

The Weekly Observer

December 16-20, 2024

The 151st edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the potential Trump-Ishiba summit in early January, Ishiba's conversation with acting ROK President Han Duck-soo, Defense Minister Nakatani's reported visit to the U.K. next month, the FY 2025 tax system reform plan, the political reform legislation, the testimony from slush fund implicated lawmakers, the Bank of Japan's decision to maintain policy interest rates, details on Japan's AI legislation, merger talks between Honda and Nissan, the record-high number of tourists traveling to Japan, and more.

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I. News of the Week

1. Trumps Signals for Summit with Ishiba Before Inauguration

- *Yomiuri* [reported](#) Thursday that U.S. President-elect Donald J. Trump informed the GOJ that he is open to meeting Prime Minister Ishiba Shigeru in the United States before his inauguration on January 20.
- This comes after Trump [told](#) reporters on Monday that he would be willing to meet Ishiba if he wants to. Special Advisor to the Prime Minister on security issues Nagashima Akihisa, who visited Washington in November, [told Jiji](#) previously that the earliest possible date would be February.
- Chief Cabinet Secretary Hayashi Yoshimasa [said](#) Tuesday that the GOJ welcomes Trump's remark indicating Japan's importance to the incoming administration. The GOJ failed to set up a meeting between the two back in November.
- This also comes on the heels of Abe Akie, widow of the late Prime Minister Abe Shinzo, [meeting](#) Trump and First Lady-elect Melania on Sunday. Japan is back on the Trump radar, with SoftBank CEO Masayoshi Son also [meeting](#) the president-elect and pledging to invest \$100 billion over four years and to create 100,000 jobs.
- Trump [reportedly left](#) Akie with books for Ishiba, including a signed photo book of the president-elect. He wrote in it "PEACE," which reportedly is a message that the U.S. administration plans to end the wars in Ukraine and the Middle East.
- Trump also [tapped](#) former Ambassador to Portugal George Glass as U.S. ambassador to Japan. The [former investment banker](#) was a huge Trump donor and a fierce anti-China hawk, who demanded that Portugal choose between the United States or China during his tenure as ambassador.

2. Foreign Policy Developments

- On Thursday, Ishiba [spoke](#) over the phone with Acting President and Prime Minister of South Korea Han Duck-soo, where the two agreed that the importance of continuing and developing bilateral relations remains unchanged.
- NHK [reported](#) that Minister for Foreign Affairs Iwaya Takeshi is expected to meet with PRC Foreign Minister Wang Yi in Beijing on December 25 to kickstart mutual visits and address unresolved issues. This comes after experts from both countries [held](#) a dialogue on Wednesday on the discharge of ALPS treated water.
- National Security Secretariat Secretary General Akiba Takeo [met](#) with President Ferdinand Marcos Jr. of the Philippines, indicating that the GOJ desires to further

strengthen relations with Manila to maintain and strengthen the free and open rules-based international order. Akiba will also [visit](#) Cambodia this week.

- On Monday, the foreign ministers of Japan, Australia, Canada, France, Germany, Italy, South Korea, New Zealand, United Kingdom, the United States, and the EU [issued](#) a joint statement condemning in the “strongest possible terms” the increasing military cooperation between North Korea and Russia.
- Iwaya [held](#) a meeting with First Deputy Prime Minister and Economy Minister of Ukraine Yuliia Svyrydenko, where he expressed his expectations that Japanese companies’ engagement in Ukraine’s recovery and reconstruction would make further progress through the Ninth Japan-Ukraine Economic Joint Meeting.
- Ishiba [participated](#) in the G7 leaders’ video conference late Friday night, where he pointed out that the security of Europe including Ukraine, the Middle East, and the Indo-Pacific are closely tied together, and that Japan would like to coordinate and cooperate in unity with the G7.

