

The Weekly Observer

January 23-27, 2022

The 59th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on G7 support for Ukraine's energy sector, new sanctions on Russia, the LDP Special Mission Committee's second meeting on alternative sources for defense spending, the Prime Minister's speech to the Diet, the other policy speeches to the Diet, the key legislation to be submitted to the Diet, the GOJ's decision to lower COVID-19 threat level in May, the BOJ's summary of the January monetary policy meeting, Shuntō wage negotiations, Japan's reported decision to join the U.S. in imposing stricter semiconductor export controls on China, the Monthly Economic Report, and more.

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I. News of the Week

1. G7 Supports Ukraine's Energy Sector

- On Tuesday, Foreign Minister Hayashi Yoshimasa [co-hosted](#) the online G7+ Foreign Ministers' Meeting on Ukraine Energy Sector Support with U.S. Secretary of State Antony Blinken. Ukrainian Foreign Minister Kuleba also joined the meeting.
- The G7+ partners discussed the urgent issue of maintaining and restoring energy infrastructure, shared information on the efforts of each country, and confirmed their commitment to provide necessary assistance to Ukraine.
- Hayashi reiterated his strong condemnation of Russia's deliberate attacks of energy infrastructure. He also stated that Japan has provided 300 generators and 83,500 solar lanterns as an emergency response to the electricity shortage in Ukraine.
- Hayashi mentioned that as the G7 Chair, Japan would like to promote support for Ukraine ever more emphatically, such as winterization assistance including electricity.
- MOFA [announced](#) that Japan has delivered 237 generators through JICA to Ukraine since January 20. Japan is [considering](#) sending additional generators.
- On Thursday, the G7 nations [convened](#) the "[Multi-agency Donor Coordination Platform](#)" with participants from Ukraine, the World Bank, and the IMF.

2. Foreign Policy Developments

- On Friday, the GOJ [introduced](#) new sanctions on individuals and entities of Russia. Measures include asset freeze measures on 22 individuals and 3 entities; restriction on payments; restriction on capital transactions; prohibition of exports to 49 entities; and a prohibition on exports to Russia of dual-use items which have military uses.
- On Thursday, Vice Minister for Foreign Affairs Mori Takeo [held a hybrid meeting](#) with his counterparts from Australia, New Zealand, South Korea, and the EU. The participants agreed on the recognition that it is meaningful to meet to maintain/strengthen the free and open international order based on the rule of law.
- *Jiji* [reported](#) Wednesday that there are significant logistical challenges to protect Prime Minister Kishida Fumio as he plans to embark on a trip to Ukraine in February. It is unprecedented for a Japanese leader to travel to a country at war.
- On Monday, Kishida [received a courtesy call](#) from OECD Secretary General Mathias Cormann. He expressed his desire to promote cooperation with the OECD, making use of Japan's G7 presidency and the 60th anniversary of its accession to the OECD.

- Minister of Agriculture, Forestry, and Fisheries Nomura Tetsuro revealed that Russia informed Japan that it has no plans to continue negotiating fishing rules in the waters near the Northern Territories. It is a retaliatory move to Japan's sanctions.

3. Defense/Security Developments

- *Nikkei* [reported](#) Friday that the GOJ will consider initiating a financial assistance plan in FY 2024 for firms that help the government construct shelters to protect civilians from missile attacks.
- On Thursday, Kishida [said](#) the GOJ has plans for the JSDF to conduct a tabletop exercise at the end of the year anticipating an “armed attack situation” in Okinawa and Sakishima Islands. This is in relation to a possible Taiwan Strait contingency.
- *Nikkei* [reported](#) Wednesday that the GOJ aims to loan out starting in 2025 facilities to develop sample “quantum chips” used as a core component in quantum computers. The GOJ aims to encourage investment and new firms to join the industry by shouldering some of the capital investment costs.
- On Tuesday, the LDP's Special Mission Committee exploring alternatives to a tax hike to finance the defense budget [met](#) for the second time. Members agreed to oppose the tax hike but disagreed about whether or not to extend the sixty-year repayment system for GOJ bonds (to free up money in annual budgets).
- *Yomiuri* [reported](#) Monday that the United States will for the time being not deploy ground-launched intermediate-range missiles to Japan after Tokyo announced the strategic documents including mention of the acquisition of counterstrike capabilities.

