

## ***The Weekly Observer***

October 10-14, 2022

*The 47<sup>th</sup> edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the G7 condemnation of Russia's missile attacks in Ukraine, the G7 finance ministers meeting, North Korea's repeated missile launches, Foreign Minister Hayashi's trip to Singapore and Malaysia, the eleven commodities proposed as critical to economic security, diplomatic exchanges with China, South Korea and Australia, the proposed "national defense" budget, the LDP-Komeito leaders' summit, next week's Diet Q&A with members of the Cabinet, the GOJ's worker retraining program, the "nationwide travel support" program, further weakening of the yen, the merger of the health insurance card with the My Number Card, the Economy Watchers Survey, and more.*

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

### **1. G7 Leaders Condemn Russian Missile Attacks in Ukraine**

- On Wednesday, Prime Minister Kishida Fumio participated in an online G7 summit. Ukrainian President Volodymyr Zelenskyy joined the call.
- In the joint statement, they condemn Russia's attacks against civilian infrastructure and cities across Ukraine in the strongest possible terms and hold Putin responsible for indiscriminate attacks on innocent civilians, which constitute a war crime.
- Kishida strongly condemned Russia for its attack; said the illegal annexation of Ukrainian regions violate Ukraine's sovereignty and territorial integrity and cannot be accepted; and that Russia's use or threat of use of nuclear weapons is unacceptable.
- Kishida said that North Korea not only poses a serious threat to Japan but poses a clear challenge to the international community. He added that reckless acts like these cannot be tolerated.
- Kishida urged the G7 to lead the rest of the international community in responding to higher costs of energy. He also pointed out that there is a need to continue lobbying OPEC Plus and other energy producing countries in order to respond to crises and secure a stable market.

### **2. G7 Finance Ministers Meeting**

- On Wednesday, Minister of Finance Suzuki Shunichi participated in the G7 finance ministers and central bank governors meeting in Washington, D.C..
- In the joint statement, the ministers reiterated their support for Ukraine. They stated that Russia's war has substantially increased commodity prices and exacerbated elevated levels of inflation felt mostly by low and middle-income countries.
- The ministers stated that the G7 central banks are strongly committed to achieving price stability, in line with their “respective mandates.” The banks will continue to “appropriately calibrate the pace of monetary policy tightening.”
- The ministers also stated that they will continue to closely monitor global markets given recent volatility. Additionally, they stated that they will continue to encourage oilproducing countries to increase production to decrease volatility in energy markets.
- The ministers re-emphasized the shared commitment to determined and coordinated sanctions in response to Russia's war of aggression. They reiterated their intention to finalize and implement a comprehensive prohibition of services which enable

maritime transportation of Russian-origin crude oil and petroleum products globally. Provision of products will only be allowed if purchased at or below a price cap.

3. North Korea Launches Missiles Again

- On Friday, North Korea [launched](#) at least one ballistic missile eastward. The missile likely flew an irregular trajectory at a maximum altitude of 50 km and distance of 650 km, landing in the Sea of Japan outside the EEZ. North Korea also [fired](#) around 90 shots toward the Sea of Japan.
- The GOJ stated in a release that North Korea's actions threaten Japan's security, as well as the wider region and the rest of the international community. It strongly protested and criticized the actions which violate relevant UNSC resolutions.
- On Thursday, Minister of Defense Hamada Yasukazu [said](#) that it appears North Korea has realized the miniaturization of nuclear warheads which will be mounted on ballistic missiles for an attack.
- MOFA Asian and Oceanian Affairs Bureau Director-General Funakoshi Takehiro on Wednesday [met](#) Kim Gunn, ROK Special Representative for Korean Peninsula Peace and Security Affairs. The two shared the recognition that North Korea's actions pose a clear challenge to the international community, and concurred to closely coordinate bilaterally and trilaterally with the United States. Funakoshi [spoke](#) with U.S. Special Representative Sung Kim and Kim Gunn separately on Friday.
- On Sunday, North Korea [launched](#) two ballistic missiles eastward. The missiles flew at a maximum altitude of 100 km and distance of 350 km, landing in the Sea of Japan outside the EEZ.

