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Outcome of negotiations key to wage-price cycle

Spotlight on pay hikes at smaller firms

Analysis

KAZUAKI NAGATA
STAFF WRITER

With Japan aiming to finally achieve a healthy wage-price cycle, policymakers are keenly watching this year's spring pay negotiations, which kicked off last week.

Large firms are expected to hike wages even more this year, and so the focus is on smaller firms, as about 70% of Japan's workers are employed by such enterprises.

"Small and midsize firms employ a considerably larger number of workers (compared with big companies) ... so the wage hike trend among those businesses will be really important to see whether the pay increase trend will spread across Japan," said Tatsuhiko Nakanobu, an economist at Mizuho Research & Technologies.

Last year's spring wage negotiations, known as *shuntō*, saw a 30-year high pay raise partly in response to the historic level of inflation. To cushion the impact of price hikes, many firms decided to increase wages.

According to the Japanese Trade Union Confederation, better known as Rengo, the average pay raise seen by 5,272 of its affiliated unions last spring was 3.58%.

Looking at figures by the size of companies, large firms with 1,000 or more employees saw a 3.69% raise, while the figure for companies employing 100 to 299 people stood at 3.32%. The pay hike for companies with less than 100 workers was 2.94%.

For smaller companies, more than 3% or close to that level of wage raise is considered a solid hike, Nakanobu said.

"Although they were facing rising costs due to (soaring import prices), I think they must have made a lot of efforts to somehow secure funds to raise wages."

The burning question is if those companies can top last year's figures.

Nakanobu expects that among small and midsize firms there will be strong moves to hike wages, with the figure likely to exceed last year's.

"It is true that there are voices from smaller businesses that they have been facing a tough time, as it has not been easy to shift costs onto the prices of their products," he said.

"But the trend of large firms raising wages more than last year will pressure smaller firms to follow suit."

Indeed, large companies appear to be willing to boost Japan's wage hike momentum.

Masakazu Tokura, chair of Keidanren, Japan's biggest business lobby, has stressed that Keidnaren member companies will raise wages "with even more enthusiasm compared with last year."

A number of big companies have also already declared that they will introduce large wage hikes.

Beverage-maker Suntory Holdings is planning an average 7% hike for the second straight year, while real estate developer Mitsui Fudosan is reportedly looking to offer an average 10% increase.

Also, the fact that Rengo set a more ambitious pay hike target of "5% or more" for this year's *shuntō*, in comparison to last year's goal of "about 5%," will likely encourage unions at small and midsize firms to demand higher wage hikes, Nakanobu said.

What's more, "labor shortages are becoming more serious among the non-manufacturing sectors. ... I think many smaller companies will somehow manage to secure funds to raise wages to hire people," Nakanobu added.

Some polls, however, show that it is still uncertain whether small and midsize firms will be able to raise wages in line with large firms.

In a joint poll by the Johnan Shinkin

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SERVED FRESH



A total of 65 stores at Toyosu Senkyaku Banrai, a new tourist spot in Tokyo, offer various food and drinks, with many of the shops using fresh ingredients from the Toyosu market. *Story: page 4* YUKANA INOUE

Opposition eyes united front on reform

GABRIELE NINIVAGGI
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Three days after the opening session of Parliament, it's already clear that extensive reform of political-funding practices will top the agenda in the upcoming months.

On Monday in Lower and Upper House Budget Committee sessions, opposition parties outlined their stance on the anticipated reform, paving the way for cross-party cooperation on a variety of issues including the revision of the Political Funds Control Act.

Constitutional Democratic Party (CDP) lawmaker Kazunori Yamanoi called for a united front by the opposition camp on the establishment of tougher penalties for lawmakers involved in the mismanagement of political funds, even if indirectly.

Under current regulations, unless a clear conspiracy is demonstrated, political secretaries or accountants bear most of the liability and lawmakers are often left unscathed.

CDP lawmakers went on to strongly criticize the ruling Liberal Democratic Party for failing to keep track of lawmakers involved in the scandal and get to the bottom of it. LDP factions have been accused of handing undeclared kickbacks to lawmakers for surpassing ticket sales quotas for political fundraising

parties, with the lack of declaration contravening the political funds law.

According to reports, over 100 LDP lawmakers might have been involved in the wrongdoing, but Prime Minister Fumio Kishida has said he knew of only just over 30 lawmakers from the faction formerly led by the late former Prime Minister Shinzo Abe and seven from the group once chaired by former LDP Secretary-General Toshihiro Nikai. Both groups are in the process of dissolution.

"In this context, if you don't know the cause and what's actually happened, there is no way you can discuss prevention measures," Yamanoi told Kishida, in reference to an interim report on internal political funding reform that the LDP issued last week, after two weeks of debate.

In relation to the ongoing kickback scandal, some of the disputes Monday revolved around the use of "funds for political activities," or amounts transferred by party executives to single lawmakers to conduct a variety of activities including electoral campaigns.

While parties have to disclose the sum in their political funds reports, individual lawmakers are not required to report it as income and are allowed to use it at their own discretion.

Many LDP lawmakers involved in the recent scandal referred to these funds when they admitted to receiving extra income collected through the fundraising parties.