4. PM's Policy Speech to the Diet

- On Monday, Kishida delivered his [policy speech](#) to the 211th session of the Diet. He said that Japan is facing its third “historic turning point” in which the “peaceful rules-based international order” is being challenged.
- He stated that reinforcement of defenses are necessary to back up diplomacy. He reiterated defense policies named in the strategic documents will require substantial funding, of which 25 percent will be the “responsibility of the current generation.”
- He emphasized that his “new form of capitalism” will develop an inclusive and sustainable economic society which harnesses public-private partnerships to resolve social issues while ensuring growth.

- The most important policy within the “new form of capitalism” will be policies related to children and child rearing. Policies include scholarships with extended repayment period and measures to support women and families raising children.
- The opposition [praised](#) the government for prioritizing child-related policies but criticized Kishida for sidestepping the tax hike which will finance the defense budget. All opposition parties oppose the tax hike.

5. Foreign, Finance, and Economic Policy Speeches

- Foreign Minister Hayashi Yoshimasa delivered a [foreign policy speech](#) which emphasized the GOJ’s focus on maintaining and strengthening a free and open international order based on the rule of law.
- It also discusses the expansion of security cooperation with European countries, the importance of Japan-PRC, Japan-ROK relations, and the importance of international cooperation on common challenges such as climate change and global health.
- Finance Minister Suzuki Shunichi delivered a [fiscal policy speech](#) which warned of the deteriorating health of the country’s finances. He stated that the important thing is to balance economic revitalization and fiscal consolidation.
- Suzuki also pledged to continue promoting expenditure and revenue reforms to realize the FY 2025 primary balance goal set by the government.
- Minister in Charge of Economic Revitalization Goto Shigeyuki delivered an [economic and fiscal policy speech](#) which emphasized his goal of addressing rising costs of living to realize wage increases and accelerating “new form of capitalism.”

6. [Key Legislation to Be Submitted to the Diet](#)

- On Monday, the GOJ [submitted](#) to the Diet the FY 2023 budget. It came to a record high ¥114.38 trillion. Defense spending will be ¥6.78 trillion, while the “defense reinforcement fund” for future reinforcements will come to ¥3.38 trillion.
- Of defense spending, 7 percent will be [financed](#) by “construction bonds,” which are issued to finance public works projects. SDF facilities, previously deemed perishable goods, will now be covered under facilities with long-term public benefits.
- The GOJ will also [submit](#) a bill supporting the defense industry, which includes measures such as a program for the government to outsource (shoulder cost) manufacturing/maintenance of facilities it purchases from ailing businesses.

- METI will [soon submit](#) a bill extending the operational life of nuclear power plants temporarily suspended for safety examinations beyond sixty years. The bill promoting GX transformation will include carbon pricing, as well as a new ¥20 trillion “GX transition bond” to encourage private investment over the next ten years.
- The GOJ will [submit](#) a bill to establish a Japanese CDC to be called the “National Research Institute for Health Crisis Management.” It merges the National Institute of Infectious Diseases and National Center for Global Health and Medicine and will begin operation some time after FY 2025.