4. Hayashi Travels to Singapore and Malaysia

- Minister for Foreign Affairs Hayashi Yoshimasa traveled to Singapore and Malaysia over the weekend as part of the GOJ's diplomatic efforts in Southeast Asia.
- On Saturday, Hayashi [made a courtesy call](#) to Prime Minister Lee Hsien Loong of Singapore. Hayashi informed Lee that Japan would like to deepen cooperation to realize a FOIP. The two strongly condemned Russia; agreed to coordinate to respond to North Korea; and exchanged views on East and South China Sea issues.
- Hayashi also held a working lunch meeting with Foreign Minister Vivian Balakrishnan. In light of the increasingly severe security environment, the two concurred on the early conclusion of an agreement on the transfer of defense equipment and technology.

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- On Sunday, Hayashi [held](#) a meeting with Foreign Minister Dato' Sri Saifuddin Abdullah of Malaysia. Aside from discussing regional issues, the two shared the recognition that the Look East Policy is the foundation of Malaysia's development and good bilateral relations, and agreed to continue cooperation on the Policy.
- Hayashi also met Minister of International Trade and Industry Azmin Ali. The two exchanged views on free trade including the CPTPP and IPEF, stable supply of energy including LNG, and people-to-people exchanges including for businesses.

### 5. GOJ Reveals Eleven Commodities Critical to Economic Security

- On Thursday, the GOJ [indicated](#) to the LDP eleven “critical commodities” it aims to secure a stable supply of based on the Act on Promoting Economic Security. These will be finalized at the end of the year after expert insight and public comments.
- The eleven categories are: semiconductors; cloud services; storage batteries; permanent magnet; machine tools and industrial robots; aircraft parts; critical minerals; LNG (all METI); engines, propellers and sonars for vessels (MLIT); antibacterial agents; and raw materials for fertilizer (MAFF).
- Measures to secure a stable supply of these commodities will be incorporated in the October economic package. Necessary expenses will be included in the second FY 2022 supplementary budget.
- The GOJ's four conditions for designation as a critical commodity are: 1) necessary for survival of citizens; 2) overdependence on foreign sources; 3) possibility supply can be cut off; and 4) there is a special need to take steps to secure stable supply.
- Firms that develop plans and obtain approval from relevant ministries/agencies to acquire critical commodities can receive support such as subsidies and low-interest loans. Penalties apply if firms misrepresent progress in acquiring these items.

### 6. Foreign Policy Developments

- On Thursday, Kishida [received](#) a courtesy call from Foreign Minister Mélanie Joy of Canada. The two agreed to cooperate closely in areas including high-standard trade (TPP) and nuclear non-proliferation. On Tuesday, Hayashi and Joy [announced](#) the [Japan-Canada Indo-Pacific Action Plan](#), which covers cooperation in promoting the rule of law, PKOs, health security, energy security, free trade and the environment.
- Chief Cabinet Secretary Matsuno Hirokazu [welcomed](#) the UN General Assembly resolution pronouncing Russia's unilateral declaration of “annexation” of four Ukrainian provinces “illegal and void.” A total of 143 countries [voted](#) in favor.

- Director-General Funakoshi [held](#) an online meeting with PRC Foreign Ministry Director-General of Asian Affairs Liu Jinsong and exchanged candid views on various Japan-China issues. They agreed to maintain communication in the future.
- On Wednesday, Hayashi [met](#) with UNHCR Representative in Japan Karen Farkas and Ukrainian Ambassador to Japan Sergiy Korsunsky, as well as the ambassadors of five nations accepting Ukrainian refugees. Hayashi [strongly condemned](#) Russia's attacks on civilians and civilian infrastructure as "war crimes" and reiterated the GOJ's support for the people of Ukraine.
- On Tuesday, Director-General Funakoshi [met](#) with the ROK's Director General for Asia and Pacific Affairs Lee Sang-ryol in Seoul. The two agreed to continue communication between diplomatic authorities in order to resolve pending issues, restore a sound bilateral relationship and to further develop ties.
- Hayashi [met](#) Australian Minister for Trade and Tourism Don Farrell and agreed to continue energy cooperation as well as deal with economic coercion together. METI Minister Nishimura Yasutoshi also [met](#) with Farrell and [confirmed](#) the importance of strengthened cooperation on economic security and enhanced resilience, including through trade diversification and supply chain security.

