

The Weekly Observer

February 26-March 1, 2024

The 109th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on Japan's new sanctions on Russia, the establishment of the Defense Innovation Technology Research Center, the Lower House Political Ethics Hearing Committee sessions, the FY 2024 budget passage in the Lower House, the security clearance system bill, the Nikkei Stock Average reaching record-highs, the alarming decline in births per year, and more.

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I. News of the Week

1. Foreign Policy Developments

- On Friday, MOFA [announced](#) that the GOJ will implement additional asset freeze measures on twelve Russian individuals and eight entities (among others), restrictions on payments and capital transactions, and ban exports to specific entities and of certain items that could contribute to industrial capabilities amid the Ukraine war. It also [expanded](#) import bans on diamonds through third countries.
- On Thursday, Minister for Foreign Affairs Kamikawa Yoko [met](#) with Czech Foreign Minister Jan Lipavský and agreed to work closely in support of Ukraine. The two also [signed](#) an agreement for scheduled air services between the two countries.
- On Wednesday, Prime Minister Kishida Fumio and Kamikawa [attended](#) the Fifth Tokyo Global Dialogue hosted by the Japan Institute of International Affairs. He emphasized the importance of cooperation over conflict in the world, while she stressed the importance of the rule of law and cooperation with the Global South.
- *Jiji* [reported](#) that Kishida is arranging to visit U.S. states like North Carolina, where Japanese companies are investing heavily in, during his state visit in April likely to emphasize the benefits of Japanese investment in the United States to people like presumptive Republican presidential candidate Donald Trump.
- On Tuesday, MOFA [announced](#) that the GOJ decided to provide an additional Emergency Grant Aid of \$32 million (approx. ¥4.8 billion) to the Gaza Strip for humanitarian assistance by international organizations in areas like food and health.
- On February 23, Kamikawa [announced](#) the “Central and South American Diplomacy Initiative” in Panama, which aims to deepen cooperation on economic resiliency like supply chain reinforcement, marine policy, and gender-related issues.

2. Defense/Security Developments

- On Thursday, Minister of Defense Kihara Minoru [met](#) with Mongolian Defense Minister Gürsediin Saikhanbayar and agreed to continue promoting defense cooperation in various areas including defense equipment and technology.
- *Jiji* [reported](#) Wednesday that the GOJ plans to designate Kagoshima Airport and Fukuoka Airport as transfer hubs for evacuees from the Miyako region and Yaeyama region, respectively, in Okinawa in the event of a crisis like a Taiwan contingency.
- *Mainichi* [reported](#) Tuesday that the LDP and Komeito decided to postpone agreement on relaxing rules on defense exports to third countries, which the GOJ wanted done

- by the end of the month. Komeito believes more time is necessary to explain the proposed changes, while the LDP wants to move ahead swiftly for GCAP.
- Kihara and Vice Chief of Staff Lt. Gen. Nagumo Kenichiro of the Joint Staff [separately met](#) with NATO Supreme Allied Commander Europe (SACEUR) Gen. Christopher G. Cavoli and agreed on the importance of further strengthening Japan-NATO ties. This is the first time SACEUR has visited Ichigaya.
 - On Monday, Chief Cabinet Secretary Hayashi Yoshimasa [announced](#) that the MOD's "Defense Innovation Technology Research Center" to be established in FY 2024 will combine the strengths of one hundred or so public and private personnel to conduct R&D on highly advanced dual-use technologies, similar to DARPA and DIU.
 - On Sunday, the JGSDF and the U.S. Marine Corps [commenced](#) Exercise Iron Fist in Kyushu/Okinawa, a drill aimed at bolstering their ability to defend remote islands. This was the first time the exercise was held in Japan and included sections where joint headquarters commanded operations of high-level squadrons.
3. Senior LDP Faction Members Feign Ignorance During Political Scandal Hearings
- On Thursday and Friday, the Lower House [convened](#) its Political Ethics Hearing Committee, which heard from Kishida, Nikai faction secretary-general Takeda Ryota, and four senior Abe faction members (Shionoya, Nishimura, Matsuno, and Takagi).
 - The four senior Abe faction members all denied involvement in the kickback scheme, with Nishimura [pointing out](#) that the faction presidents (Abe Shinzo and Hosoda Hiroyuki) were in charge of the operations. The members [contradicted](#) each other on the reversal of then-President Abe's decision to end the kickback scheme before his death, with Nishimura saying there was an inconclusive talk in August, while executive board chief Shionoya Ryu said they agreed to maintain it for the time being.
 - On Thursday, Kishida became the first sitting prime minister to appear before the Committee. He [indicated](#) that the party could introduce guilty-by-association rules, external audits, and digitalization for transparency. He also committed to not holding fundraising parties until the end of his term as prime minister.
 - Meanwhile, Nikai faction secretary-general and former Minister of Internal Affairs and Communications Takeda [defended](#) his faction president, saying former LDP Secretary-General Nikai Toshihiro was a "symbol" of the party and never involved in the systematic underreporting of kickbacks in the faction's expense reports.
 - Though not much new was expected to come out of the hearings, the LDP was [criticized](#) for its backward response to the hearings, especially over whether the

