

The Weekly Observer

September 12-16, 2022

The 43rd edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the IPEF ministerial, the G7 trade ministers' meeting, the Japan-U.S. defense ministers meeting, the plan for a "national defense budget," the PM and FMs schedules for diplomacy next week, the GOJ's plan to possibly build shelters in Okinawa in anticipation of a Taiwan contingency, the removal of travel restrictions to Japan, the economic package scheduled to be finalized next month, the extraordinary session of the Diet next month, the Okinawa gubernatorial race, the reelection of Yamaguchi Natsuo as leader of Komeito, the possibility of a BOJ intervention in the foreign exchange market, METI's human rights due diligence guidelines, possible power shortages in the winter, a record trade deficit, and more.

By Content

I. News of the Week

Foreign Policy/Security

1. IPEF Partners Lay Out Negotiation Objectives
2. G7 Trade Ministers' Meeting
3. Japan-U.S. Defense Ministerial Meeting
4. GOJ to Consider Introducing a "National Defense Budget"
5. Foreign Policy Developments
6. Defense/Security Developments

COVID-19

7. GOJ to Announce Removal of Entry Restrictions Soon

Domestic Politics

8. LDP Policy Chief Indicates Need for ¥30 Trillion Economic Package
9. PM to Convene Extraordinary Diet Session Next Month
10. Incumbent Governor Wins Okinawa Race
11. Other Political Developments

Economics/Finance

12. BOJ Could Initiate Foreign Exchange Intervention
13. GOJ Sets Guidelines for Human Rights
14. Other Key Developments
15. State of the Economy

II. Public Opinion Polls

1. NHK (9/12)

I. News of the Week

1. IPEF Partners Lay Out Negotiation Objectives

- On Sept. 8-9, Minister for Economy, Trade and Industry Nishimura Yasutoshi and State Minister for Foreign Affairs Yamada Kenji [participated](#) in the first in-person IPEF Ministerial held in Los Angeles.
- The fourteen partner countries, [representing](#) over 40 percent of the global economy, agreed on negotiation objectives for four pillars: [trade](#); [supply chain](#); [clean economy](#); and a [fair economy](#).
- *Trade*: Seek high-standard provisions in areas that are foundational to resilient, sustainable, and inclusive economic growth, including labor, environment, digital economy, agriculture, transparency and good regulatory practices, competition, inclusivity, trade facilitation, and technical assistance and economic development.
- *Supply chain*: Seek to coordinate actions to mitigate and prevent future supply chain disruptions and secure critical sectors and key products for manufacturers. Measures include identifying sectors and products critical to national security, economic resilience, and the health and safety of citizens—and then collectively increasing resilience of these sectors.
- *Clean economy*: Seek to expand investment opportunities, spur innovation, and improve the livelihoods of citizens as the partners unlock the region's abundant clean energy resources and substantial carbon sequestration potential.
- *Fair economy*: Seek to level the playing field for businesses and workers within partner countries by preventing and combatting corruption, curbing tax evasion, and enhancing transparency, recognizing the importance of fairness, inclusiveness, the rule of law, accountability and transparency.

2. G7 Trade Ministers' Meeting

- Nishimura also [participated](#) in the G7 trade ministers' meeting held in Germany on Sept. 14-15.
- The ministers [condemned](#) Russia for its illegal war of aggression against Ukraine and pledged continued support for Ukraine. Nishimura [reportedly announced](#) that the GOJ plans to initiate reconstruction projects such as yen loans with low interest rates.
- The ministers committed to engaging constructively on ideas to reform all WTO functions, including a well-functioning dispute settlement system, improving the

WTO monitoring function, and working to improve the WTO negotiating function to better integrate developing and least developed countries into the global economy.

- The ministers recommit to taking measures to strengthen cooperation towards eradicating the use of all forms of forced labor and child labor in global supply chains, including through measures promoting corporate due diligence.
- The ministers express concern about unfair practices like forced technology transfer, as well as serious concern about the use of trade-related economic coercion, which undermines security as well as free and fair trade in the multilateral trading system.

3. Japan-U.S. Defense Ministerial Meeting

- On Wednesday, Defense Minister Hamada Yasukazu [participated](#) in his first bilateral meeting with Secretary of Defense Lloyd Austin since his appointment.
- The ministers strongly condemned China's ballistic missile launches in early August including the landing of missiles inside Japan's EEZ; reiterated the importance of peace and stability in the Taiwan Strait; and confirmed they would not condone unilateral changes to the status quo by force in the Indo-Pacific.
- The ministers also confirmed that Russia's aggression against Ukraine is an outrage that undermines the foundation of international order; that they would further advance bilateral and trilateral cooperation with the ROK to promptly respond to North Korea's provocative actions; and work with partners to maintain and strengthen FOIP.
- Hamada expressed his determination to fundamentally reinforce Japan's defense capabilities through the formulation of a new National Security Strategy, including the examination of so-called "counterstrike capabilities."
- They concurred that the countries would further accelerate cooperation in the area of equipment and technology, including continuing joint analysis on counter-hypersonic technology and considering joint research on technologies and components.