3. Defense/Security Developments

- *Yomiuri* [reported](#) Wednesday that the GOJ plans to request ¥283.2 billion in the FY 2025 budget draft for satellite constellations, which would serve as the “eye” for locating targets to be hit with counterstrike capabilities. The request will also [include](#) ¥19.8 billion for stand-off missile production and ¥239.1 billion for the development of hypersonic guided missiles.
- On Tuesday, the National Institute of Defense Studies [issued](#) its annual “China Security Report,” which [stated](#) that China is investing heavily in the so-called Global South to maximize its influence and reap core gains in the military domain.
- *Asahi* [reported](#) that the JMSDF will reorganize its surface vessel unit as early as the end of next fiscal year, abolishing the convoy fleet and minesweeper fleet and streamlining operations under a “surface fleet,” which will include an “amphibious warfare mine group” to be based at Sasebo Naval Base in Nagasaki prefecture.
- NHK [reported](#) Monday that Minister of Defense Nakatani Gen is planning to visit the United Kingdom in January to discuss progress on the Global Combat Air Programme (GCAP) with Secretary of Defense John Healey.
- *Nikkei* [reported](#) that the coast guards of the Quad countries plan to hold the first-ever joint exercises in Japan at the beginning of next year. There are also plans for a trilateral Japan-U.S.-Philippines version in March, aimed at countering Chinese maritime activities in the East and South China Seas.

- *Yomiuri* [reported](#) that the GOJ’s draft basic policy on improving the working conditions of JSDF personnel will center around establishing a new organization dedicated to strengthening the JSDF talent pool and providing specialized cyber units with extra compensation for special operations.

4. Ruling Parties Approve FY 2025 Tax System Reform Plan

- On Friday, the ruling parties [approved](#) the FY 2025 tax system reform plan, which will be submitted to next year’s ordinary Diet session as legislation.

Main Contents of the FY 2025 Tax System Reform Plan
“¥1.03 million income barrier”
Raise the income tax exemption threshold from ¥1.03 million to ¥1.23 million next year
Specified dependents deduction
Parents with university student-age children are eligible to receive deductions based on the child's income. The threshold will be raised from ¥1.03 million to ¥1.50 million.
Defense tax hike
Corporate and tobacco taxes will be raised starting April 2026. The commencement date for the income tax hike will be determined on a later date.
Dependents deduction for high school students
Parents with high school student-age children are eligible. Maintain the current scheme without curtailing it.
Individual-type defined contribution pension plan (iDeCo)
Raise the monthly ceiling by ¥7,000 for employees who combine iDeCo and company defined contribution plans.

- The tax plan [includes](#) the following:
 - **Income tax exemption threshold:** The basic deduction amount will increase from ¥480,000 to ¥580,000, while the salary income deduction will be increased from ¥550,000 to ¥650,000 starting next year. The threshold at which deductions decrease will also be lowered from ¥24 million to ¥23.50 million.
 - **Specified dependents deduction:** The scheme has been designed to encourage students to make more income without sacrificing their parents’ deductions, which in turn helps address the labor shortage in sectors like service. The deduction amount will gradually phase out even if income exceeds the threshold.

The new “specified familial special deduction” (provisional name) will phase out deductions for income made between ¥1.50 million and ¥1.88 million.

- The income tax exemption threshold remains a point of contention between the ruling parties and the Democratic Party for the People (DPFP), which [walked out](#) of talks on Tuesday after the ruling parties refused to meet its demand to raise the threshold to ¥1.78 million.
 - The ¥1.23 million is [based on](#) price increases since 1995 (20 percent) — the traditional way income tax deductions are calculated — while the DPFP’s proposal is based on the rate of increase of the minimum wage (73 percent).
- The secretary generals of the LDP, Komeito, and DPFP [signed](#) a document on Friday agreeing to continue talks to reconcile their respective positions on the threshold. The DPFP will continue to push for its desired amount and is open to a gradual hike but not as low as ¥1.23 million.
- The DPFP is frustrated because the secretary generals agreed earlier to work toward raising the threshold to ¥1.78 million. The party has gone as far as to [threaten](#) voting against next year’s annual budget, which would threaten the budget’s passage.
 - The tax plan [includes](#) language from the prior agreement, committing to “raising [the threshold] next year toward the target of ¥1.78 million” and “abolishing the provisional tax rate on the gas tax.”
- Amid these concerns, the LDP has [reached out](#) to the Japan Innovation Party (Ishin), which also voted in favor of the now-enacted FY 2024 supplementary budget this week alongside the DPFP, as coming to an agreement on education reform (Ishin’s demand) may be easier than a compromise with the DPFP.

