implementation is expected on August 1, 2025.

7. Political Developments

- On Friday, the Lower House Political Ethics Hearing Committee [agreed](#) to hear testimony from fifteen slush fund implicated LDP lawmakers from December 17-19. Though there was initial reluctance to testify, ex-LDP policy chief Hagiuda Koichi [reportedly negotiated](#) with LDP Secretary General Moriyama Hiroshi to rectify the situation in which implicated lawmakers are distanced from leadership positions.
- The GOJ [indicated](#) that it aims to craft the basic framework of its proposed “Disaster Prevention Agency” — to be established in FY 2026 — for inclusion in next June’s Basic Policy on Economic and Fiscal Management and Reform (*Honebuto*).

- The Fukuoka High Court [ruled](#) that the Civil Code and other provisions that do not recognize same-sex marriage are unconstitutional as they violate Article 13 of the Constitution, which guarantees the right to pursue happiness. This is the third case in which a high court has ruled that the provisions are unconstitutional.
- The executive members of the Lower House Commission on the Constitution [agreed](#) to hold the first meeting in the current Diet session on December 19. The first session under new Chair Edano Yukio (CDP) will be a free discussion on how to proceed with discussions going forward.
- On Thursday, the LDP and CDP [agreed](#) to hold an open session of the Upper House Political Ethics Hearing Committee on December 18 to hear testimony from the four slush fund implicated lawmakers who agreed to openly discuss the scandal. The remaining twenty-three members are requesting a session behind closed doors.
- On Sunday, LDP Secretary General Moriyama [revealed](#) that the party plans to revise the distribution of votes between Diet members and local party members in its presidential election, aiming to increase the weight of local party member votes. The party aims to come up with a proposal by the next party convention on March 9.

8. Nippon Steel Faces Growing Possibility of Failed U.S. Steel Buyout

- On Tuesday, *Bloomberg* [reported](#) that U.S. President Joe Biden plans to deny Nippon Steel's buyout bid for U.S. Steel, on national security grounds once the Committee on Foreign Investment in the United States (CFIUS) refers the case to him on December 22 or 23.
- *Bloomberg* further [reported](#) that the Department of the Treasury wrote a letter to steelmakers on behalf of CFIUS back in August, arguing that Nippon Steel represents a threat to an industry critical not just for the production of military equipment but also for infrastructure. This essentially widens the scope of U.S. national security.
- Not all parties in the U.S. government are supportive of the planned action, with *Financial Times* [reporting](#) that the Department of Defense, Department of the Treasury, and Department of State believe the deal presents no national security risks, while the U.S. Trade Representative Katherine Tai, Department of Commerce, and the Department of Energy have reservations about the deal going through.
- *Reuters* [reported](#) that Nippon Steel has sent Vice President Mori Takahiro to the United States this week to speak with U.S. government officials about the deal. The company [commented](#) that, "It is inappropriate that politics continue to outweigh true national security interests — especially with the indispensable alliance between the U.S. and Japan as the important foundation."

- The company realistically has [two options](#): rescind the CFIUS review application and resubmit after ninety days (no guarantee CFIUS approves resubmission), or take the case to court over the inappropriate review process. A Chinese company won a lawsuit against the U.S. government in 2014 over the CFIUS process.
- Chief Cabinet Secretary Hayashi Yoshimasa [said](#) on Wednesday that the GOJ will not comment on the affairs of an individual company. The GOJ has been relatively quiet on the matter, though Ishiba reportedly [sent](#) a letter to Biden asking for approval.

9. Economic Security and Tech Developments

- On Friday, Japan Advanced Semiconductor Manufacturing (JASM) President Horita Yuichi [said](#) that Taiwan Semiconductor Manufacturing Company (TSMC) — JASM’s parent company — is close to starting manufacturing of advanced chips this year. The first facility in Kumamoto will provide logic chips to Sony Group and DENSO.
- *Nikkei* [reported](#) Wednesday that Japan’s “digital deficit” — paying service fees to big tech and other foreign providers — in January-October 2024 exceeded ¥5.4 trillion and is on course to go over ¥6 trillion, surpassing last year’s numbers.
- On Monday, chip foundry Rapidus and IBM [announced](#) that they made a major breakthrough toward scaling advanced chip production, enabling the companies to build energy-saving nanosheet gate-all-around transistors, designed to make continuous scaling possible, with multiple threshold voltages, starting April 2025.
- Computer memory manufacturer Kioxia Holdings [announced](#) that the selling price for its initial public offering (IPO) was set at ¥1,455, or around ¥780 billion in market capitalization. Major investor Bain Capital is expected to retain more shares than expected, despite agreeing to sell shares on the occasion of Kioxia’s listing.
- KDDI [announced](#) that it signed a basic agreement with Sharp to utilize the land where the latter’s liquid crystal display (LCD) panel factory is in Sakai City, Osaka, for AI data centers. KDDI plans to operate the data center starting FY 2025 without Datasection, Super Micro Computer, and other partners, though talks will continue.
- *Nikkei* [reported](#) that TOPPAN is expected to join the chip coalition “US-JOINT” this month, adding a new partner to the ten company group based in Silicon Valley exploring new back-end chipmaking processes. U.S.-Japan cooperation is progressing, with Japan External Trade Organization (JETRO) [signing](#) a partnership with NY CREATES to operate an advanced chip research facility in Albany.

