

The Weekly Observer

January 16-20, 2022

The 58th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the LDP Special Committee's discussion of alternative funding sources for the increased defense budget, the Japan-ROK director-level meeting, defense and security-related legislation to be submitted to the Diet convening next week, the PM's policy speech to the Diet, developments ahead of the ordinary Diet session, the GOJ's decision to lower COVID-19's threat level in the spring, the inaugural GOJ meeting on "unprecedented policies addressing the declining birth rate," the BOJ's Monetary Policy Meeting outcomes, public pensions, BOJ Governor Kuroda's successor, CPI and trade statistics, and more.

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I. News of the Week

1. LDP Special Committee Begins Discussing Alternative Defense Funding Sources

- The LDP Special Committee [exploring](#) alternative funding sources for the increased defense budget held its first meeting on Thursday.
- Policy chief Hagiuda Koichi, who serves as the chairperson of the committee, stated that the committee will aim to have a proper discussion on alternative funding sources from a tax hike in a way that is acceptable to citizens.
- Sixty members participated in the meeting. There was an active discussion of the idea of revising the sixty-year GOJ bond redemption rule to extend the repayment period from sixty to eighty years.
- While those in favor of the idea stated that this would give the GOJ more funds to use per year from its budget on other items, those opposed said that the overall GOJ bond amount would not change, making it an unsustainable funding source.
- Minister of Finance Suzuki Shunichi [indicated his reluctance](#) to revise the scheme, saying that increasing the budget would in the end increase the amount of GOJ bonds issued, making this ineffective. He maintained that the rule protects fiscal discipline.

2. Foreign Policy Developments

- On Friday, Minister for Foreign Affairs Hayashi Yoshimasa [held](#) a phone meeting with Israeli Foreign Minister Eli Cohen. The two exchanged views on Ukraine and East Asia, as well as peace in the Middle East regarding Israel and Palestine.
- On Thursday, Prime Minister Kishida Fumio [met](#) with Dr. Robert Floyd, Executive Secretary of the CTBTO. Kishida stated that he plans to send a strong message about a “world without nuclear weapons” at the G7 Hiroshima Summit. He also said that he plans to work proactively to achieve CTBT ratification as early as possible.
- On Wednesday, Minister of Internal Affairs and Communication Matsumoto Takeaki met with U.S. Deputy Secretary of Commerce Don Graves and [signed a MOC](#) on an open and resilient telecommunication network. The two countries will exchange information on Open RAN testing and cooperate multilaterally on 6G development.
- MOFA [announced](#) Tuesday that Japan and Ukraine have agreed on terms of debt service suspension based on a MoU between G7 Creditors and Ukraine. Ukraine will repay ¥7.8 billion in ten equal semi-annual installments starting June 2027.

- On Monday, MOFA Asian and Oceanian Affairs Bureau Director-General Funakoshi Takehiro [met](#) with his counterpart from South Korea. The two agreed to continue diplomatic communications to resolve the wartime labor issue and repair bilateral ties. Reports [suggest](#) the ROK side explained the plan for the South Koreans to pay reparations to wartime labor victims in place of Japanese firms.

3. Defense/Security Developments

- On Friday, Foreign Minister Hayashi [stated](#) that the GOJ, in collaboration with the Cambodian Government and JICA, conducted a mine clearance training exercise for the State Emergency Service of Ukraine between Jan. 15-20. The training utilized a minesweeper (ALIS) using Japanese technology.
- *Nikkei* [reported](#) Wednesday that the bill on supporting the defense industry to be submitted to the Diet this session will include measures to prevent information leaks such as the quality/quantity of defense equipment. Measures include criminal penalties equivalent to MOD/JSDF officers for civilians leaking “secrets”.
- *Nikkei* [reported](#) Tuesday that the bill on securing funding for the defense budget will include mention of the GOJ’s sustained efforts to budget cuts and securing non-tax sources (given LDP opposition). The GOJ will secure ¥4.6-5 trillion non-tax funds.
- *Yomiuri* [reported](#) that the GOJ has finalized plans to develop a rare new cruise missile (1000 km+, mobile launcher) capable of interchanging three warheads designed for normal attacks, enemy reconnaissance, and air defense jamming.
- *Nikkei* [reported](#) Sunday that the JCG plans to monitor Chinese and Russian vessels more effectively around Japanese waters by increasing the number of U.S.-made MQ-9B SeaGuardian UAVs from one to three units as early as this fiscal year.