4. GOJ to Consider Introducing a "National Defense Budget"

- At a press conference on Wednesday, Chief Cabinet Secretary Matsuno Hirokazu [said](#) the GOJ would consider NATO's defense budget concept as a reference for its own formulation of a FY 2023 budget.
- The NATO standard [refers](#) to a comprehensive budget including personnel costs; costs for equipment purchases; costs related to UN PKOs; pensions for military personnel and veterans; coast guard budget; and military-related R&D.

- Under this standard, the GOJ would [aggregate](#) MOD funding and funding for the JCG (currently from MLIT) and PKOs (MOFA/CAO) as a “national defense-related budget.” This would raise defense spending from 1.09 to 1.24 percent of GDP.
- The move comes as [security-related expenses](#)—such as for infrastructure maintenance and dual-use technology research—begin to increasingly span across several ministries and agencies. Aggregating spending increases the effectiveness of security policies.
- Some in the GOJ want to utilize this system to prevent MOD from exponentially increasing its budget on its own, while those in the LDP believe this may undercut MOD’s efforts to secure the necessary budget. There are still others who are concerned that other ministries will inflate requests in the name of security.

5. Foreign Policy Developments

- On Thursday, the Office of the South Korean President [announced](#) that an agreement had been reached for President Yoon Suk-yeol and Prime Minister Kishida Fumio to meet on the sidelines of the UN General Assembly. MOFA says no such agreement was reached. The foreign ministers, however, are expected to hold a meeting.
- This week, the prime minister spoke with the leaders of [Qatar](#), [Saudi Arabia](#) and the [UAE](#). With Qatar, Kishida confirmed a commitment to further strengthen cooperation in the energy sector. With Saudi Arabia and the UAE, he discussed cooperation towards stabilizing the international oil market.
- On Wednesday, Kishida [announced](#) that he will be traveling to New York between [Sept. 19-23](#) to attend the UN General Assembly. In his address to the Assembly, Kishida [plans](#) to stress the importance of the rule of law and the need to strengthen UN functions, including UNSC reform, given the prolonged war in Ukraine.
- Foreign Minister Hayashi will [attend](#) the G7 foreign ministers (9/21) and Quad foreign ministers meetings (9/23), and a meeting with Germany, Brazil and India to discuss UNSC reform (9/22). He will also [attend](#) a meeting with the U.S., U.K., Australia and New Zealand ([Partners in the Blue Pacific](#)) to discuss support for Pacific island nations, a move likely made to counter China’s growing influence.
- Hayashi [sent](#) a video message to a symposium held in Tokyo on Monday on the topic of the 50th anniversary of normalization of diplomatic ties between Japan and China, stating that “it is the mission and responsibility of both Japan and China to make conscious efforts to build a constructive and stable relationship.”

6. Defense/Security Developments

- *Jiji* [reported](#) Friday that the GOJ is considering building shelters for residents in Ishigaki City, Okinawa, and others in the Sakishima Islands to prepare for a possible Taiwan Strait contingency. It will conduct a comparative study of ground-mounted and underground shelters and decide which will better protect citizens.
- On Thursday, MOD [announced](#) that a PLAN survey vessel intruded into territorial waters around Yakushima, Kagoshima. This is the [first time](#) since July, and the seventh time a Chinese warship has intruded into territorial waters. Two missile destroyers were [also spotted](#) on Monday passing waters off the coast of Amami Oshima in Kagoshima.
- *Yomiuri* [reported](#) Wednesday that MOD is arranging for a test run of Israeli and U.S.-made attack drones next fiscal year, determining the UAVs yielded significant results in minimizing Ukrainian casualties in its war with Russia. The GOJ aims to deploy several hundred drones to defend the southwestern islands starting FY 2025.
- Minister for Digital Transformation Kono Taro [said](#) Tuesday that the GOJ has determined that it is highly likely the cyber attack on government website “e-Gov” on Sept. 6 was a DDoS attack (to disrupt traffic).
- The JMSDF [announced](#) Tuesday that it had begun its JIMEX 2022 exercise with India on Sept. 11 (until Sept. 17) in the Andaman Sea and Bay of Bengal. The exercise includes anti-submarine warfare and air defense training, as well as refueling at sea. The JMSDF sent JS Izumo and Takanami, while the Indian Navy sent its destroyers, frigates, submarines and fighters.

