

The Weekly Observer

March 4-8, 2024

The 110th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the LDP-Komeito compromise on the defense equipment exports, the Japan-India foreign ministers' meeting, possible LDP-Ishin policy discussions on security, the LDP's governance code reform plan, the Upper House's scheduled Political Ethics Hearing Committee session, rumors of an April snap election, the historic high of the Nikkei Stock Average, chip export controls, the LY Corporation personal information leak, real wage decline and consumer spending, and more.

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I. News of the Week

1. LDP and Komeito to Agree on Limited Relaxation of Defense Export Rules

- On Friday, LDP policy chief Tokai Kisaburo and Komeito policy chief Takagi Yosuke [convened discussions](#) toward relaxing rules related to the export of defense equipment to third countries.
- The LDP proposed limiting the export of defense equipment to third countries for the GCAP with the United Kingdom and Italy and narrowing the destination of these exports to countries that have signed a defense equipment and technology transfer agreement with Japan and are not in active combat.
- Japan has signed such agreements with fifteen countries, including the Philippines, Indonesia, Vietnam, Thailand, and Australia in the Indo-Pacific region.
- The LDP hoped to come to an agreement by March, when the GCAP is expected to make significant progress, while Komeito [began to stall](#) and demand “guardrails” to prevent the export of increasingly lethal weapons to countries in conflict.
- Komeito [leaned](#) toward accepting this compromise after Prime Minister Kishida Fumio [explained](#) to the Diet on Tuesday that the GCAP export was necessary for Japan’s national security.

2. Foreign Policy Developments

- On Friday, MOFA [announced](#) that the GOJ will provide an additional \$37 million to the people of Myanmar affected by the coup instigated by the military. Japan has provided more than \$109.5 million so far for humanitarian assistance since 2021.
- On Thursday, Minister for Foreign Affairs Kamikawa Yoko [held](#) a strategic dialogue with Indian Foreign Minister Subrahmanyam Jaishankar. The two agreed to promote cooperation in defense equipment and technology and to expand the possibilities for cooperation in space, cyber, and other new domains.
- On Wednesday, MOFA [issued](#) a statement reiterating serious concern over the recent tensions in the South China Sea between China and the Philippines. Japan said it agrees with the latter’s objections to unlawful maritime claims and coercive activities.
- *Asahi* [reported](#) Tuesday that Kishida will deliver remarks in the U.S. Congress on April 11, in what would be the first such speech by a prime minister since Abe Shinzo in 2015. He is expected to emphasize the importance of the alliance to the region.

- The GOJ [decided](#) that it will impose additional sanctions on eight leaders of Hamas for its attack against Israel. As of March 5, the GOJ has imposed sanctions on twenty-two individuals and five entities.
- On Monday, Kishida [met](#) with the families of victims of North Korean abductions and emphasized his commitment to making every effort toward the resolution of the issue, including through a possible summit with Kim Jong-un. The families [indicated](#) that they would not be against sanctions relief to move the negotiations forward.

3. Defense/Security Developments

- On Friday, Minister of Defense Kihara Minoru [revealed](#) that the United States government has requested the restart of Osprey aircraft flights, which have been suspended since the accident in November 2023 resulting in multiple deaths.
- On Thursday, Japan and Italy [held](#) the first-ever politico-military (PM) dialogue in Rome, Italy. The delegations exchanged views on a range of issues from defense and security cooperation to regional affairs like the Russian aggression against Ukraine.
- *Asahi* [reported](#) that Kihara will host the defense ministers of the fourteen Pacific Island nations from March 19-20 for the first in-person defense ministers' meeting, amid China's growing influence over countries in the region.
- On Wednesday, Japan Innovation Party Diet Affairs Chair Endo Takashi [met](#) with LDP Diet Affairs Chair Hamada Yasukazu to request policy discussions on the security clearance system and defense export rules. Komeito is [not pleased](#) with this request, as *Ishin* is shaping up to be a rival in the upcoming election.
- On Tuesday, Chief Cabinet Secretary Hayashi Yoshimasa [reiterated](#) the necessity of turning the site of Nippon Steel's steel mill in Kure City, Hiroshima, into a multi-function composite defense base bundling defense manufacturing, disaster relief, and port functions.
- On Monday, the JSDF [took part](#) in NATO's joint space exercise to take place from March 4-15 (Asterix) in Toulouse, France. The JSDF previously sent observers to the exercise but will fully participate as cyber threats from Russia and China intensify.

