

The Weekly Observer

March 27-31, 2023

The 67th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the Japan-U.S. Critical Minerals Agreement, the Summit for Democracy, Foreign Minister Hayashi's trip to China, the defense hotline with China, the FY 2023 budget, the draft policies for addressing the declining birth rate, the unified local elections, the prime minister's directives for tourism, infrastructure, and new capitalism policies, new semiconductor equipment export restrictions, the U.K.'s accession to the TPP-11, the IMF's report on Japan, and more.

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I. News of the Week

1. Japan-U.S. Critical Minerals Agreement

- On Tuesday, Japan and the U.S. [signed an agreement](#) on strengthening critical minerals supply chains.
- The [deal](#) is expected to help electric vehicles using metals processed in Japan qualify for tax incentives under the U.S.'s Inflation Reduction Act.
- The Act requires a portion of the critical minerals used in EV batteries to be mined or processed domestically or from countries with which the U.S. has FTAs. Japan and the U.S. has no FTA, but this deal will grant the same treatment as an FTA partner.
- The two countries also agreed to not impose export duties on trade in lithium, cobalt, manganese, nickel, and graphite.
- The [agreement](#) is expected to build robust supply chains through coordination between the two countries and among like-minded countries with strengthened cooperation for ensuring sustainable and equitable supply chains for critical minerals.

2. Summit for Democracy 2023

- On March 29-30, Prime Minister Kishida Fumio and Minister for Foreign Affairs Hayashi Yoshimasa attended the [Second Summit for Democracy](#) hosted by the United States government.
- Kishida committed to reinforcing country-to-country and people-to-people networks by helping develop over 1,500 people in the field of the rule of law and governance in the next three years.
- Hayashi [stated](#) that Japan would like to use the G7 Summit and ministerial meetings to send a strong message to the world that the G7 will never tolerate unilateral attempts to change the status quo by force anywhere in the world or accept Russia's nuclear threats, let alone use of weapons.
- In the Indo-Pacific section of the meeting, he [emphasized](#) that Japan attaches importance to "rule-making through dialogue" and a "human-centered" approach in efforts to address corruption and achieve the rule of law.
- Twenty-five countries including Japan [endorsed](#) a voluntary [Code of Conduct](#) under the Export Controls and Human Rights Initiative, which encourages states to take human rights into account when implementing export control measures.

3. Foreign Policy Developments

- MOFA [announced](#) Friday that Foreign Minister Hayashi will make his first visit to China on April 1-2 to meet with Foreign Minister Qin Gang. This is the first foreign minister visit in three years. They are [expected to discuss](#) concerns over Chinese activities near the Senkaku Islands and the immediate release of the detained Japanese national (spy charges).
- MOFA [announced](#) that Hayashi will be traveling on April 3-6 for the NATO Foreign Ministers' Meeting on April 5 in Brussels. He will also host the G7 Trade Ministers' Meeting online on April 4.
- Kishida [held](#) a phone meeting with President Ursula von der Leyen of the European Commission. The two exchanged views on the regional situation such as Ukraine and the Indo-Pacific and agreed to continue close communication.
- METI [announced](#) that sanctions decided on Feb. 28 targeting Russia's industrial base will be implemented on April 7. The GOJ also [decided](#) that it will extend the suspension of Russia's "most-favored nation" status to the end of March next year.
- On Thursday, MOFA [announced](#) two grant aid projects for recovery and reconstruction in Ukraine. The first is a \$400 million grant for reconstruction efforts and the second is a \$70 million grant aid for critical energy infrastructure restoration. It also [announced](#) \$30 million through NATO for non-lethal defense equipment.
- On Monday, National Security Secretariat Secretary General Akiba Takeo [spoke on the phone](#) with U.S. National Security Advisor Jake Sullivan. The two discussed the importance of increasing multilateral cooperation across the region.

4. Defense/Security Developments

- MOD [announced](#) Friday that the defense hotline between Japanese and Chinese authorities has become operational.
- *Nikkei* [reported](#) that the GOJ aims to finalize main points on information security, including the creation of guidelines for firms on employees' access to important information, before the Basic Policy is released in June.
- *Jiji* [reported](#) Thursday that Minister of Defense Hamada Yasukazu will likely meet Australian Minister of Defense Richard Marles in May. They may discuss further expanding joint exercises in light of the [new joint declaration](#) signed in October.
- *Kyodo News* [reported](#) Tuesday that Japan, the United States, and the Philippines plan to set up a trilateral framework involving their national security advisers amid China's

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growing military assertiveness in the Indo-Pacific region. U.S. sources said the meeting is likely to take place after the U.S.-Philippines “2+2” on April 11.

- MOD [announced](#) Monday that North Korea launched two ballistic missiles toward the northeast direction which landed outside Japan’s EEZ. NHK [reported](#) Sunday that the GOJ is likely to extend unilateral sanctions on North Korea in April.
- *Nikkei* [reported](#) that MOF is explaining to the LDP that the GOJ cannot use accumulated funds from the Treasuries Fiscal Investment and Loan Program to finance defense spending. This may push the LDP to demand tax hikes.