5. Political Reform Legislation to Be Enacted

- On Tuesday, the Lower House [passed](#) a series of bills on political reform, in what became the first major cooperative effort between the ruling and opposition parties.
- Three bills were passed:
 - A bill abolishing so-called policy activity fees, without exception;
 - A bill establishing a third-party “Political Funding Oversight Committee” in the Diet to monitor political expenditures; and
 - A bill banning foreign individuals and entities from purchasing political fundraising party tickets.

- The bills are expected to be passed by the Upper House and enacted by the end of this extraordinary Diet session, which was [extended](#) by three days until December 24.
- The LDP was forced to make [major concessions](#) in the hopes of securing support for next year's annual budget in the ordinary Diet session, including on undisclosed exceptions for expenditure related to confidential information (business or diplomatic activities) and on the creation of an oversight body within the Diet.
- The ruling and opposition parties, however, could not come to an agreement on banning corporate/organizational donations, as the opposition could not come to terms with the main opposition Constitutional Democratic Party's (CDP) bill, which had a loophole for political organizations. Discussions are [expected to continue](#) between the parties until the end of fiscal year.
- Meanwhile, the Diet [enacted](#) on Friday the revised Act on Annual Payment, Travel Expenses, Allowances, etc., mandating disclosure and return of remaining balances from tax-exempt regular allowances for Diet members, effective August 1, 2025.

6. Political Developments

- On Friday, Ishiba [convened](#) a Cabinet meeting on disaster prevention, instructing ministers to reinforce disaster prevention measures toward establishing a "Disaster Prevention Agency" and dispatch a special team to conduct hearings on the ground in the Noto Peninsula to understand what is demanded of the GOJ.
- *Yomiuri* [reported](#) Thursday that the GOJ and ruling parties plan to convene next year's ordinary Diet session on January 24. Based on the Public Offices Election Act, the Upper House election would be held on July 20 if the session is not extended. The rare decision to hold an election during a long weekend was made partly in consideration of Komeito's focus on the Tokyo Metropolitan Assembly election.
- *Mainichi* [reported](#) that the GOJ will appropriate ¥203.3 billion — up ¥98 billion from last year — for regional revitalization efforts in next year's draft budget. Ishiba's focus on regional revitalization will be [spelled out](#) in the GOJ's basic policy, which emphasizes the distinct roles of the national and local governments and the need to utilize new technologies and develop infrastructure to attract people to local areas.
- Fifteen ex-Abe and Nikai faction members [testified](#) in front of the Political Ethics Hearing Committee to speak about their involvement in the slush fund scandal. The testimony did not reveal anything new, as members [denied](#) knowing of the scandal until media reports came out. The LDP hopes to end talks on the scandal this year. The Upper House [plans to continue](#) hearings after the Diet session ends with the remaining twenty-three members, who refused to testify in an open session.

- The Lower House Commission on the Constitution [held](#) an open debate, where the parties disagreed on whether to continue prioritizing discussions from the previous Diet session on establishing an emergency situations clause (extending Diet member terms during crisis). The LDP, Komeito, Ishin, and the DPFP do not have the two-thirds majority to pass amendments and are further burdened by the CDP's Edano Yukio taking the chairmanship of the commission.
- On Tuesday, LDP Secretary General Moriyama Hiroshi [revealed](#) that the party will begin discussions toward revising its presidential election rules — specifically, the weight of votes in the run-off heavily favoring Diet members over local party members, and whether to lower the voting age from twenty years old. The LDP aims to come to a conclusion by the regular party convention scheduled for March 2025.

7. BOJ Maintains Policy Interest Rate as Wait Continues

- On Thursday, the Bank of Japan (BOJ) [decided](#) to maintain policy interest rates at 0.25 percent during this month's monetary policy meeting, as the market awaits a further interest rate hike.
- BOJ Governor Ueda Kazuo [explained](#) that while the domestic economy has been “on track” in the past few months, uncertainty surrounding the incoming Trump administration's economic policy requires time to determine whether to hike rates. Ueda said the Bank needs “another notch” from indicators to make a decision.
- Ueda also [said](#) during the press conference that some board members proposed raising rates to around 0.5 percent, but that it was rejected due to the risk of inflation given policy uncertainties.
- The [gap](#) between Japanese and U.S. interest rates is expected to remain wide, as Ueda mulls hiking rates and the Federal Reserve Board continues to gradually lower rates, taking into account the possibility of Trump's inflationary economic policies.
- The BOJ also [released](#) its “multi-perspective review” of monetary policy from the last twenty-five years, [summarizing](#) it as “uncertain” compared to traditional policy centered around managing short-term rates and “side effects” from long-term, large-scale quantitative easing.
- Following the meeting, the yen depreciated to a five year low of ¥157 to the dollar. Finance Minister Kato [said](#) that the GOJ is “concerned” about exchange rate fluctuations, including speculative moves.