4. LDP Tightens Governance Code to Hold Lawmakers Accountable

- On Thursday, the LDP Political Reform HQ [indicated](#) its revised draft governance code that will be adopted at the party convention on March 17.
- The draft changes the rules to hold Diet members accountable: removal from the party or request to leave if Diet members are arrested or indicted; request to leave or

ban from leadership posts if accountants are arrested or indicted; and removal or request to leave if accountants are found guilty of charges.

- The draft also bans the continuation of political factions and the establishment of new factions, as well as bans to fundraising parties and external screening of political expense reports.
- The draft will also reinforce party functions to develop human talent unaffected by policy groups. On Monday, the LDP [held](#) a study session for Diet members with fewer terms and candidates in the next general election toward this end.
- *Yomiuri* [reported](#) that Diet members demanded during the Political Reform HQ session that the senior Abe faction members be disciplined for their involvement in the scandal. They fear lack of accountability will impact by-election results in April. The party has been unable to determine where to draw the line for disciplinary action.

5. Upper House to Convene Political Ethics Hearing Committee Next Week

- On Friday, the Upper House Political Ethics Hearing Committee [voted](#) unanimously to convene hearings on March 14 or 15 to hear from the thirty-two Abe and Nikai faction members who admitted to underreporting kickbacks in expense reports.
- The Committee expects to hear from the thirty-one members and former Abe faction member and indicted Ohno Yasutada by 11 AM on March 12. The Committee needs them to consent to hear their testimony.
- So far, Nishida Shoji and former Abe faction executive Seko Hiroshige have announced their intention to appear before the Committee. The session(s) will be held publicly like the Lower House sessions.
- The LDP [plans](#) to discipline Diet members involved in the kickback scandal after the party convention on March 17 and likely after the enactment of the FY 2024 budget. It may also wait until the end of the hearings to determine disciplinary action.
- A [star witness](#) the opposition wants in a potential future session is Shimomura Hakubun, the former Abe faction executive who fell out with ex-Prime Minister and faction president Mori Yoshiro (may be willing to talk). He initially indicated a desire to appear before the Committee before he was allegedly pressured out of it.

6. Political Developments

- On Friday, the GOJ [met](#) with representatives of the construction industry and agreed to aim for a pay hike of more than 5 percent at the upcoming spring wage negotiations. The industry includes many medium and small-sized enterprises.

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- On Thursday, the LDP [approved](#) legislation establishing a Japanese version of Britain's Disclosure and Barring Service (DBS), under which candidates for certain jobs must prove they have no history of sexual assault to be hired.
- *Sankei* [reported](#) Wednesday that a cross-party group of Diet members plan to submit legislation reinforcing the authority of the GOJ on marine policy, including additional funding for the marine policy office to accelerate the exploration of rare earths.
- On Tuesday, the LDP [decided](#) that it will adopt new action guidelines at its party convention, which will declare the end of political factions, as well as reinforcement of party functions and the amendment of the Political Funds Control Act.
- The finance minister's advisory board, [tasked](#) with providing recommendations to the GOJ ahead of the Basic Policy adoption in June every year, began discussions toward crafting recommendations, which included talks on the efficacy of the primary balance target that is unlikely to be achieved under various growth scenarios.
- On Monday, Kishida [said](#) in the Diet that he has not thought about dissolving the Lower House and calling a snap election, amid rumors that he may call an election alongside the by-elections in April. He is focused on passing the FY 2024 budget.

7. Nikkei Stock Average Reaches Historic High

- On Monday, the Nikkei Stock Average [reached](#) ¥40,109, up ¥198 from last week and topping the ¥40,000 line for the first time in history.
- Historic heights were reached largely due to the fear of missing out (FOMO) on the semiconductor-related stocks outperforming expectations due to high AI demand.
- Kishida [said](#) that it is “reassuring” that the market has responded positively to the signs of economic revolution in the country. He indicated that this year will be key to ensuring the change is permanent, not temporary.
- Meanwhile, the yen [marked](#) the first appreciation in approximately one month, reaching ¥147.54 to the dollar on Friday. This has been a result of speculation that the Bank of Japan may raise interest rates in March.
- Bank of Japan Governor Ueda Kazuo [said](#) Thursday that the certainty of realizing the Bank's sustained 2 percent inflation target is improving gradually. He said the Bank will examine results from the spring wage negotiations closely.