4. PM's Policy Speech to the Diet Revealed

- On Thursday, [reports emerged](#) about the contents of Kishida’s policy speech to the Diet (delivered at beginning of session). It will position children and child care policies as the “most important policy” and “most efficient investment for the future”.
- He will announce that the GOJ will compile a policy framework in anticipation of a doubling of spending by the publication of the Basic Policy document in June.
- On foreign policy, he will indicate “stronger engagement with the Global South” as one of the main themes at the G7 Hiroshima summit.

- On social security, he will propose constructing a sustainable system in which people support each other based on their ability to do so. He will also commit to developing a structure in which the country can achieve a sustainable increase in wages.
- On this point, Kishida will emphasize transitioning to “Japanese-style job salary system,” one which reflects workplace skills to wage increases, as a urgent priority to support firm growth.

5. Ordinary Diet Session to Convene Next Week

- The 211th session of the Diet will convene on Monday. The GOJ [plans to submit](#) sixty pieces of legislation and twelve treaties.
- On Monday, the prime minister and Cabinet ministers will [deliver](#) policy speeches. The ruling and opposition parties agreed Tuesday to hold question and answer sessions on Jan. 26-27.
- At an LDP leadership meeting, Kishida [said](#) that the plan is to act upon policies for which legislation has been submitted for, including fundamentally bolstering defense, realizing green transformation, and those related to children.
- On Wednesday, CDP leader Izumi Kenta and Japan Innovation Party leader Baba Nobuyuki [met](#) and agreed to “fight together” in the session. They signed an agreement to oppose the tax hike and establish a council to exchange information. Meanwhile, Baba also met with LDP Secretary General Motegi Toshimitsu and [agreed](#) to cooperate on amending the COJ and security issues.
- On Tuesday, the Diet Affairs chairpersons of seven opposition groups [agreed](#) to coordinate to oppose, among other things, the tax hike to finance the increased defense budget. They also demanded Speaker of the House Hosoda Hiroyuki explain his ties to the Unification Church.

6. Japan to Lower COVID-19 Threat Level

- On Friday, Kishida [announced](#) that the GOJ will lower in the spring COVID-19’s classification under the Infectious Disease Prevention Act from “new infection” (close to category two) to “category five infection,” or equivalent to the seasonal flu.
- He added that this will lead to the revision of measures requiring restraint of outdoor activities for COVID-19 patients and those who come into close contact with patients.
- Other measures that will be tabled for revision include public funding for COVID-19 treatment, medical care services (no specialized facilities for COVID-19), and the wearing of masks.

- The health ministry's advisory body will [propose](#) specific measures and when to implement them by the end of the month.
- On Thursday, Japan Medical Association President Matsumoto Yoshiro [met](#) with Kishida and requested that the GOJ aim for a "soft landing," gradually lifting measures while carefully assessing the situation.

7. Other Political Developments

- On Thursday, the GOJ [held](#) its first meeting between relevant ministries and agencies regarding "unprecedented policies addressing the declining birth rate." It confirmed that it plans to compile a basis for discussion sometime around late March.
- The Tokyo High Court on Wednesday [found](#) the then-chairman and two vice-presidents of TEPCO not guilty for the Fukushima Daiichi nuclear accident. It ruled that it was impossible to foresee the giant tsunami, and that therefore there was no obligation to stop the operation of the power plant to avert the accident.
- On Wednesday, Minister of Education Nagaoka Keiko [inquired](#) about a set of new questions to be submitted to the Unification Church. This is the third questioning allowed under the Religious Corporations Act. Questions range eighty sections on organization management; budget/fiscal statements/property; donations; overseas remittance; and salary/retirement allowances.
- On Tuesday, the LDP and CDP's Upper House Diet Affairs chairpersons [met and criticized](#) *Reiwa Shinsengumi*'s plan to have five candidates who lost in the July election to rotate and fill in the remainder of the five-year term of a lawmaker who resigned. While technically legal, the LDP and CDP questions its constitutionality.
- On Monday, Kishida [said](#) that a core priority to revive the economy is the sustainable increase of wages above inflation rates. He stated that this can be achieved through bolstering investment in people and innovation, as well as securing funds for the wage increase by promoting passing on prices and appropriate pricing.