8. Economic Security and Tech Developments

- *Nikkei* [reported](#) Friday that the GOJ's AI legislation, to be submitted to the Diet next year, will empower the GOJ to investigate large-scale AI model developers and malicious cases. The GOJ aims to balance preserving innovation with regulatory protections to prevent malicious use of AI.
- Sharp [announced](#) that it plans to sell parts of the land and facilities for manufacturing liquid crystal display panels in Sakai City, Osaka, to SoftBank for approximately ¥100 billion. SoftBank aims to utilize the area to construct AI data centers. The area is ideal for energy-consuming data centers, as necessary infrastructure already exists.
- *Nikkei* [reported](#) Thursday that Tokyo Electron plans to increase its manufacturing ratio of AI chip equipment from 30 percent to 40 percent in March 2026, in an effort to meet AI-related demand and hedge against anticipated profit losses pertaining to U.S. export controls reducing demand from China.
- The Japan-U.S. Task Force on the Promotion of Human Rights and International Labor Standards in Supply Chains [met](#) for the second time on Wednesday, exchanging information on their respective initiatives related to human rights due diligence, efforts related to Uyghur forced labor, and seafood supply chains.
- Computer memory manufacturer Kioxia Holdings [formally listed](#) on the Tokyo Stock Exchange for the listing price of ¥1,440, lower than the disclosed pricing as the future of the memory chip market remains uncertain. Kioxia CEO Hayasaka Nobuo [said](#) his company aims to retain more autonomy by asking major shareholders Bain Capital and Toshiba to sell stocks within three years.
- *Nikkei* [reported](#) Tuesday that the National Institute of Advanced Industrial Science and Technology (AIST) will cooperate with twenty companies through a subsidiary to make progress on R&D related to quantum, AI, semiconductors, and green technologies. AIST Solutions, the subsidiary, was designed to cut back on state funding for cutting-edge R&D and to deepen industry engagements.

9. Key Economic/Financial Developments

- On Thursday, the Japanese Trade Union Confederation (RENGO) [announced](#) its plans to aim for an average hourly wage of ¥1,000 across the country next year. The lowest is in Akita, where the minimum wage is set at ¥951.
- *Nikkei* [reported](#) Wednesday that Honda and Nissan will enter business merger talks — with Mitsubishi Motors expected to join later — toward becoming the third largest automobile manufacturer behind Toyota and Volkswagen. The two companies have [fallen behind](#) in the global electric vehicle competition and seek to fuse strengths.

- On Tuesday, the Ministry of Economy, Trade and Industry (METI) [released](#) a draft of the next Strategic Energy Plan, which emphasized that renewables would become the primary energy source, while acknowledging that nuclear energy would be positioned as a reliable source with proper safety measures in place. METI [found](#) that nuclear power could be less costly than LNG or other energy sources in 2040.
- The GOJ [decided](#) that it would establish an expert panel in January to discuss which industries would be covered and how many workers would be accepted under the new “training visa” to replace the controversial Technical Intern Trainee Program. The GOJ’s basic policy is expected to be compiled in February.
- The Ministry of Health, Labor and Welfare (MHLW) [compiled](#) estimates for the cost of raising the basic pension without additional state funding, which found that welfare pensioners with an income of more than ¥6.5 million (¥11.1 million with funding) would see a decrease in pensions. Average amounts would drop by around 4 percent.
- *Nikkei* [reported](#) Monday that the Japan Business Federation (*Keidanren*) plans to appoint vice chair and Nippon Life Insurance Co. Chairman Tsutsui Yoshinobu as the next chairman, replacing Sumitomo Chemical Chairman Tokura Masakazu. This is the first time a non-financial industry leader has been tapped chairman and would be the first time since 1990 that a chairman is not from a manufacturing company.

