

## ***The Weekly Observer***

March 11-15, 2024

*The 111<sup>th</sup> edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the LDP-Komeito agreement on defense equipment exports, IAEA Director General Grossi's visit, the resumption of Osprey aircraft flights, the thirteenth year since 3.11, the Upper House Political Ethics Committee hearing, the bill establishing a new talent development program for foreign workers, historically high wage hikes, the hardening U.S. position over Nippon Steel's acquisition of U.S. Steel, the IPEF ministerial, projected business outlook in FY 2024, and more.*

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## **I. News of the Week**

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

- On Friday, LDP policy chief Tokai Kisaburo and Komeito policy chief Takagi Yosuke [agreed](#) to permit the export of the next-generation fighter jet to be developed with the United Kingdom and Italy to third countries.
- The Cabinet will first approve the relaxation of operational guidelines related to the Three Principles on Transfer of Defense Equipment, then make decisions on a case-by-case basis on exports going forward.
- The LDP decided to compromise on a blanket approval of exports to third countries, after Komeito stalled and demanded “guardrails.” Exports will be limited to the fifteen countries that have signed defense transfer agreements with Japan.
- The two parties are [expected to finalize](#) the agreement ahead of Cabinet approval of the revised operational guidelines expected on March 26.
- Prime Minister Kishida Fumio and Komeito leader Yamaguchi Natsuo [met](#) on Tuesday to discuss the matter, with the latter praising the former for ensuring a stringent process for approval — essentially a “double Cabinet decision.”

### 2. Foreign Policy Developments

- On Thursday, Kishida [delivered](#) a speech at the Tokyo Conference 2024, in which he declared that Japan would coordinate with allies and partners, as well as the so-called Global South, to push the world toward cooperation over division amid conflicts.
- Minister for Foreign Affairs Kamikawa Yoko [met](#) IAEA Director General Rafael Grossi and announced that the GOJ will provide approximately ¥3 billion in financial assistance to the IAEA for its efforts in nuclear technology and food security.
- *Asahi* [reported](#) Wednesday that Kishida and Biden are expected to meet President Ferdinand Marcos Jr. of the Philippines for a trilateral summit when they meet in April for a bilateral summit. The three countries look to deepen cooperation in the face of increasing Chinese assertiveness in the East and South China Seas.
- On Tuesday, Kamikawa [presented](#) the 2023 ODA White Paper to the Cabinet, which positions ODA as necessary for regional stability and addressing global challenges. It pointed out that issues like the Russian invasion of Ukraine and climate change are not problems for others to solve.

- Chief Cabinet Secretary Hayashi Yoshimasa [announced](#) that the GOJ has [commenced](#) negotiations with Bangladesh over an economic partnership agreement, in an effort to lower tariffs that kick in once Bangladesh grows out of the “least developed country” status in 2026.
- On Monday, MOFA and the United States Department of State [held](#) the second dialogue on democratic resilience in Washington, D.C., in which they discussed collaboration in international fora and in areas of business and human rights.

### 3. Defense/Security Developments

- On Friday, Minister of Defense Kihara Minoru [announced](#) that he will host the Second Japan-Pacific Islands Defense Dialogue from March 19-21, in what appears to be a move to [counter](#) growing Chinese influence in the region.
- On Thursday, the JGSDF [announced](#) the results of its investigation into the crash landing of a helicopter near Miyako Island, Okinawa in April 2023. Results were inconclusive on what caused the engines to fail.
- On Wednesday, Kihara [held](#) a telephone conference with U.S. Defense Secretary Lloyd Austin, in which they confirmed that the two sides will carefully proceed with the resumption of V-22 Osprey aircraft flights in a phased manner.
- The Ministry of Defense [announced](#) the same day that Osprey flights will resume on Thursday, gradually to first recover proficiency in flight skills. The decision is [expected to garner](#) local opposition in Okinawa, as the U.S. government only decided a week before on March 8 to cease the grounding of all flights.
- *Yomiuri* [reported](#) Monday that North Korea’s military spy satellite launch in November 2023 was sophisticated enough to suggest the ability to control satellites from the ground, a major development [perhaps](#) made possible by Pyongyang’s use of joint research into missiles and other technologies through academic journal articles.
- *Nikkei* [reported](#) that the GOJ plans to export the “Unicorn,” stealth antennas equipped on a new JMSDF destroyer, as the second case of defense equipment exports after the radar export to the Philippines. The GOJ aims to deepen defense cooperation with India and reduce the latter’s dependence on Russia for military equipment.