hearings would be public or closed sessions. The witnesses only agreed to testify in public after Kishida made the unprecedented decision to appear himself.

- The Upper House is expected to also [convene](#) the Committee soon, with Abe faction Upper House President and former LDP Upper House Secretary-General Seko Hiroshige expected to appear before it to testify.

4. FY 2024 Budget Passes the Lower House

- On Saturday, the FY 2024 budget [passed](#) the Lower House ahead of the deadline for “natural passage” of the budget by the end of the fiscal year, which is enacted with or without a vote in the Upper House thirty days after the Lower House passes the bill.
- The budget came to a total of ¥112.57 trillion, the second largest budget and the second consecutive year it has surpassed ¥110 trillion.
- The budget vote was delayed by the opposition, which unsuccessfully submitted no-confidence motions against the Lower House Budget Committee Chair [Onodera Itsunori](#) and Minister of Finance [Suzuki Shunichi](#) on grounds of insufficient debate.
- The vote was [initially expected](#) on Friday, but delay tactics resulted in the ruling and opposition parties agreeing on final remarks on Saturday. The opposition did understand that the budget vote should not be delayed further given it includes supplementary funding for the Noto Peninsula earthquake.
- The two sides [agreed](#) to establish a Lower House “Special Committee on Political Reform” to continue discussing the political scandal and its aftermath following the passage of the budget. It will begin deliberations as early as next month.

5. Political Developments

- On Friday, the GOJ [decided](#) that it will use around ¥116.7 billion from the FY 2023 reserve fund to provide financial assistance to households with senior citizens or those with disabilities (or low income) that have lost their homes during the Noto Peninsula earthquake. Total amount spent now amounts to ¥276.7 billion.
- On Thursday, Kishida [instructed](#) his Cabinet during a Council on Economic and Fiscal Policy session to prepare a policy package for the next three years or so to tackle the declining birth rate and aging society for this year’s Basic Policy (*Honebuto*) to be crafted in June. CAO [projected](#) that the real economic growth in 2060 could swing anywhere from 0.2 to 1.7 percent depending on labor productivity.
- On Wednesday, Tokyo Electric Power Company [commenced](#) the fourth and final round of releasing treated wastewater from the Fukushima Daiichi nuclear power

plant in this fiscal year. A total of 7,800 tons will be released by around March 16. IAEA Director-General Mariano Grossi will [visit](#) Japan from March 12-14.