7. Other Political Developments

- On Friday, Kishida [announced](#) that the GOJ will lower the threat level of COVID-19 from “new infectious disease” to “category five” (equivalent to seasonal flu) on May 8. Though concrete measures will be decided in March, public funding for medical care will be reduced and mask wearing will become optional as of Friday.
- Kishida [announced](#) that the GOJ will consider whether or not to abolish the income restrictions set on child-support allowances based on Diet deliberations. The issue was [raised](#) by LDP Secretary General Motegi Toshimitsu on Wednesday.
- On Tuesday, Speaker of the Lower House Hosoda Hiroyuki [answered questions](#) from opposition representatives regarding his ties to the Unification Church. He denied distributing UC votes to faction members while leader of the now-Abe faction. While the LDP wants this to be the end, the opposition demanded further questioning.
- Kishida [stated](#) that GOJ projections suggest the country can achieve its FY 2025 primary balance goal. He added that the GOJ will compile basic guidelines for child-related policies by June.
- Kishida [instructed](#) his ministers to swiftly implement the policies included in the comprehensive economic policies to address rising costs of living. In particular, he instructed additional measures be implemented to suppress compound feed cost for livestock owners.

8. BOJ Issues Summary from January Monetary Policy Meeting

- On Thursday, the BOJ issued a [summary of opinions](#) expressed at its Monetary Policy Meeting held on Jan. 17-18.
- Some members [expressed](#) the opinion that the Bank “needs more time to determine” the effect of raising the long-term interest rates on market functions. Others said it would take time for market functions to recover.

- Members also expressed the view that the Bank would need to maintain its yield curve control to realize the 2 percent inflation rate.
- One member evaluated the Bank's decision to extend its guaranteed funding operation for banks (so those other than BOJ buy GOJ bonds) as "useful to purchase large amounts of GOJ bonds and develop a stable yield curve."
- Members stated that inflation will rise as firms transfer costs over to prices. Others were skeptical about wage increases. Still others said the Bank had much to consider before ending its monetary easing policy.

9. Shuntō Wage Negotiations Begin

- The "spring wage offensive" or Shuntō wage negotiations [began](#) on Monday with a meeting between the presidents of the Keidanren and RENGO. Keidanren President Tokura Masakazu urged businesses to maintain the momentum of wage increases as a matter of corporate social responsibility.
- Tokura [added](#) that labor mobility across industries and fields will be necessary to improve Japan's productivity. The key will be raising the base salary, which is easier to raise than promotion based raises.
- The prime minister [desires](#) a wage increase higher than the inflation rate. Both RENGO and Minister of Economy, Trade, and Industry Nishimura Yasutoshi have identified 5 percent or more as the goal.
- According to Keidanren, the wage increase rate last year went up for the first time in four years at 2.27 percent—significantly lower than the 5 percent target.
- Firms are [prematurely announcing](#) their wage increase rates in a move widely seen as a way to acquire the best workers in the labor market. Semiconductor wafer manufacturer SUMCO and glass/chemicals producer AGC raised wages 6 percent.

10. Other Key Economic/Financial Developments

- *Bloomberg* [reported](#) Friday that major semiconductor parts manufacturers Japan and the Netherlands are ready to conclude an agreement to join the United States in restricting exports of advanced semiconductor machinery to China.
- *Nikkei* [reported](#) that the MOF's estimation of future budget impact based on the FY 2023 budget showed that Japan's finances will increasingly worsen as bond repayments and social security costs pile up. Both the projected FY 2026 budget and GOJ bond fees are expected to increase by a few trillion yen.

- Kishida [said](#) Thursday that the GOJ plans to proactively work with local municipalities to decide the final disposal site for used nuclear waste. The GOJ has already started preliminary surveys in Suttu town and Kamoenai village, Hokkaido.
- *Nikkei* [reported](#) Monday that TEPCO officially requested METI for permission to raise household electricity prices by an average of 29 percent starting June. It becomes the sixth utility company to request price increases since Nov. 2022. High resource costs have contributed to the price increase.
- *Nikkei* [reported](#) that the GOJ will abolish regulations on domestic funds looking to invest in startups. Specifically, it will abolish the rule that investment into foreign firms must remain below 50 percent of total assets held in an effort to encourage foreign money flowing into domestic funds.