## 7. Defense/Security Developments

- The Financial Services Agency, the National Police Agency and Cabinet Cyber Security Center for the [first time jointly issued](#) a [warning](#) to domestic crypto asset operators that they may be targets of cyber attacks by the "Lazarus Group," a North Korean hacker group.
- On Thursday, LDP policy chief Hagiuda Koichi and Komeito policy chief Takagi Yosuke [agreed](#) to establish a ruling party council toward the revision of three security and defense documents and to hold its inaugural meeting on Oct. 18. The council will be co-chaired by the vice presidents of both parties.
- *Jiji* [reported](#) Wednesday that the GOJ is considering increasing "national defense" spending to ¥43.1 trillion over five years starting FY 2023. Under the NATO-style budget, annual spending will increase to as much as ¥10.8 trillion in FY 2027.
- The Russian foreign ministry [protested](#) a Japan-U.S. joint exercise in Hokkaido utilizing a High Mobility Artillery Rocket System (HIMARS) as a threat to far east Russia's security. *Nikkei* [suggests](#) that the exercise using HIMARS was suspended due to logistical issues within the U.S. Military (bullets didn't arrive in Hokkaido).

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- On Tuesday, Defense Minister Hamada [held](#) a video conference with U.K. Secretary of State for Defense Ben Wallace. The ministers reaffirmed their views to agree on the full scope of F-X/FCAS collaboration by the end of the year.
- A GOJ commission on Tuesday [identified](#) 58 areas in five prefectures as candidates to be designated as “monitored areas” and “specially monitored areas” [under](#) the Act on the Review and Regulation of the Use of Lands and Buildings Around Important Facilities and Border Islands. In the first selection, the GOJ prioritized designating uninhabited remote islands where the entire area will be designated as an area. The GOJ will [designate](#) 600+ areas over five or so selection processes by fall 2024.

### 8. PM and Komeito's Yamaguchi Discuss Policies to Reduce Electricity Bill Costs

- On Friday, Kishida [held](#) a meeting with Komeito leader Yamaguchi Natsuo and agreed to reduce the burden imposed on consumers by rising power costs. Policies will be incorporated in the economic package to be finalized this month.
- Kishida stated that the financial support will correspond to average increase in burden expected from the increase in electricity bills in the spring of 2023. He said that the GOJ hopes to begin the support program as soon as the end of January.
- Kishida also said that the GOJ will take appropriate measures to reduce gas prices while considering the balance with electricity bills. He added that the subsidies for gasoline will continue past January 2023.
- Kishida said he will consider Komeito's proposal to focus child support on children ages 0-2, where support is scarce. This includes support for counseling and economic support from pregnancy to childbirth to child-rearing. The GOJ is [also preparing](#) a “maternity preparation fund” of ¥100,000 per newborn in coupons to support pregnant women. There will be no income restrictions.
- Kishida [reiterated](#) that the economic package, which the GOJ/ruling coalition will begin preparing next week, will focus on responding to rising costs of living and a weaker yen; structural wage increases; and investment and reform for growth.

### 9. Diet Developments

- The Upper House Budget Committee [decided](#) Friday that it will hold a basic question and answer sessions on Oct. 19-20 requiring all Cabinet members' participation. The Lower House Budget Committee will [hold](#) its sessions on Oct. 17-18.

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- CDP leader Izumi Kenta [said](#) that the opposition will question Kishida's decisionmaking given the Cabinet's "delay in implementing economic policies" and the Unification Church issue, which prove it is a detriment to citizens' interests.
- The LDP's General Affairs Council [approved](#) the revised Public Offices Election Law, which will introduce the redistribution of ten SMD seats in the Lower House to redress the imbalance in voting power between prefectures.
- The GOJ will approve next week and submit the bill to the Diet. The bill will add seats in five prefectures including Tokyo and remove seats from ten prefectures.
- The LDP [initially had trouble](#) approving the bill as lawmakers opposed redistributing seats from rural prefectures, many of which would "lose their voices" to more populous prefectures. As a compromise with rural lawmakers, the party will hold a separate discussion on how the electoral system should look like.

### 10. PM Announces Expansion of Worker Retraining Programs

- At the Nikkei Reskilling Summit on Wednesday, Kishida [stated](#) that the aim of retraining is to create a virtuous cycle in which higher wages attract highly skilled workers, lead to higher corporate productivity and generate further wage increases.
- Kishida reiterated that the GOJ will significantly expand its current policy package of ¥400 billion investment in people over three years to ¥1 trillion over five years.
- Kishida stated that it is equally important to push forward labor mobility between firms to allow workers to find jobs with higher wages in their desired fields and create the cycle of higher wages and productivity.
- Kishida announced that the GOJ will compile guidelines for facilitating labor mobility by June 2023. It will include guidelines such as shifting from seniority-based wages to job/performance-based wages that suit Japanese workers.
- Measures [include](#): 1) creating/expanding support for firms that hire irregular employees as regular employees after training; 2) establishing a system to support workers' retraining and job changes; and 3) raising subsidy rates for firms that train their employees.