### 4. Japan Remembers 13th Year Since the 3.11 Triple Disaster

- Monday marked the thirteenth year since the triple tragedy of the earthquake, tsunami, and nuclear accident hit the Tohoku region. A [total](#) of approximately 20,000 people lost their lives and over 2,500 are still officially missing.

- Kishida [visited](#) Fukushima prefecture and delivered a memorial address in which he emphasized the progress on recovery and reconstruction and committed to the long-term reconstruction of the region through proactive government support.
- In its statement, the LDP [emphasized](#) that it would work toward creating jobs and new industry toward the recovery of the region. Komeito emphasized the necessity of providing counseling for children affected by the disaster.
- Main opposition Constitutional Democratic Party (CDP) said that it aims to continue support for the people of the region who face a multitude of challenges from general life, employment, school, and maintaining communities.
- The Japan Innovation Party (*Ishin*) focused its statement on communicating the safety of the treated water release from Fukushima Daiichi nuclear power plant and ensuring the experiences of the disaster-affected people are passed on to the next generation.

#### 5. Testimony by Upper House Abe Faction Members Reveal Very Little

- On Thursday, the Upper House Political Ethics Hearing Committee [convened](#) a session to hear from former Upper House Secretary-General Seko Hiroshige, Nishida Shoji, and former Olympics Minister Hashimoto Seiko about the slush fund scandal.
- The testimony by two faction executives and another member [revealed](#) little about the origins of the kickback scheme or who directed the resumption of the scheme after then-President Abe Shinzo reportedly instructed an end to it in 2022.
- The testimony widely reflected those made by Lower House Abe faction executives earlier, revealing little and denying knowledge of the scheme until reports surfaced. Nishida, not part of the executive ruling body of the faction, criticized the executives for not taking responsibility for restarting a scheme Abe wanted to end.
- In the [run-up](#) to the session, twenty-nine Abe faction members either did not accept or ignored the invitation to appear before the Committee. It was [reported](#) that Shimomura Hakubun will appear before the Lower House Committee on March 18.
- The opposition [plans](#) to continue pursuing the LDP on this scandal, with calls for additional testimony from witnesses in the coming weeks. Some in the LDP also criticized the witnesses for failing to convince the public with clearer responses.

#### 6. Political Developments

- On Friday, the Cabinet [approved](#) legislation establishing a new “talent development program” replacing the controversial Technical Intern Trainee Program (TITP), which is expected to give foreign workers more mobility in employment starting FY 2027.

- On Tuesday, the LDP [announced](#) that it registered 1.09 million party members in 2023, down 33,688 members since the end of 2022. This is likely in response to the political fundraising scandal that has plagued the party since last year.
- The LDP General Council [decided](#) that the party will revise its constitution and governance code at the party convention on March 17. The new rules will tighten punishments for lawmakers whose accounting staff are indicted or arrested, giving the party the authority to request their removal from the party or ban membership.
- *Jiji* [reported](#) Monday that the LDP will consider imposing disciplinary measures on the Abe and Nikai faction members who received kickbacks before the three by-elections in April. Kishida faces the dilemma of appearing reluctant to punish fellow party members in the public eye or incurring the wrath of the disciplined members for imposing severe punishments ahead of the presidential election.
- The LDP will [appoint](#) ex-State Minister for Foreign Affairs Suzuki Takako, daughter of former *Ishin* lawmaker Suzuki Muneo, to replace Fujiwara Takashi as Youth Division director, after the latter resigned over the scandalous get-together involving inappropriate interactions with female dancers.