5. Record High FY 2023 Budget Passed

- On Tuesday, the Upper House [passed](#) the FY 2023 budget. The enacted budget hit a [record-high](#) ¥114.38 trillion.
- Defense spending hit ¥6.78 trillion (more than 1 percent of GDP). This is 26 percent higher than the initial FY 2022 budget. Spending for FY 2023 rose ¥1.42 trillion.
- Other spending items include ¥36.89 trillion on social security, ¥25.25 trillion to pay interest on GOJ bonds, ¥16.40 trillion on the distribution of local allocation tax to municipalities, ¥4 trillion for the COVID-19/inflation-relief reserve fund, and ¥1 trillion for the Ukraine reserve fund.
- At a [press conference](#), Kishida emphasized three points from the budget—the realization of “new form of capitalism,” reinforcing support for children and child rearing, and the fundamental reinforcement of defense capabilities.
- Kishida also announced that ¥2.2 trillion from the [COVID-19/inflation-relief reserve fund](#) will be used to fund the government’s [inflation-relief package](#), which includes a cash handout of ¥50,000 per child and ¥30,000 per low-income household.

6. GOJ Announces Draft Policies Addressing the Declining Birth Rate

- On Friday, the GOJ released its [draft policies](#) (*tatakidai*) to address the declining birth rate, which is being described as a “silent crisis.” Funding will be [decided](#) by the June release of the Basic Policy.
- The basic principles of the plan are: 1) increasing the income of younger generations; 2) changing the structure and thinking of society; and 3) seamless support for families at all stages of the life cycle.

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- The plan states that the next three years will be crucial in reversing the trend. The four priority areas include reinforcing economic support, expanding services, promoting co-working and co-parenting, and changing mindsets.
- Policies for priorities one and two include removing income restrictions on child allowance and extending support until high school graduation; considering the introduction of health insurance for fees related to giving birth; raising the income ceiling for use of deducted loan-type scholarships for higher education from ¥3.25 million to ¥4 million; and increasing the number of child care workers from 6:1 to 5:1 for one-year olds and 30:1 to 25:1 for four and five year olds.
- For three and four, policies include raising the goal of paternity leave to 85 percent for government officials and 50 percent for the private sector by 2025 (85 percent for both by 2030); flexible workstyles such as remote work for parents with young children; and expanding financial support for those who work less than the legally required twenty hours per week to receive aid.
- The prime minister will also chair a new council to set out concrete policies and funding based on the draft policies ahead of the finalization of policies in June.

7. Local Assembly Races Begin in the Unified Local Elections

- On Friday, all the races for the first half of the unified local elections were publicly announced.
- They include forty one local assembly races, seventeen ordinance-designated city assembly races, as well as nine gubernatorial races and six mayoral races that have already commenced the campaigning period. All races will be held on April 9.
- The number of seats has decreased seventeen. The competitiveness is likely to be around 1.39 times, with around 25 percent uncontested. There will be a record-high 489 women running for office, with the ratio of the total around 16 percent.
- In the prefectoral assembly races, the LDP will field 1,306 candidates; the CDP will field 246; the Japan Communist Party will field 188; Komeito will field 170; the Japan Innovation Party will field 155; the DPFP will field 46; and there will be 885 independents. There will be a total of 3,139 candidates.
- The race will likely focus on child care support, inflation-relief measures, and revitalizing regional economies. The LDP looks to win another majority of seats.

8. Other Political Developments

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- On Friday, Kishida [instructed](#) Minister of Land, Infrastructure, Transport and Tourism Saito Tetsuo to develop the National Spatial Plan in the summer in tandem with the Digital Garden City Nation vision to ensure infrastructure resilience.
- Kishida also [announced](#) a ¥5 trillion goal for foreign tourism and ¥20 trillion goal for domestic tourism heading into 2025. He instructed the Cabinet to craft an action plan to expand inbound tourism by the June release of the Basic Policy.
- Kishida [stated](#) that in order to address the “2024 problem” of manpower not keeping up with logistics/distribution, the GOJ will focus on implementing policies including the standardization of distribution, DX, and GX to improve efficiency.
- On Thursday, Kishida [said](#) that Japan will actively contribute to international efforts to secure stable energy sources, reinforce supply chains, and respond to climate change, which all contribute to his “new capitalism” vision.
- Kishida [said](#) that there are four priorities for his “new capitalism” vision: 1) labor market reform; 2) promoting science and technology and innovation; 3) utilizing private sector knowledge to resolve social issues; and 4) economic stability to prevent shocks turning into crises.