### 11. Other Political Developments

- Kishida [stated](#) Friday that the October economic package will include measures to support startups from the perspective of 1) developing human resources and networks, 2) strengthening funding and 3) promoting open innovation including among larger companies.

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- On Thursday, the LDP [held](#) the inaugural meeting of the Headquarters on Promoting Green Transformation (GX). The HQ will submit a proposal in December ahead of the GOJ's crafting of a ten-year roadmap for GX.
- A senior LDP lawmaker in the Lower House Steering Committee [said](#) that there is a high likelihood that former Prime Minister Noda Yoshihiko's eulogy for former Prime Minister Abe Shinzo will take place on Oct. 25. Elsewhere, MOFA announced that Abe's funeral [cost](#) ¥12.4 trillion, ¥420 million [less](#) than its request prior to the funeral.
- The GOJ [began](#) its “nationwide travel support” program on Tuesday. Prefectures have started their own support programs to bring in tourists from both home and abroad. People can [receive](#) as much as ¥11,000 per night to travel. CCS Matsuno [said](#) Wednesday that the GOJ will consider additional funding if it becomes necessary.
- *Nikkei* [reported](#) Sunday that the GOJ will consider revising the Consumer Contract Act to make it easier to help victims of psychic marketing by the Unification Church. The revised bill will add “donations” to categories of property that can be recovered even after donations have been made.

### 12. Yen Weakens to ¥147 for the First Time in 32 Years

- On Thursday, the yen [weakened](#) to ¥147 to the dollar for the first time since August 1990. The dollar rose temporarily across the board as the U.S. CPI in September exceeded expectations and the FRB is expected to continue monetary tightening.
- The economic expansion phase under the “bubble economy” peaked in Feb. 1991, and judging from the business cycle, this is the lowest yen-dollar exchange rate since the burst of the bubble.
- *Nikkei* explains that the actual demand for yen is increasing due to the deficit structure of the trade balance, mainly fueled by the structure of energy procurement relying on imports and the shift of production bases overseas for many years.
- The finance ministry and BOJ was thus forced to intervene in September for the first time in twenty-four years to buy the yen and sell the dollar. This indicates the structural weakness of the yen.
- Kishida [said](#) Friday that the GOJ is prepared to take the necessary response to deal with volatile exchange rates. On Wednesday, IMF's Rani Salgado [said](#) he expects the effect of the GOJ correcting the rapid depreciation of the yen will be “temporary.”

### 13. Other Key Economic/Financial Developments

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- Digital Minister Kono Taro [announced](#) Thursday that the GOJ will abolish the health insurance card and merge it with the My Number Card starting fall 2024. He also announced that the merging of the driver's license with the MNC will be pushed forward from the original plan to finish it in 2024.
- The [aim](#) of merging health insurance cards with the MNC is to accelerate the digitization of medical care. By doing so, medical institutions can save time entering names and addresses into their systems. While there are [security issues](#) with merging all functions into one card, the GOJ is ramping up efforts from encouraging use through coupons and points to essentially forcing citizens to get an MNC.
- On Wednesday, Kishida [instructed](#) ministers to promote themes such as the standardization of electronic medical records and the establishment of a nationwide medical information infrastructure on a cross-ministry and agency basis.
- The IMF on Tuesday issued its [World Economic Outlook](#), in which it projected global growth to slow from 3.2 percent in 2022 to 2.7 percent in 2023. It projected Japan's growth to fall from 1.7 percent in 2021 and 2022, to 1.6 percent in 2023.
- *Jiji* [reported](#) Saturday that the GOJ plans to reduce corporate taxes for large companies that acquire startups. One proposal would deduct 25 percent of stock acquisition price from taxable income. The aim is to encourage funds for startups to grow and to support innovative technological development and business expansion.
- METI will [establish](#) as soon as during FY 2023 a system to prepare for supply and demand induced constraints due to natural disasters and fuel disruptions by positioning some inactive thermal power plants as backup power sources.