7. GOJ to Announce Removal of Entry Restrictions Soon

- *Nikkei* [reported](#) Thursday that the prime minister will soon announce that Japan will remove the cap on entry, restart individual travel from foreign countries, and allow short-term travel (< 90 days) [without](#) visas from 70 or so countries including the U.S..
- This is line with the prime minister’s [statement](#) on Wednesday that Japan must strengthen its ability to “make money” under a weak yen. This [includes](#) utilizing inbound tourism to boost the economy.
- *Jiji* reports that these measures will be implemented as soon as next month. According to the Japan National Tourism Organization, the number of tourists who came to Japan in July was still less than 5 percent of pre-pandemic levels.
- The [current cap](#) on entry is 50,000 per day. There are restrictions on tourism in general, as only group tours are permitted. Visas are required for every traveler.

- The GOJ is [arranging](#) to initiate a new “nationwide travel support” program in the fall to replace the existing “prefectural citizens’ discount” program. The discount rate will be 40 percent, with a maximum of ¥8,000 per person per night for transportation and lodging, or ¥5,000 for lodging. In addition, restaurant coupons worth ¥3,000 and ¥1,000 for weekdays and holidays, respectively, will be distributed.

8. LDP Policy Chief Indicates Need for ¥30 Trillion Economic Package

- On Thursday, LDP Policy Research Council Chairperson Hagiuda Koichi [instructed](#) LDP policy divisions to begin considering policies to include in the comprehensive economic policy package scheduled to be finalized next month.
- Hagiuda indicated that he expects the package to fall somewhere around ¥30 trillion.
- The package will include policies to address rising costs of living and policies to realize “new capitalism.” There are proposals to include policies encouraging tourism and expanding agricultural exports in light of the historically weak yen.
- The LDP [plans to submit](#) its proposal to the GOJ by mid-October. The GOJ will then finalize the direction the economic policies will take.
- Regarding the package, the prime minister [instructed](#) his Cabinet on Wednesday to consider concrete policies to make use of the weak yen in order to bolster “money-making power,” and to realize a sustainable increase in wages.

9. PM to Convene Extraordinary Diet Session Next Month

- The GOJ [informed](#) the LDP and Komeito leadership on Friday that it plans to convene an extraordinary session of the Diet on October 3.
- The GOJ is [arranging](#) for the session to end sometime in early December. LDP policy chief Hagiuda said that twenty bills are likely to be on the docket during this session.
- These include the revised Infectious Disease Act to bolster administrative authority over hospitals and individual activities, as well as the revised Public Officers Election Act to finalize the redistribution of ten SMD seats in the Lower House.
- The GOJ also [plans to submit](#) in November the second supplementary budget for FY 2022, which will finance the economic package to be finalized in October.
- The opposition has been [calling](#) on the GOJ/ruling coalition to convene a session, but to shed further light on LDP lawmakers’ ties to the Unification Church.

10. Incumbent Governor Wins Okinawa Race

- On Sunday, Okinawa Governor Tamaki Denny [won](#) a second term in office, beating ruling coalition-backed Sakima Atsushi and former House of Representatives member Shimoji Mikio.
- Tamaki was backed by the CDP, JCP, Reiwa Shinsengumi, SDP and anti-base regional party Okinawa Social Mass Party. According to a *Jiji* [exit poll](#), he won close to 60 percent of the unaffiliated vote and close to half of the age 40-plus vote.
- Going in to the race, Tamaki was [facing an uphill battle](#) after his “All Okinawa” group suffered several losses in local races to ruling coalition-backed, pro-U.S. base candidates. Meanwhile, Sakima, backed by the ruling coalition, boosted his chances by backing his economic policies to combat the pandemic with GOJ funding.
- The tides turned when Shimoji, another conservative, entered the race. This essentially split the conservative vote. In addition, the LDP faced backlash from the Unification Church issue, which in turn affected local candidates backed by the party.
- Following his victory, Tamaki on Wednesday [met](#) with Minister of State for Okinawa Okada Naoki and requested that the GOJ abandon the MCAS Futenma relocation plan, saying “the people’s will has been clearly expressed” by the results.
- On Monday, CCS Matsuno [reiterated](#) that relocation is the only viable solution. During the Japan-U.S. defense ministerial, the ministers [concurred](#) that the countries would work together for the steady progress of the relocation of MCAS Futenma to Henoko-saki, confirming Tamaki’s reelection would not impact their decision.