11. State of the Economy

- According to the Cabinet Office's [Monthly Economic Report](#) for January released on Wednesday, the Japanese economy is "picking up moderately, although some weaknesses have been seen recently." The assessment was [lowered](#) for the first time in eleven months due to a fall in exports from increased COVID-19 cases in China.
- In the short-term, the economy is expected to show movements of picking up, supported by the GOJ's policies. However, slowdown of overseas economic remains a downside risk for the economy.
- The *Nikkei* [diffusion index](#) aggregating consumption-related firms' economic outlooks released on Tuesday showed the DI at -17, 13 points higher than the last survey in Oct. 2022. Expectations are high among small retail owners given high demand for tourism and high end of year sales.
- The BOJ [announced](#) that its CPI for December excluding price volatile items rose 3.1 percent from the same month last year. This is a [higher rate of increase](#) than November (2.9 percent) and the highest since data became available in 2001. This indicates that prices are increasing across the board.
- *Nikkei* [reported](#) that its economic model "NEEDS" projected real GDP growth for FY 2022 at 1.5 percent and 0.8 percent for FY 2023. Real GDP in Oct.-Dec. 2022 also rose 0.7 percent since the last quarter, the first positive growth rate in two quarters. It seems consumption, capital investment, and exports all did somewhat well.

II. Public Opinion Poll

- A FNN poll [released](#) on Monday showed the Kishida Cabinet's approval rating was 38 percent, up one point from December, while disapproval was 38 percent, up one point.
 - 49 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 12 percent said because they have high expectations for its executive ability.
 - 37 percent of respondents said they do not support the Cabinet because the Cabinet lacks executive ability; 34 percent said because the policies are not good; and 18 percent said because it is centered around the LDP.
 - 51 percent of respondents said they support the GOJ's decision to increase defense spending significantly, while 43 percent said they oppose.
 - 67 percent of respondents said they oppose the GOJ's decision to implement tax hikes to finance defense spending, while 29 percent said they support.
 - 60 percent of respondents said they believe the prime minister should dissolve the Lower House and call a general election before the tax hike as a referendum, while 33 percent said they do not believe it is necessary.
 - 83 percent of respondents said they support the GOJ's decision to double spending on policies related to children, while 13 percent said they oppose it.
 - 49 percent of respondents said they believe that the GOJ should not increase the burden on citizens through hiking taxes or social insurance fees to finance policies related to children, while 48 percent said they believe it can't be helped.
 - 52 percent of respondents said they believe that wages will "not increase too much"; 28 percent said it will "somehwa go up"; 18 percent said it will "not go up at all"; and 1 percent said it will "go up a lot."
 - 51 percent of respondents said they approve of the GOJ's COVID-19 response so far, while 42 percent said they disapprove.
 - 49 percent of respondents said they believe that the GOJ should lower the classification of COVID-19 under the Infectious Disease Control Act to "category five" (equivalent to seasonal flu), while 47 percent said it should stay as is.
 - 64 percent of respondents said they believe that people should still wear masks indoor, while 32 percent said there should not be any mask mandates other than for those with symptoms or the elderly.
 - 26 percent of respondents said they believe that no one in the list should become the next prime minister; 20 percent said Kono Taro; 15 percent said Ishiba Shigeru; 11 percent said Koizumi Shinjiro; 9 percent said former Prime Minister Suga Yoshihide; 6 percent said Takaichi Sanae; 1 percent said Motegi Toshimitsu and Izumi Kenta; 0.5 percent said Noda Seiko; and 0.2 percent said Hayashi Yoshimasa.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	31 (-6)
Constitutional Democratic Party	8 (-1)
Japan Innovation Party	6 (± 0)
Komeito	3 (± 0)
Japan Communist Party	3 (± 0)
Democratic Party for the People	2 (± 0)
Reiwa Shinsengumi	2 (+1)
Social Democratic Party	0 (± 0)
Suffrage Party (Sanseitō)	1 (± 0)
NHK Party	1 (± 0)
Independent (No Party)	42 (+7)