### 14. State of the Economy

- On Thursday, the BOJ [announced](#) September's CPI, which was at 116.3, [higher](#) than the last month for the 19th consecutive month and up 9.7 percent from the same month last year. Costs have increased due to the war in Ukraine and a weak yen.
- A BOJ survey released Thursday [showed](#) that 92 percent of respondents said they felt costs of living were higher than a year before. Of the 51 percent of respondents who said times are getting tougher, 85 percent said it was because of rising costs of living. An additional 86 percent [said](#) they think costs will continue to rise next year.
- The Cabinet Office's September [Economy Watchers Survey](#) released Tuesday showed the DI at 48.4, up 2.9 points from the previous month. The index [improved](#) for a second straight month as COVID-19 cases declined and outdoor activities increased.

- The finance ministry's August [balance of payments statistics](#) released Tuesday showed a current account surplus of ¥58.9 billion. This was a 96 percent [reduction](#) from the same month last year and the smallest surplus in August since 1985. Imports increased due to a weak yen and high energy costs. Exports to China and Europe also [suffered](#) as economies abroad slow down.
- According to Tokyo Shoko Research, [business bankruptcies](#) between April-Sept. [increased](#) for the first time in three years, up 7 percent from the same period last year at 3,141 cases. An increasing number of firms in the transportation and construction industries were hit hard by high fuel and raw material prices just as they began repaying loans related to COVID-19. More may go bankrupt due to loan repayments.

## II. Public Opinion Poll

- An NHK poll [released](#) Tuesday showed the Kishida Cabinet's approval rating was 38 percent, down 2 points from [September](#), while disapproval was 43 percent, up 3 points.
  - 37 percent of respondents said they support the Cabinet because it seems to be the best option; 28 percent said because it is a Cabinet centered around a party they support; and 19 percent said because they trust the prime minister.
  - 39 percent of respondents said they do not support the Cabinet because it has no executive capacity; 37 percent said because they have low expectations for its policies; and 8 percent said because they don't support the parties forming the Cabinet.
  - 41 percent of respondents said they don't really approve of the Kishida Cabinet; 36 percent said they somewhat approve; 15 percent said they do not approve; and 3 percent said they strongly approve.
  - 52 percent of respondents said they somewhat approve of the GOJ's COVID-19 response; 28 percent said they don't really approve; 7 percent said they don't approve; and 7 percent said they strongly approve.
  - 54 percent of respondents said they disapproved of the GOJ's decision to hold a state funeral for former Prime Minister Abe Shinzo, while 33 percent said they approved of the decision.
    - Of those who said they approve, 43 percent said because Abe was evaluated highly by the international community; 27 percent said because he left great accomplishments; 16 percent said because he was the longest-serving prime minister; and 10 percent said because he was shot and killed during an election.
    - Of those who said they don't approve, 34 percent said because it was state-funded; 25 percent said because the legal justification was unclear; 20 percent said because it did not go through Diet approval; and 18 percent said because his evaluation as a politician has not been decided.

- 37 percent of respondents said they do not really approve of Prime Minister Kishida's response to the Unification Church issue; 36 percent said they do not approve; 16 percent said they somewhat approve; and 2 percent said they strongly approve.
- 77 percent of respondents said they are not satisfied with Minister in charge of Economic Revitalization Yamagiwa's explanation regarding his ties to the Unification Church, while 5 percent said they are satisfied.
- 39 percent of respondents said they somewhat approve of the GOJ's policies addressing rising living costs (cash handouts to tax-exempt households and policies to reduce electricity prices); 35 percent said they do not really approve; 12 percent said they do not approve; and 6 percent said they greatly approve.
- 55 percent of respondents said they support the GOJ's decision to increase defense spending, while 29 percent said they oppose increases.
- 61 percent of respondents said they believe the GOJ should use other financial mechanisms to fund the defense budget; 19 percent said GOJ bonds; and 16 percent said increasing taxes.

● The survey also collected data on the latest approval ratings of political parties.

<b>Political Party</b>	<b>Approval Rating (%)</b>
Liberal Democratic Party	37 (+1)
Constitutional Democratic Party	6 (+1)
Japan Innovation Party	4 (-1)
Komeito	3 ( $\pm 0$ )
Japan Communist Party	3 ( $\pm 0$ )
Democratic Party for the People	1 (-1)
Reiwa Shinsengumi	1 (-1)
Social Democratic Party	0 ( $\pm 0$ )
Suffrage Party (Sanseitō)	0 (-2)
Independent (No Party)	38 (+3)