8. BOJ Maintains Monetary Easing Policy

- At its Monetary Policy Meeting on Wednesday, the Bank of Japan [decided](#) that it will maintain its monetary easing policy, stating that these policies are necessary to achieve its 2 percent inflation rate goal in a stable and sustainable manner.
- The BOJ also announced its [inflation outlook](#): 3 percent in 2022, 1.6 percent in 2023, and 1.8 percent in 2024. The 2022 and 2024 rates were revised down from October. Real GDP growth rates were 1.9, 1.7, and 1.1 percent, respectively (all revised down).

- The BOJ also [decided](#) on additional policies to push down GOJ bond yields. It will expand provision of funds to financial institutions such as banks at a certain rate to encourage them to purchase five-year bonds (balance out “distortion”).
- The BOJ [aims](#) to redress a distortion in yields on ten-year bonds, which has led to concerns about negative effects on corporate bond issuance. These distortions are taken advantage of by speculative investors, who can make a profit by first borrowing when overpriced and selling short, then buying them back when the bank adjusts its policy and yields rise.
- At the [press conference](#), BOJ Governor Kuroda Haruhiko said that there are “no special risks” involved with the mass purchase of GOJ bonds. He also said that there is no need to expand the fluctuation range of long-term interest rates.

9. GOJ Raises Public Pension Amount for the First Time in Three Years

- On Friday, the Ministry of Health, Labor, and Welfare [announced](#) that it will raise the public pension amount in FY 2023 from FY 2022 amounts. This is the first “increase” in three years.
- Specifically, amounts will increase 1.9 percent for those above 68 years old and 2.2 percent for those under 67. It reflects higher costs of living, but due to the “macroeconomic slide” slowing down the increase, the real rate is 0.6 percent.
- The new rate will be applied beginning the April/May disbursement in June. For example, a husband and wife under 67 with an average income of ¥439,000 will receive ¥224,482, up ¥4,889.
- The pension amount is revised every April to reflect inflation and wage rate fluctuations. The MHLW decided FY 2023 amounts based on the [2022 CPI](#).
- The “macroeconomic slide” [refers](#) to a measure implemented to maintain increases in the pension amount below inflation and wage rate increases.

10. Other Key Economic/Financial Developments

- *Nikkei* [reported](#) Friday that TEPCO will request METI as early as next week authorization to raise utility prices for households somewhere around 30 percent. This is the first time since 2012 that TEPCO will raise regulated prices due to high energy costs. It aims to get through METI’s examination and raise prices in the summer.
- On Thursday, METI Minister Nishimura Yasutoshi [participated](#) in a trade ministers meeting on the sidelines of the Davos meeting in Switzerland. The ministers [agreed](#) to establish a new framework to strengthen responses to climate change. They also

signed a [joint statement](#) promoting trade and investment of goods and technology that contribute to decarbonization.

- *Nikkei* [reported](#) Wednesday that debt-servicing costs (GOJ bonds) will increase 30 percent from FY 2023 if interest rates rise 1 percent in FY 2026. According to [MOF's calculations](#), debt-servicing expenditures will be ¥33.4 trillion in FY 2026 in the most generous interest rate increase scenario. This is ¥10 trillion more than FY 2023.
- *Nikkei* [reported](#) Tuesday that the GOJ has started considering who to name as BOJ Governor Kuroda's successor. The GOJ will submit an appointment plan for governor and two deputy governors to the Diet Steering Committees in February. After an initial screening, the plan will be put to a vote in the Diet. The decision will determine whether the BOJ continues its line of monetary easing policy.
- On Monday, Nishimura [met](#) with UAE Minister of Industry and Advanced Technology Ahmed Al Jaber and [signed](#) a MoU to establish a government-to-government framework to introduce Japanese startups working on emerging technologies to state investors in the UAE.