11. Other Political Developments

- On Thursday, Komeito [re-elected](#) Yamaguchi Natsuo (70) as its leader for an eighth term until September 2024. Secretary-General Ishii Keiichi, Yamaguchi’s preferred successor, is likely to remain in his current position.
- Yamaguchi reportedly reversed his decision to step down after a strong urging from Soka Gakkai, Komeito’s parent organization, which believed he was best suited to lead the party in the upcoming unified local elections. Poor results in the last Upper House election, coupled with Ishii’s lack of strong voice and leadership, also seem to have contributed to his decision to stay on for another term.
- The health ministry’s expert panel [approved](#) the Omicron-targeting vaccine as a “special temporary vaccination,” in which the government covers the full cost. Seniors who haven’t received their fourth shots will begin inoculation on the 20th.
- On Wednesday, CDP Diet Affairs Chairperson Azumi Jun [said](#) the Unification Church should be dissolved in accordance with the Religious Corporations Act. The

GOJ can request the Court to dissolve religious corporations that violate laws and regulations and are clearly, significantly harming public welfare. The Agency for Cultural Affairs [says](#) the conditions to request UC's dissolution have not been met.

- On Tuesday, new Japan Innovation Party leader Baba Nobuyuki [stressed](#) that electoral cooperation with Komeito will be reset, referring to the agreement to not field candidates in six SMDs in Osaka and Hyogo in exchange for Komeito's support in realizing the Osaka Metropolis Plan—one which has failed twice already.

12. BOJ Could Initiate Foreign Exchange Intervention

- On Wednesday, in what is viewed as preparation for foreign exchange intervention, the BOJ [conducted](#) a “rate check” asking market participants ([traders at banks](#)) about the market price. The yen reached ¥144 to the dollar at one point due to differences in interest rates between the BOJ and the FRB.
- So far, the BOJ has repeatedly intervened verbally by sending messages in an attempt to stop further weakening of the yen. A rate check is the preparation stage for yen-buying intervention, which indicates the BOJ has increased its vigilance.
- The yen exchange rate fell by ¥30 in the last six months from ¥114 to the dollar in early March. The rate of decline on an annual basis is the largest since 1973, when the exchange rate shifted to a floating system.
- However, it will be difficult for Japan and the U.S. to coordinate policy to buy the yen and sell the dollar since the U.S. benefits from the dollar's appreciation, which keeps import prices down. It will be even more difficult for Japan to do it on its own given limits to the scale of yen-buying interventions funded by foreign exchange reserves.
- Finance Minister Suzuki Shunichi [told](#) reporters on Wednesday that the GOJ will take any necessary measures, including swiftly intervening in the market. He added that it will “not be something done with advance notice.”

13. GOJ Sets Guidelines for Human Rights

- On Tuesday, the GOJ [finalized](#) its “human rights due diligence (DD)” guidelines designed to identify and remedy human rights violations throughout the supply chain. It covers violations by secondary and tertiary business partners too.
- All Japanese companies, including business partners, will be asked to identify whether there are any acts of forced labor or discrimination and will be encouraged to take a four-step response, including public disclosure of prevention and resolution measures as well as the steps taken in their response.

- The four steps are: 1) identification and examination of severity; 2) prevention and measures to reduce degree of violations; 3) evaluate efficacy of prevention plans; and 4) disclosing results to the public at least once a year.
- Under the guidelines, human rights include the freedom not to be subjected to forced labor or child labor, freedom to relocate, and freedom from discrimination based on race, disability, religion, sex and gender. There are no penalties for non-compliance.
- Nakatani Gen, special advisor to the PM on human rights, instructed ministries and agencies to consider a system [providing](#) companies preferential treatment in government procurement if they engage in human rights DD and improve human rights in their supply chains.

14. Other Key Economic/Financial Developments

- The Ministry of Economy, Trade and Industry [announced](#) Thursday that reserve power generation for the winter will be higher than previously expected due to the reactivation of a thermal power plant in January. However, if cold weather peaks in December, power may fall short in the Kanto region by around 5 million kilowatts.
- The [reserve rate](#) for January in east and west Japan both exceeded the minimum threshold for secure supply, 3 percent, but given concerns that procurement of LNG will be delayed, METI will again call for power conservation nationwide.
- In a [report](#) for an expert panel, METI [wrote](#) that it had revised the amount of thermal energy it expects to be phased out by FY 2030 from 15.68 million kW to 43.33 million kW, a 57 percent increase. Additional energy from new plants was also overestimated by 130,000 kW. METI explains this was caused by the assumption that all plants would live out their life cycle of 45 years—missing the trend for companies to phase out plants that are cost ineffective after the liberalization of retail sales.
- On Wednesday, the [yield](#) on newly issued ten-year government bonds in the domestic market, an indicator of long-term interest rates, rose (bond prices fell) above the 0.25 percent “upper limit” set by the BOJ under its yield curve control program. It met the limit for the first time since June 17 due to the rise in overseas interest rates and the speculation that the BOJ would move to revise its monetary easing policy.
- METI [announced](#) Tuesday that it plans to decide around 2028 as to whether it will begin designing the basics of a demo reactor ahead of the operation of a fast reactor in 2050. Reusing spent nuclear fuel in these reactors should reduce nuclear waste.