10. State of the Economy

- On Wednesday, the Ministry of Finance (MOF) [announced](#) that Japan ran a ¥117.6 billion trade deficit in November, the fifth consecutive month in the red. However, the deficit amount was [cut back](#) 85.5 percent from the same month last year as semiconductor equipment exports increased.
- The Japan National Tourism Organization (JNTO) [announced](#) that the number of tourists who traveled to Japan in November rose 30.6 percent from the same month last year to 3.18 million. The total for the January-November period [hit](#) 33.38 million, exceeding the record-high of 31.88 million recorded in 2019.
- The Cabinet Office (CAO) [announced](#) that the GDP gap (demand-supply gap) in the July-September period was -0.4 percent, or approximately a ¥2 trillion demand deficit. This is the fifth consecutive quarter that Japan has hit a demand shortage. The gap [narrowed](#) from ¥3 trillion as real GDP growth rates were revised last week.
- The BOJ [announced](#) that the balance of household financial assets as of the end of September fell 1.5 percent compared to the end of June to ¥2,179 trillion, the first decline in eight quarters. This is [due](#) largely in part to stock prices falling and the weak yen devaluing assets held in foreign currencies.

- On Monday, the Japan Productivity Center [announced](#) that Japan's labor productivity in 2023 was \$56.80 per hour, [placing](#) the country twenty-ninth out of thirty-eight Organisation for Economic Co-operation and Development (OECD) countries. Japan's ranking has fallen since the pandemic from twenty-first in 2018 to thirty-first in 2022. The growth rate was second only to the United States among G7 countries.
- The CAO [announced](#) that seasonally adjusted machinery orders in October rose 2.1 percent from September to ¥869.8 billion, the [first increase](#) in four months as demand for semiconductor equipment and other machinery rose.

II. Public Opinion Poll

- A *Yomiuri* poll [released](#) on Monday found that the Ishiba Cabinet's approval rating was 39 percent, down four points from November, while disapproval was 48 percent, up six points.
 - 45 percent of respondents said that they approve of the Cabinet because there are no alternatives; 21 percent said because they trust the prime minister; and 14 percent said because it is centered around the LDP.
 - 27 percent of respondents said they disapprove of the Cabinet because they do not have high expectations for its policies; 25 percent said because it is centered around the LDP; and 18 percent said because they do not trust the prime minister.
 - 61 percent of respondents said that they do not feel concerned about the LDP and Komeito running a minority government, while 31 percent said they do feel concerned.
 - 68 percent of respondents said that they approve of the ruling parties and the DPFP coming to an agreement on raising the income tax exemption threshold, while 21 percent said that they disapprove.
 - 66 percent of respondents said that they believe the amount to raise the threshold should take into account funding sources, while 23 percent said they believe funding sources do not factor in.
 - 46 percent of respondents said that they approve of the GOJ's economic stimulus package, while 44 percent said they disapprove.
 - 86 percent of respondents said that they do not believe Ishiba can resolve the "politics and money" issue, while 7 percent said they believe he can.
 - 60 percent of respondents said that they believe corporate and organizational donations can exist but with heightened transparency; 30 percent said it should be banned; and 7 percent said it should remain as is.
 - 41 percent of respondents said that they want the LDP to remain the central party in the government, while 41 percent said they want to see the opposition take over the government.

- 55 percent of respondents said that they believe the opposition parties should unify candidates in future elections to compete with the ruling parties, while 31 percent said they did not believe it necessary.
 - 74 percent of respondents said that they believe the GOJ should take measures against misinformation/disinformation spread through social media, while 21 percent said they did not believe it necessary.
 - 66 percent of respondents said that they believe children should be restricted from using social media, while 27 percent said they did not believe it necessary.
 - 66 percent of respondents said that they feel concerned about the future of Japan-ROK relations given the political crisis in South Korea, while 31 percent said they do not feel concerned.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	24 (-6)
Constitutional Democratic Party	8 (-3)
Japan Innovation Party	4 (+1)
Komeito	5 (+2)
Democratic Party for the People	12 (+2)
Japan Communist Party	2 (± 0)
Reiwa Shinsengumi	3 (-1)
Social Democratic Party	0 (± 0)
Suffrage Party (Sanseitō)	0 (-1)
Japan Conservative Party	0 (-1)
Independent (No Party)	36 (+6)