"We think that the source of these scandals is this legal loophole that allows the distribution of cash, and I think we should abolish it, what do you think?" Nippon Ishin no Kai Secretary-General Fumitake Fujita asked Kishida during the debate.

Kishida avoided a clear answer, expressing his hopes for a sincere discussion balancing the right of the public to know and the freedom of every party to conduct its own activities.

Throughout the debate, the prime minister voiced his intention to further the discussion within the LDP, but didn't provide any additional details on the direction of those talks.

"As a party, the LDP will take part in the discussion, putting an emphasis on transparency and openness of political funds and a more rigorous system of accountability," Kishida said, adding that he intends to conduct hearings with the lawmakers involved in the scandal.

Kishida has repeatedly expressed a favorable opinion on legal revision, but so far has failed to put forward a concrete road map on the grounds that the law is strictly related to the accepted role of lawmakers and should be debated in parliament first.

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Chiefs, Niners beat rivals, punch tickets to Las Vegas | **PAGE 10**

Lawsuit filed over alleged racial profiling by police

KARIN KANEKO
STAFF WRITER

A foreign-born naturalized citizen and two foreign residents on Monday filed a lawsuit with the Tokyo District Court over alleged racial profiling by police, seeking around ¥3 million (\$20,300) in damages each from central and local governments in the first case of its kind.

Police questioning of foreign residents and visitors due to alleged racial profiling has become a higher-profile issue in Japan, with the U.S. Embassy having warned its citizens about the suspected practice in December 2021.

However, it's the first time a lawsuit over racial profiling has been filed, the group's lawyer Motoki Taniguchi said in a news conference on Monday.

The three men — a Pakistan-born naturalized Japanese citizen, an African American and a Pacific Islander — allege they have been questioned numerous times by the police because of their ethnicity or appearance.

Zain Syed, a 26-year-old who asked to be identified as Pakistani Japanese, said that he'd been questioned 15 times by the police. He moved to Japan at the age of 8 and obtained Japanese citizenship with his family when he was 13 years old.

"Despite being questioned by police, I maintained a cooperative attitude," Syed said. "However, if it happens so many times, at a certain point you start wondering, 'Did I do something wrong?' I'm sure everyone feels the same way."

Syed said that he is often asked to show his foreign resident card even though he doesn't have one as a Japanese national. He has to show them his driver's license and explain his background.

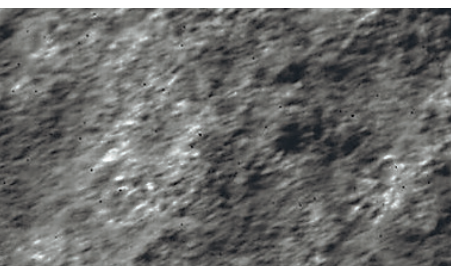
"There is currently no means of proving that my nationality is Japanese. Some people carry their passport with them, but I don't think people generally carry their passport with them every day unless they are tourists," Syed said.

Twice last year, he was questioned by a police officer in front of his house in Nagoya despite saying that he is a Japanese citizen. The officer was not convinced and asked him to show his passport and residence card before searching through his belongings.

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SLIM regains power more than a week after landing | **NATIONAL, PAGE 2**

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Can Japan return to semiconductor glory?

Focus

ELIZABETH BEATTIE
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In 2023, Japan went all in on semiconductors — the tiny yet critical components of electronic goods we use every single day — backing new plants and rolling out extensive support.

It's far from alone. Around the world, governments are implementing initiatives to secure access to chips, with many pushing to develop their own capabilities and insulate supply chains from geopolitical tensions.

One of the crown jewels in Japan's effort is the government-backed Rapidus, which is pushing to create a "Hokkaido Valley" that can compete with California's more famous Silicon Valley, attracting big players such as ASML Holding.

Also piling into the nation's chip sector are industry behemoth Taiwan Semiconductor Manufacturing Co., Samsung Electronics and Mitsubishi Chemical Group.

Behind these initiatives are investments worth tens of billions or even trillions of yen,



which underlines a simple fact: semiconductors are big business. The market was worth around \$618 billion in 2022, and is projected to reach \$1 trillion by 2030, according to an EY report from April.

But that value and strategic importance also means that Japan faces significant challenges — from staffing to the need for continued investment — in attempting to reclaim something like its past dominance of the sector.

"Essentially, the semiconductor industry

Taiwan Semiconductor Manufacturing Co.'s new factory in Kikuyo, Kumamoto Prefecture, in May 2023 | BLOOMBERG

is a winner-takes-all industry," said Masaru Tsuchiya, an associate partner at McKinsey's Tokyo office, noting that top tier companies have been successful in securing large market shares and profits.

As the semiconductor industry needs constant investment in research and development, "it's not easy to catch up once other companies have a strategic advantage," Tsuchiya added.

Japan's semiconductor conundrum is somewhat unique. Far from it being an entirely new gamble, officials are hoping they can replicate the country's glory days in this sector. Back in the '80s and '90s, Japan was one of the biggest semiconductor players globally, buoyed by government and private sector investment. In 1988, Japanese firms accounted for 51% of sales worldwide.

Japan's success became viewed as something of a blueprint for countries like Malaysia, Taiwan, and South Korea to develop economically without few natural resources, said Pierre Cambou, principal analyst of Yole Group, which provides semiconductor market analysis.

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