15. State of the Economy

- MOF's [August trade statistics](#) released on Thursday showed a ¥2.82 trillion deficit, a 49.9 percent increase from the same month last year and the largest deficit in a single month since comparable statistics were first collected in 1979. Higher energy costs and a weak yen [contributed](#) to this record high deficit. v
- According to a [forecast](#) by 36 economists published by the Japan Center for Economic Research on Wednesday, average real economic growth rate for July-Sept. among them was down from 2.72 percent in August to 1.54 percent this month. They expect consumption to suffer from high prices, and exports from a global slowdown.
- CAO's [July machinery orders statistics](#) showed that private sector demand (seasonally adjusted, excludes ships and electric power), a leading indicator of capital investment, increased by 5.3 percent from June to ¥966 billion. Orders from non-manufacturing industries [increased](#), leading to positive figures for the second straight month.
- According to CAO and MOF's [business outlook survey](#) for July-Sept. released on Tuesday, the business sentiment index (BSI) for large companies across all industries was +0.4 (net), the first positive in three quarters. Business sentiment [improved](#) due to the expectation that socioeconomic activities will return to normal.
- The BOJ's [August corporate goods price index](#) was 115.1, up 9 percent from the same month last year and [plateauing](#) at a high point since July at a rate last seen in 1980. A weak yen has spurred high prices for goods; raw material prices have remained high due to concerns about supply constraints resulting from the war in Ukraine.

II. Public Opinion Poll

- An NHK poll [released](#) Monday showed the Kishida Cabinet's approval rating was 40 percent, down 6 points from [August](#), while disapproval was 40 percent, up 12 points.
 - 42 percent of respondents said they supported the Cabinet because there are no alternatives; 25 percent said because it is centered around a party they support; and 17 percent said because they trust the prime minister's character.
 - 36 percent of respondents said they do not support the Cabinet because they have no expectations for its policies; 29 percent said because it has no executive ability; and 12 percent said because they don't support the parties in the Cabinet.
 - 40 percent of respondents said they "do not really" approve of the Cabinet/party leadership reshuffle; 32 percent said they "somewhat" approve; 16 percent said they do not approve at all; and 2 percent said they greatly approve.
 - 53 percent of respondents said they somewhat approve of the GOJ's COVID-19 response so far; 28 percent said they "do not really" approve; 9 percent said they do not approve at all; and 5 percent said they greatly approve.

- 51 percent of respondents said they support the GOJ's decision to focus case tallying to just those with higher risks of symptoms turning severe, while 30 percent said they oppose the decision to end full tracing of cases.
 - 69 percent of respondents said they approve of the GOJ's decision to cut back quarantine for symptomatic and asymptomatic COVID-19 patients to 7 and 5 days, respectively, while 19 percent said they disapprove.
 - 57 percent of respondents said they disapprove of the GOJ's decision to hold a state funeral for former PM Abe on Sept. 27, while 32 percent said they approve.
 - 72 percent of respondents said the GOJ's explanation for holding the state funeral was "insufficient," while 15 percent said it was "sufficient."
 - 65 percent of respondents said the LDP's self-report on Unification Church ties and its declaration that all lawmakers will sever ties was "insufficient," while 22 percent said it was "sufficient."
 - 48 percent of respondents said they support the GOJ's decision to pursue development and construction of next-generation nuclear power plants, while 32 percent said they oppose the decision.
 - 55 percent of respondents said that Japan-China relations, which marks its 50th anniversary this year, should be considered carefully; 28 percent said they don't know where it should head; and 11 percent said it should be strengthened.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	36 (±0)
Constitutional Democratic Party	5 (-1)
Japan Innovation Party	5 (-1)
Komeito	3 (±0)
Japan Communist Party	3 (±0)
Democratic Party for the People	2 (±0)
Reiwa Shinsengumi	2 (+1)
Social Democratic Party	0 (±0)
NHK Party	0 (-1)
Suffrage Party (Sanseitō)	2 (+1)
Independent (No Party)	35 (+1)