9. Japan Restricts Semiconductor Equipment Exports

- On Friday, the GOJ [announced](#) that it would include twenty-three items, including advanced semiconductor manufacturing equipment, in its export control list.
- Japan [joins](#) the United States in making it difficult for China to import semiconductor manufacturing equipment. It uses its Foreign Exchange and Foreign Trade Act to control the export of dual-use items.
- Exports of controlled items will require permission from the minister of economy, trade, and industry. The measures are set to begin in July.
- The items include manufacturing equipment for extreme ultraviolet (EUV)-related products and etching equipment for stacking memory elements three dimensionally. The new measures will likely affect ten or so domestic companies including Tokyo Electron and Nikon.
- Minister of Economy, Trade, and Industry Nishimura Yasutoshi said that the measures are not aimed at a particular country. However, the United States has been [pressuring](#) Japan and the Netherlands to restrict exports of semiconductor equipment to China.

10. Other Key Economic/Financial Developments

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- On Friday, the eleven signatories of the CPTPP [agreed to welcome](#) the United Kingdom into the trade agreement. The U.K. becomes the first country outside the original members to join the FTA.
- *Nikkei* [reported](#) Thursday that the MOF will establish a new expert council in April to discuss the challenges of introducing a “digital yen.” The Bank of Japan plans to begin the final phase of experiments with input from the private sector in April.
- The MIC [held](#) a meeting to discuss the possibility of using alternative networks for roaming when network failures occur. They agreed on the implementation of the “full roaming method” by the end of FY 2025 to enable calls and data usage even during outages, as well as the consideration of “limited roaming” for emergency use.
- On Wednesday, BOJ Deputy Governor Uchida Shinichi [revealed](#) that estimates show that if the long-term interest rates rises to two percent, the unrealized loss on BOJ holdings of GOJ bonds will amount to around ¥50 trillion.
- METI’s [data](#) for FY 2023 electricity supply [showed](#) that the reserve rate for areas covered by TEPCO in July was three percent, below the five percent threshold the GOJ has set to issue a “tight power supply warning.”

11. State of the Economy

- On Thursday, the IMF [released](#) its 2023 Article IV Consultation Report for Japan. It [revised](#) real economic growth in 2023 downward 0.5 points to 1.3 percent due to a decline in capital investment. It urged the BOJ to operate the long-term interest rate flexibly in anticipation of higher inflation.
- METI’s [Preliminary Report for February](#) showed the indices of industrial production at 94.8, [up](#) 4.5 percent from the previous month (positive for first time in two months). Production has “weakened” but expected to pick up in March and April.
- *Nikkei* [reported](#) that POS data from about 470 supermarkets across the country showed that prices for forty-six of fifty-seven household staples like toilet paper and stationery have increased in the last year. Of these, 80 percent also saw a decrease in sales of the items.
- The BOJ’s “[trimmed average](#)” CPI for February (excluding price volatile items) released on Tuesday was 2.7 percent higher than the same month last year. The rate of increase [fell](#) from 3.1 percent in January most likely due to GOJ policies to suppress rising utility costs.
- According to a [survey](#) released by the Japan Chamber of Commerce and Industry, 42.4 percent of SMEs said they believe the minimum wage “should be raised,” [up](#) 0.7

points from the previous year. A further 58 percent said that they plan to raise wages, up 12 points from last year.

II. Public Opinion Poll

- A *Nikkei* poll [released](#) on Monday showed the Cabinet approval rating was 48 percent, up five points from February, while disapproval was 44 percent, down five points.
 - 46 percent of respondents said that they want the prime minister to prioritize economic recovery; 40 percent said pensions, health care, and elderly care; and 39 percent said child care and policies addressing the declining birth rate.
 - 71 percent of respondents said that they approve of the GOJ's COVID-19 response so far, while 24 percent said that they disapprove.
 - 76 percent of respondents said that they believe the GOJ's decision to make mask wearing optional was appropriate, while 20 percent said it was inappropriate.
 - 63 percent of respondents said that they approve of the results from the Japan-ROK summit meeting, while 21 percent said that they disapprove.
 - 56 percent of respondents said that they do not believe that Japan-ROK relations will change after the summit, while 35 percent said that they believe it will change for the better.
 - 68 percent of respondents said that they believe the South Korean plan to resolve the wartime labor issues (foundation to compensate victims in place of Japanese firms) will not resolve the issue, while 21 percent said that they believe it will.
 - 71 percent of respondents said that they approve of Kishida's visit and pledge of continued support to Ukraine, while 20 percent said that they disapprove.
 - 48 percent of respondents said that they support the GOJ's inflation-relief response, including ¥30,000 per low-income household and ¥50,000 per child from low-income households, while 47 percent oppose it.
 - 68 percent of respondents said that they approve of the GOJ's decision to raise the child care leave subsidy to an equivalent rate as the cash received prior to taking leave at firms, while 25 percent said that they disapprove.
 - 53 percent of respondents said that they believe the GOJ's efforts during the Abe era to "reinterpret" the Broadcast Act's impartiality is a problem, while 28 percent said that they do not believe that it is a problem.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	43 (+4)
Constitutional Democratic Party	8 (-1)

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Japan Innovation Party	8 (± 0)
Komeito	4 (± 0)
Japan Communist Party	3 (± 0)
Democratic Party for the People	2 (-1)
Reiwa Shinsengumi	3 (+1)
Suffrage Party (Sanseitō)	1 (-)
Independent (No Party)	24 (-3)