#### 7. Japan Inc. Exceeds Labor Expectations for Wage Hike

- On Friday, the Japanese Trade Union Confederation (RENGO) [announced](#) the results of the first round of responses regarding the spring wage negotiations.
- It [found](#) that both basic wages and annual wage hikes reached record levels at a combined average of 5.28 percent, up 1.48 points from last year and the first time in thirty-three years that the rate exceeded 5 percent.
- Businesses were [prompted](#) to raise wages as inflation continues and competition for skilled labor intensifies. Large employers like Honda preemptively announced large pay hikes in an unprecedented trend where employers meet or exceed union demands.
- During Wednesday's meeting with labor and business, Kishida [stated](#) that the GOJ would make every effort to support the trend of raising wages. Companies from [Toyota Motor](#) to [Nippon Steel](#) raised wages at an unprecedented level.
- Though Bank of Japan Governor Ueda Kazuo [said](#) Tuesday that the decision to revise its loose monetary policy will be made "comprehensively," the market is [speculating](#) that the Bank will move toward revising the negative interest rate policy at its March 18-19 meeting, as evidence points to a positive cycle between inflation and wages.

#### 8. Economic Security Developments

- On Thursday, U.S. President Joe Biden [declared](#) his opposition to Nippon Steel's proposed \$14.9 billion acquisition of U.S. Steel, saying the company has to remain "domestically owned and operated." Despite this, Nippon Steel plans to [continue](#) the deal, as key shareholders like Pentwater Capital Management [support](#) the bid.
- *Nikkei* [reported](#) that TOPPAN Holdings will establish a new semiconductor package substrate facility in Singapore to capture increasing AI-related demand. The facility, to begin operations at the end of FY 2026, will cost around ¥50 billion.
- A Ministry of Internal Affairs and Communications expert panel [agreed](#) that universal service of NTT's landline infrastructure will continue from the standpoint of fair competition. NTT has urged for this to be changed to cell phone services, which prompted concerns that the company had an edge over its rivals.
- On Monday, Kamikawa [indicated](#) that MOFA plans to establish help desks at embassies and consulates around the world to support Japanese companies responding to economic coercion from countries like China.
- Kishida [said](#) last Friday that the GOJ plans to publicly disclose the designation of critical information and operational status of the security clearance system, once it passes through the Diet and takes effect. There are concerns that the clearance system will violate rights to privacy.

## 9. Key Economic/Financial Developments

- On Thursday, the GOJ [released](#) the results of its solicitation of public comments over its AI developer guidelines, which found that large players in the AI field like SoftBank and Google support the "soft law" approach to AI regulation.
- Minister of Economy, Trade and Industry Saito Ken [participated](#) in a virtual IPEF ministerial meeting, in which the fourteen member countries agreed to [invest](#) at least ¥18 trillion into the storage battery field by 2030. Japan, the United States, Australia, and South Korea also agreed to [invest](#) around ¥4.8 billion to support decarbonization efforts in emerging economies.
- *Nikkei* [reported](#) that Japan and the Southeast Asian nations aim to initiate a cross-border QR code payment service in FY 2025, raising interoperability among the economies and promoting the mutual exchange of tourists.
- *Nikkei* [reported](#) Wednesday that Nissan and Honda are considering a partnership in the EV sector to pursue the integration of core components and joint procurement, as well as the joint development of vehicle bodies, as Japanese automakers compete intensely with cheaper Chinese EV alternatives.

- The Ministry of Finance [indicated](#) that it plans to issue a total of ¥1.4 trillion worth of GX transition bonds (ten-year and five-year) in FY 2024. Japan's GX-related developments also include a fourteen company coalition to [promote](#) floating offshore wind turbines and the legislation to [expand](#) wind power generation to the exclusive economic zone (EEZ) from the territorial sea (thirty-year lease of EEZ area).
- *Nikkei* [reported](#) Sunday that Japan and Oman plan to produce “e-methane,” or methane synthesized from hydrogen and carbon dioxide, starting 2026 to realize decarbonization in the gas sector. The project could cut costs by fivefold.