- *Asahi* [reported](#) Tuesday that the LDP plans to “lose by default” in the Nagasaki-3 by-election slated for April 28, concerned that a defeat in the conservative stronghold will negatively affect government operations. The LDP Tokyo branch also [paused](#) searching for a candidate in Tokyo-15, likely to wait until Komeito and Tokyo Governor Koike Yuriko back an independent. Political scandals are hurting the LDP.
- *Jiji* [reported](#) Monday that the GOJ plans to submit the revised Immigration Control and Refugee Recognition Act to the Diet, which will enable the GOJ to revoke permanent residency from foreigners who fail to pay taxes or social security fees. This aims to streamline the system ahead of an anticipated increase in foreigners.
- Minister of State for Policies Related to Children Kato Ayuko [indicated](#) that the average increase in childcare benefits per child will come to around ¥1.46 million, including childcare allowance and cash handouts at time of pregnancy or birth.

6. Economic Security Developments

- On Friday, the GOJ [approved](#) the revised NTT Act, which scraps the R&D disclosure requirement and permits foreign members to make up fewer than a third of the company’s board of directors. An added provision says the Act could be scrapped.
- Renesas Electronics [announced](#) that it will establish a joint venture with Indian company CG Power and Industrial Solutions and Thai company Stars Microelectronics and invest around ¥140 billion in five years to construct a semiconductor assembly and inspection facility to begin operations as early as 2026 in Gujarat, India.
- On Tuesday, the GOJ [approved](#) the bill establishing a security clearance system, which identifies “important information to economic security” (renewed every five years), sets up a clearance system, and imposes penalties of up to five years imprisonment and/or a fine of up to ¥5 million for leaks of sensitive information.
- The GOJ [approved](#) the revised Basic Act on Food, Agriculture and Rural Areas and a new bill entitled “Food Supply Disaster Countermeasures Act” to grant the GOJ authority to instruct an increase in production and manage food security through means like financial assistance and penalties.
- The Institute for Molecular Science [announced](#) that it established a liaison council with ten companies including Fujitsu, Hitachi, and NEC toward the

commercialization of a quantum computer utilizing a new cooled atomic method. The members will establish a new company and aims to commercialize it by FY 2030.

- On Monday, NTT Docomo and NEC [announced](#) that they will establish a new company to develop the Open RAN business overseas. “OREX SAI” (66%-34% Docomo majority) aims to utilize NEC’s extensive network in fifty countries and regions to develop a mobile network architecture utilizing multiple vendors.

7. Key Economic/Financial Developments

- On Friday, the Nikkei Stock Average (Nikkei 225) [reached](#) the ¥39,900s for the first time, exceeding record-highs set earlier in the week and inching closer to the milestone ¥40,000 as a result of semiconductor-related performance and a reduced sense of inflation sentiment in the United States.
- On Thursday, Bank of Japan (BOJ) Policy Board member Takata Hajime [said](#) that the 2 percent sustained inflation target is becoming a reality, indicating that the BOJ could shift toward an exit. As a result, the yen [strengthened](#) against the dollar to ¥149, as speculation intensified that the BOJ is headed toward ending its loose policy.
- The GOJ’s “AI Safety Institute (AISI)” [met](#) for the first time, with Director Murakami Akiko indicating that AISI will deepen cooperation with other safety institutes in the United States and the United Kingdom. It aims to begin safety testing in the summer.
- The Japan Fair Trade Commission (JFTC) [presented](#) a draft version of the mobile ecosystem bill — designed to rein in Apple and Google’s duopoly over smartphone OS — to the LDP’s Research Commission on Market Competitiveness Policy, with an eye toward submitting to the Diet as early as April after the EU’s DMA is in place.
- The Immigration Services Agency is set to [revise](#) operational guidelines for student visas to make it easier for foreign students at vocational schools and junior colleges to work in Japan after graduation to secure foreign talent in the country. The program targets students who graduate from a MEXT-approved program.
- On Tuesday, Kishida [met](#) with Meta CEO Mark Zuckerberg to discuss state-of-the-art technologies like AI. Zuckerberg [reportedly said](#) that he is looking closely at the Japanese market and efforts to consolidate the semiconductor supply chain.