8. Economic Security Developments

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- On Friday, Minister of Economy, Trade and Industry (METI) Saito Ken [indicated](#) that the GOJ does not plan to introduce additional semiconductor export control measures, amid the *Financial Times* [reporting](#) the White House requested allies to take action.
- Google [announced](#) Thursday that it will establish its first cyber defense hub in the Asia-Pacific region in Japan. The hub will work with the government, businesses, and universities to research cyber defense measures and develop human talent.
- Nippon Export and Investment Insurance (NEXI) CEO Kuroda Atsuo [said](#) at a press conference on Tuesday that the company will provide insurance for the advanced payment for trade in which Japanese firms are intermediaries in transactions over commodities like minerals (resources from one country's factory to another).
- *Nikkei* [reported](#) that Gaianixx, a startup spun out of The University of Tokyo, developed material called the “interlayer film” used in the manufacture of power semiconductors, which regulates voltage and current. The material would theoretically cut the cost of power chip production by 75 percent.
- On Monday, Mori Takahiro, head of global business development at Nippon Steel, [said](#) that the company plans to directly negotiate with United Steelworkers (union) over its proposed buyout of U.S. Steel.
- Mitsubishi Co. [announced](#) that it will enter its overseas data center business in the United States during FY 2024. It will spend \$5.2 billion to acquire a part of the data center to be constructed by Digital Realty Trust.

9. Key Economic/Financial Developments

- On Thursday, the Japan Fair Trade Commission (JFTC) [warned](#) Nissan Motor to take measures to prevent the violation of the subcontract law, which it was doing by unfairly reducing a total of about ¥3 billion in payments to thirty-six suppliers over the course of three years between 2021 and 2023.
- On Tuesday, Kishida [said](#) in a video message for an event promoting exchanges between foreign investors and companies that the GOJ will announce a package for the financial and asset management special districts in June.
- The Ministry of Internal Affairs and Communications [ordered](#) Line Yahoo Corp. to reconsider its subcontracting relationship with South Korea's Naver, after the company leaked almost 510,000 user's personal information. The MIC [asked](#) SoftBank, a 50 percent stakeholder in A Holdings, which holds 64.4 percent of LY's shares, to consider increasing its involvement in the company for oversight.

- The Immigration Services Agency [announced](#) that it would revise the guidelines for granting special residence permissions to illegal overstayers, including parent's ties to local communities and the state of children's education. The new guidelines will take effect in June.
- *Nikkei* [reported](#) that METI will require 12,000 companies consuming more than 1,500 kiloliters (in crude oil equivalents) in energy to disclose the ratio of renewable energy sources in their electricity usage to receive subsidies for energy saving investments.
- *Jiji* [reported](#) Monday that the GOJ will likely implement a three year transition period for firms to adjust to the new "training and employment" visa to replace the Technical Intern Trainee Program (TITP). The new system will go online in FY 2027. The GOJ also [expects](#) as many as 820,000 specified skilled workers between FY 2024-2028, more than double the anticipated number of foreign workers projected in 2019.

10. State of the Economy

- On Friday, the Cabinet Office [announced](#) that the preliminary index of business conditions (CI) in January was 110.2, down 5.8 points from the previous month [due](#) to the Daihatsu quality control scandal. CAO downgraded assessment of the economy to "weakening," as the index fell for the first time in two months.
- The finance ministry [announced](#) that Japan ran a ¥438.2 billion current account surplus in January, as the trade deficit [narrowed](#) due to steady resource prices. The trade balance improved largely due to record-high tourism growth.
- The internal ministry [announced](#) that consumption for households with more than two members in January fell 6.3 percent to ¥289,467, the [eleventh month in decline](#) as inflation continues to cut back real spending. The rate of decrease exceeded market expectations, which was around 4.4 percent.
- On Thursday, the labor ministry [announced](#) that real wages in January fell 0.6 percent, the [twenty-second month in decline](#) as inflation continues to outpace wage growth. The rate of decline did shrink from 2.1 percent in December as nominal wages rose and the hike in inflation indicators for real wage calculations fell.
- On Tuesday, CAO [announced](#) that the demand-supply gap (GDP gap) in the October-December 2023 period was -0.7 percent, or a ¥4 trillion demand shortage. It is the [second consecutive](#) shortage month and a widened gap(-0.4 percent).
- On Monday, the finance ministry [announced](#) that capital investments in all industries between October-December 2023 was ¥14.48 trillion, [up](#) 16.4 percent from the same period in 2022, led especially by the auto and semiconductor industries.

II. Public Opinion Poll

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