10. Key Economic/Financial Developments

- On Wednesday, Japan Fair Trade Commission (JFTC) Secretary General Fujimoto Tetsuya [announced](#) that the JFTC decided on the criteria for determining which big tech companies must adhere to the new law enacted in June to regulate competition in smartphone app stores and related areas. Service providers with more than forty million average monthly users must file with the JFTC by January 20.
- NHK [reported](#) that the GOJ's next Strategic Energy Plan will delete language committing to "reducing dependence" on nuclear power, following advocacy from business and the ruling LDP urging the continued use of nuclear for stable energy sourcing. The plan is [expected to maintain](#) the ratio of nuclear energy at around 20 percent in 2040, similar to the current plan indicating targets for 2030.
- On Tuesday, the Ministry of Health, Labor and Welfare's (MHLW) social security council [approved](#) welfare pension reform, abolishing the income condition and mandating entry into the pension system for part-time workers working over twenty hours per week. This attempts to address the so-called ¥1.06 million income barrier.
- The MHLW's council also [discussed](#) the proposal to raise basic pension amounts by 30 percent (utilizing welfare pension funds), presenting an estimate that welfare pension amounts will be lower than the current system by FY 2040. Though amounts increase after that, the new system would require more public funds to be spent.
- On Monday, Minister of Finance Kato Katsunobu [delivered](#) his policy speech to the Diet, stating that Japan has "an opportunity to achieve a growth-oriented economy." He [stressed](#) that the GOJ's stimulus package is designed to usher in a growth-oriented economy supported by higher wage hikes than price increases and more investments.
- The GOJ [decided](#) that it would encourage local governments to utilize the "government cloud" when updating their respective information systems. The plan is expected to reduce operating costs and integrate national and local government cloud.

11. State of the Economy

- On Friday, the Bank of Japan (BOJ) [released](#) the Short-Term Economic Survey of Enterprises in Japan (TANKAN), which [found](#) that the diffusion index for large manufacturers improved slightly from +13 in September to +14, while the index for large non-manufacturers fell slightly from +34 to +33. Auto-related machinery improved and helped the former index up to highs last observed in March 2022.
- On Wednesday, the Cabinet Office (CAO) and Ministry of Finance (MOF) [announced](#) that the business survey index in October-December for large companies in all industries remained positive for the third consecutive quarter at +5.7. The index [improved](#) by 0.6 points as price transfers and chip/DX-related demand surged.

- The BOJ [announced](#) that the corporate goods price index (CGPI) in November rose 3.7 percent from the same month last year to 124.3, the highest rate of increase [since](#) July 2023, as the hike in rice prices pushed the entire index up.
- On Monday, the CAO [released](#) its Economy Watchers Survey for November, which found that the diffusion index for current economic conditions rose 1.9 points from October to 49.4, the first improvement in three months. The CAO [maintained](#) the assessment that the economy has “continued moderate recovery.”
- The CAO also [announced](#) that the seasonally adjusted real GDP growth rate in July-September was 0.3 percent on a quarterly basis and 1.2 percent on an annual basis. The numbers were [revised upward](#) from the preliminary announcement last month, mainly reflecting private sector inventory.
- The MOF [announced](#) that Japan ran a ¥2.46 trillion current account surplus in October, a 13 percent cutback from the same month last year, [largely due](#) to the balance of services including travel hitting a seventh consecutive month deficit.

II. Public Opinion Poll

- A NHK poll [released](#) on Monday found that the Ishiba Cabinet’s approval rating was 38 percent, down three points from November, while disapproval was 38 percent, up three points.
 - 33 percent of respondents said that they approve of the Cabinet because they trust the prime minister; 30 percent said because it seems better than the alternatives; and 18 percent said because it includes a party they support.
 - 34 percent of respondents said they disapprove of the Cabinet because they have no expectations for its policies; 24 percent said because it lacks executive ability; and 13 percent said because they cannot trust the prime minister.
 - 37 percent of respondents said that they have little hope in the GOJ’s economic stimulus package; 35 percent said they have some hope; 16 percent said they have no hope; and 9 percent said they have great hope.
 - 42 percent of respondents said that they support raising the income tax exemption threshold but below ¥1.78 million; 30 percent said it should be raised to ¥1.78 million; and 17 percent said it does not need to be raised.
 - 61 percent of respondents said that discussions on political reform should continue on into the next year, while 31 percent said it should be concluded this year.
 - 51 percent of respondents said that corporate and organizational donations should be banned, while 34 percent said it should be allowed.

- 45 percent of respondents said that social media and video platforms will strongly influence elections going forward; 39 percent said somewhat; 7 percent said not so much; and 2 percent said not at all.
 - 37 percent of respondents said that they strongly feel concerned about the spread of disinformation and defamatory content through social media during elections; 35 percent said they somewhat feel that way; 14 percent said they do not really feel that way; and 6 percent said they strongly disagree with the statement.
 - 49 percent of respondents said that they somewhat understand the new My Number insurance card merging the card with health insurance certificates; 22 percent said they do not really understand it; 14 percent said they have a strong understanding; and 8 percent said they have no knowledge on this.
 - 48 percent of respondents said that they believe President-elect Trump will have a somewhat negative effect on Japan; 20 percent said he will have a somewhat positive effect; 16 percent said a negative effect; and 4 percent said a positive effect.
 - 40 percent of respondents said that they are somewhat concerned that the political crisis in South Korea will affect bilateral relations; 26 percent said they are very concerned; 18 percent said they are not so concerned; and 7 percent said they have no concern.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	28.7 (-1.4)
Constitutional Democratic Party	8.7 (-2.7)
Japan Innovation Party	3.4 (-0.2)
Komeito	2.5 (-1.3)
Democratic Party for the People	7.9 (+0.5)
Japan Communist Party	2.7 (+0.3)
Reiwa Shinsengumi	1.6 (+0.2)
Social Democratic Party	0.9 (+0.4)
Suffrage Party (Sanseitō)	0.5 (-0.7)
Japan Conservative Party	0.7 (+0.4)
Independent (No Party)	35.6 (+4)