8. State of the Economy

- On Friday, MHLW [announced](#) that the effective jobs-to-applicants ratio in January was 1.27 times, unchanged from December 2023. Meanwhile, MIC [announced](#) that the unemployment rate was 2.4 percent, down 0.1 percent from December.

- CAO [announced](#) that the consumer confidence index (CCI) in February for households with more than two people was 39.1, [up](#) 1.1 point from the previous month. CAO maintained the assessment that confidence is “improving,” amid the fifth consecutive month that the index has risen.
- On Tuesday, MIC [announced](#) that the consumer price index (CPI) in January excluding volatile fresh food items was 106.4, [up](#) 2 percent from the same month last year. Though the rate of increase fell for the third straight month, price increases [exceeded](#) the average market prediction of 1.8 percent.
- MHLW [announced](#) that the preliminary number of births in 2023 fell 5.1 percent from 2022 to 758,631, a [record low](#) and the eighth consecutive year in decline. The number is worse when excluding foreigners, as births fall below 800,000 for the first time.
- On Monday, the BOJ [announced](#) that the services producer price index (SPPI) in January was 109.8, up 2.1 percent from the same month last year. Though the rate of increase [shrank](#) for the first time in four months, it remains in the 2 percent range for the sixth straight month due to producers reflecting personnel costs onto prices.
- *Nikkei* [reported](#) that Singapore gained the most Japanese firm investments between 2019-2023, almost triple that of 2019. Vietnam and India rounded off the top three, while investments to China and Korea fell 20 percent and 47 percent, respectively.

II. Public Opinion Poll

- A *Nikkei* poll [released](#) on Monday showed that the Cabinet approval rating was 25 percent, down two points from January, while disapproval was 67 percent, up one point. Approval is [closing in](#) on a record low since the LDP returned to power in 2012.
 - 39 percent of respondents said that they want the prime minister to focus on inflation relief; 37 percent said child care, education, and measures to combat the declining birth rate; and 35 percent said the economy in general.
 - 84 percent of respondents said that they believe the Diet members suspected of involvement in the slush fund scandal should state their case in the Diet’s Political Ethics Hearing Committee, while 12 percent said it would be unnecessary.
 - 73 percent of respondents said that they believe the LDP should discipline the Diet members suspected of involvement in the slush fund scandal, while 21 percent said that it does not need to.
 - 78 percent of respondents said that they disapproved of Kishida’s response to the political scandal, while 14 percent said they approved.
 - 63 percent of respondents said that they approved of the GOJ’s reconstruction efforts for Ukraine, while 26 percent said they disapproved.

- 68 percent of respondents said that they disapproved of the Diet’s activities so far, while 24 percent said they approved.
 - 80 percent of respondents said that they do not believe that wages will exceed inflation like the GOJ has set out, while 14 percent said that it will.
 - 45 percent of respondents said that they want Kishida to stay on as prime minister until the end of his term as LDP president in September; 22 percent each said they want him gone immediately and want him there until the FY 2024 budget is passed in the spring; and 6 percent said for as long as possible.
 - 67 percent of respondents said that they do not believe GOJ policies are contributing to record-high performance of the Nikkei 225, while 21 percent said they believe it is helping push it to the current heights.
 - 26 percent of respondents said that they plan to vote for the LDP in the upcoming general election; 20 percent said undecided; 12 percent each said the CDP; 11 percent said Ishin; 7 percent said Komeito; 5 percent each said Reiwa Shinsengumi and the DFPF; 3 percent said the JCP; and 1 percent each said the SDP, Sanseitō, and other political parties.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	25 (-6)
Constitutional Democratic Party	9 (+1)
Japan Innovation Party	8 (+1)
Komeito	6 (+2)
Japan Communist Party	3 (-2)
Democratic Party for the People	4 (± 0)
Reiwa Shinsengumi	3 (-1)
Social Democratic Party	1 (+1)
Suffrage Party (Sanseitō)	1 (± 0)
Other Political Parties	1 (± 0)
Independent (No Party)	36 (+4)