11. State of the Economy

- According to MIC's release on Friday, [December's CPI](#) excluding fresh food was 104.1, up 4 percent from the same month last year. This is the first time since 1981 that it has reached 4 percent. The [annual 2022 CPI](#) was 102.1, up 2.3 percent and the first positive in three years. Essentials and energy prices continue to be high.
- According to trade statistics [released](#) by MOF on Thursday, Japan ran a ¥19.97 trillion trade deficit in 2022, the [largest](#) since comparable stats became available in 1979. The weak yen and high energy costs pushed import amounts up. Imports came to ¥118.16 trillion (+39.2 percent), the first time it has topped ¥100 trillion. Exports also increased 18.2 percent to ¥98.19 trillion due to increased auto and steel exports.
- According to the Cabinet Office's [release](#) on Wednesday, seasonally adjusted machine orders (leading indicator of capital expenditure) in November fell 8.3 percent from the previous month to ¥838.8 billion (first drop in two months). Firms are [reluctant to spend](#) on capital investments given projections of a global economic slowdown.
- The BOJ's [GOJ bond purchases](#) in January as of Tuesday came to ¥17.14 trillion, smashing the record high for a second consecutive month. The Bank has been forced to purchase increasing amounts to [maintain long-term interest](#) below 0.5 percent.
- According to the BOJ's release on Monday, the [corporate goods price index](#) (CGPI) for December was 119.5, up 10.2 percent from the same month last year, and the [first](#)

[high](#) since a 10.3 percent rise in September. Firms continue to pass costs on, with power and city gas pushing overall prices up. The annual increase rate was 9.7 percent, the highest rate recorded in the post-1981 period.

II. Public Opinion Poll

- A *Yomiuri* poll [released](#) on Monday showed the Kishida Cabinet's approval rating was 39 percent, the same as December, while disapproval was 47 percent, down five points.
 - 51 percent of respondents said they support the Cabinet because there are no other viable options; 20 percent said because it is centered around the LDP; and 13 percent said because they trust the prime minister.
 - 40 percent of respondents said they do not support the Cabinet because they have no expectations for its policies; 19 percent said because the prime minister lacks executive ability; and 17 percent said because it is centered around the LDP.
 - 33 percent of respondents said they believe that the general election should be held this year; 31 percent said not until the end of the current term in fall 2025; 18 percent said as soon as possible; and 11 percent said sometime next year.
 - 45 percent of respondents said they oppose the DPFP joining the LDP-Komeito coalition, while 31 percent said they support this possible new coalition.
 - 49 percent of respondents said they oppose the GOJ's plan to increase defense spending to ¥43 trillion over the next five years, while 43 percent support it.
 - 63 percent of respondents said they oppose the GOJ's plan to gradually hike the corporate, income, and cigarette taxes to secure ¥1 trillion in FY 2027, while 28 percent said they support it.
 - 58 percent of respondents said they approve of the prime minister's plan to greatly expand policies addressing the declining birth rate, while 34 percent said they do not approve.
 - 56 percent of respondents said they oppose a tax hike to finance policies addressing the declining birth rate, while 38 percent said they support it.
 - 59 percent of respondents said they do not believe the prime minister will be able to lead the G7 leaders at the G7 Summit in Hiroshima in May, while 29 percent said they believe he can.
 - 57 percent of respondents said they do not believe that wages will increase this year overall, while 37 percent said they believe it will.
 - 56 percent of respondents said they approve of the GOJ's COVID-19 response so far, while 37 percent said they do not approve.
 - 46 percent of respondents said they support the GOJ's decision to release treated wastewater from Fukushima Daiichi Nuclear Power Plant to the sea starting this spring, while 43 percent said they oppose.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	36 (+3)
Constitutional Democratic Party	6 (± 0)
Japan Innovation Party	3 (-3)
Komeito	3 (± 0)
Japan Communist Party	2 (± 0)
Democratic Party for the People	1 (± 0)
Reiwa Shinsengumi	1 (± 0)
Social Democratic Party	0 (± 0)
Suffrage Party (Sanseitō)	1 (± 0)
NHK Party	1 (+1)
Independent (No Party)	41 (-1)