## 10. State of the Economy

- On Tuesday, the Cabinet Office (CAO) and finance ministry [announced](#) that capital investment in FY 2023 is projected to rise 9.3 percent, [indicating](#) that investment will continue to flow in this upcoming fiscal year.
- The same business outlook survey [found](#) that the business survey index (BSI) for large companies in all industries was -0.02, the first negative value in four quarters. This is largely due to the automaker (Toyota/Daihatsu) quality control scandal, which will likely fade away and result in the index improving in the upcoming quarter.
- The BOJ [announced](#) that the corporate goods price index (CGPI) in February was 120.3, up 0.6 percent from the same month last year. The rate of increase [rose](#) for the first time in fourteen months as the GOJ's utility subsidies have been completed.
- On Monday, CAO [announced](#) that the revised real GDP growth rate in the October-December 2023 period rose 0.1 percent from the previous quarter and 0.4 percent on an annual basis. Capital investments [helped](#) push growth from the negative projection in the preliminary announcement.
- The yen [appreciated](#) against the dollar to ¥146, almost reaching a one-month high as investors considered the possibility of the Federal Reserve Board lowering interest rates early. The possibility of the BOJ revising monetary policy also contributed.

## II. Public Opinion Poll

- A NHK poll [released](#) on Monday showed Cabinet approval at 25 percent, the [same](#) as February, while disapproval was at 57 percent, down one point.
  - 47 percent of respondents said that they approve of the Cabinet because it seems better than the alternatives; 25 percent said because it includes a party they support; and 13 percent said because they trust the prime minister.



- 39 percent of respondents said that they disapprove because they do not expect much from its policies; 30 percent said because it lacks executive ability; and 12 percent said because they do not trust the prime minister.
  - 50 percent of respondents said that they believe the Abe and Nikai faction executives have not done their due diligence to explain the full extent of the political scandal; 34 percent said they have not really done enough; 7 percent said they somewhat fulfilled their responsibilities; and 1 percent said they fully took accountability for the scandal.
  - 40 percent of respondents said that they somewhat approved of Kishida’s decision to appear before the Lower House Political Ethics Hearing Committee; 29 percent said they did not really approve; 18 percent said they did not approve at all; and 5 percent said they strongly approved the decision.
  - 75 percent of respondents said that they believe the LDP should discipline the Diet members who received kickbacks, while 12 percent said it should not.
  - 76 percent of respondents said that they do not believe wage hikes will exceed inflation during this spring wage negotiation, while 11 percent said they believe it will.
  - 44 percent of respondents said that they do not feel the economy has improved at all despite record-breaking stock performance; 39 percent said they do not really feel it; 10 percent said they somewhat do; and 1 percent said they strongly feel it.
  - 44 percent of respondents said that they somewhat approve of the GOJ’s response to the Noto Peninsula earthquake so far; 32 percent said they somewhat disapprove; 11 percent said they strongly disapprove; and 5 percent said they strongly approve.
  - 35 percent of respondents each said that they somewhat believe they have either utilized or not utilized the lessons from the 3.11 triple disaster to prepare for future disasters; 12 percent said they have not utilized lessons at all; and 7 percent said they have utilized the lessons to be better prepared.
  - 58 percent of respondents said that they support the GOJ’s decision to continue supporting Ukraine, while 25 percent said they oppose it.
  - 54 percent of respondents said that the GOJ should partially permit the export of defense equipment to select countries; 32 percent said the GOJ should not permit at all; and 4 percent said the GOJ should permit in all cases.
- The survey also collected data on the latest approval ratings of political parties.

<b>Political Party</b>	<b>Approval Rating (%)</b>
Liberal Democratic Party	29 (-2)
Constitutional Democratic Party	7 (±0)

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Japan Innovation Party	4 (+1)
Komeito	3 ( $\pm 0$ )
Japan Communist Party	3 (+1)
Democratic Party for the People	1 ( $\pm 0$ )
Reiwa Shinsengumi	3 (+2)
Social Democratic Party	1 (+1)
Suffrage Party (Sanseitō)	0 (-1)
Independent (No Party)	42 (-2)