

## ***The Weekly Observer***

May 22-26, 2023

*The 74<sup>th</sup> edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the G7 Hiroshima Summit, Japan's support for Ukraine, the Quad leaders' meeting, additional sanctions against Russia, the Space Policy and Defense White Paper drafts, the Honebuto document outline, the defense spending bill, the GOJ's plan to raise insurance premiums to finance child-rearing policies, Komeito's decision to end electoral cooperation with the LDP in Tokyo, BOJ Governor emphasizing no changes to monetary policy, Japan-U.S. agreement on semiconductor cooperation roadmap, the Monthly Economic Report, and more.*

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

### **1. G7 Hiroshima Summit**

- Prime Minister Kishida Fumio [hosted](#) the G7 Summit in Hiroshima from May 19-21.
- The leaders [agreed](#) to work together and with others to support a free and open Indo-Pacific and oppose any unilateral attempts to change the status quo by force or coercion; foster a strong resilient global economic recovery; accelerate achievement of the SDGs; promote the evolution of Multilateral Development Banks; strengthen partnerships with African countries; preserve the planet by accelerating the decarbonization of the energy sector; and advance discussions on AI governance.
- Eight sessions were held: [toward an international community characterized by cooperation](#); [Ukraine](#); [foreign and security policy](#); [Global South](#); [economic resilience and economic security](#); [working together to address multiple crises](#); [common endeavor for a resilient and sustainable planet](#); and [Ukraine](#) (with Zelenskyy)
- The G7 members issued separate statements on [Ukraine](#); [Hiroshima Vision on nuclear disarmament](#); [economic resilience and economic security](#); [clean energy economic action plan](#); and the [Hiroshima Action Statement for resilient global food security](#).
- Highlights included Ukrainian President Volodymyr Zelenskyy's [visit](#) to Hiroshima, the leaders' visit to [lay flowers](#) at the cenotaph for atomic bomb victims, the [visit](#) to the Hiroshima Peace Memorial Museum, and the [visit](#) to Itsukushima Shrine.

### **2. Japan Agrees to Reinforce Support for Ukraine**

- On Sunday, Kishida [hosted](#) the eighth Summit session on Ukraine with Zelenskyy attending as a guest. The leaders concurred that they will continue their unwavering commitment to provide diplomatic, financial, humanitarian and military assistance to Ukraine and reaffirmed their determination to restore peace in Ukraine and uphold the free and open international order based on the rule of law.
- On May 19, the leaders [issued a statement](#) on Ukraine. The leaders agreed to further restrict Russia's access to their economies; further prevent evasion and circumvention of sanctions measures including by engaging third countries providing Russia with restricted material; and restrict Russia's revenue sources financing the war.
- On Sunday, Kishida [held](#) a summit meeting with Zelenskyy. He conveyed Japan's intention to provide around one hundred JSDF vehicles such as trucks and approximately 30,000 emergency rations to Ukraine, as well as Japan's decision to accept injured Ukrainian soldiers at the JSDF Central Hospital for the first time.

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- He also explained that JBIC has decided to insure approximately ¥93 billion worth of Samurai bonds that Poland will issue for assistance to people displaced from Ukraine.
- The two leaders [conducted](#) a wreath-laying ceremony at the Cenotaph for the Atomic Bomb Victims. Zelenskyy also [visited](#) the Hiroshima Peace Memorial Museum and signed the guest book, writing that nuclear blackmail has no place in today's world.
- On Wednesday, MOD [held](#) a handover ceremony to provide two JSDF trucks to Ukraine. Ambassador to Japan Sergiy Korsunsky attended the ceremony.

### 3. Quad Leaders' Meeting

- On Saturday, Kishida [met](#) with President Joe Biden, Prime Minister Anthony Albanese, and Prime Minister Narendra Modi for a Quad leaders' meeting on the sidelines of the G7 Summit.
- The meeting was originally scheduled to be held in Australia on May 24, but was moved forward to be held in Japan to accommodate Biden's change of schedule to head back to Washington to negotiate the debt ceiling.
- The [Quad Leaders' Vision Statement](#) issued after the meeting emphasized the four countries' commitment to support a free and open Indo-Pacific that is inclusive and resilient. They stated that they seek to maintain and strengthen stability in the region where competition is managed responsibly, in accordance with international law.
- The [Quad Leaders' Joint Statement](#) reiterated the four countries' commitment to a region where all countries are free from coercion and to the region's success. It reaffirmed respect for leadership of regional institutions like ASEAN, PIF, and IORA.
- The leaders issued a [Statement of Principles on Clean Energy Supply Chains in the Indo-Pacific](#), which has been designed to promote diverse, secure, transparent and resilient clean energy supply chains and support a sustainable and inclusive clean energy transition.

### 4. Foreign Policy Developments

- On Friday, MOFA [announced](#) additional sanction measures against Russia. It freezes assets and restricts payments to seventeen individuals and seventy-eight entities directly involved in the "annexation" of Crimea and the destabilization of east Ukraine. It also prohibits exports to eighty entities and on exports of items which could contribute to the enhancement of Russian industrial capacities.
- MOFA [released](#) the results of its public opinion survey on Japan's diplomacy. Around 91 percent of respondents believe the security environment in East Asia is becoming

increasingly severe. On China, 60 percent said Japan should particularly focus on taking a strong stance on intrusions into Japan's territorial sea (and other things).

- On Thursday, Kishida [said](#) at the Nikkei Forum that Japan is focused on "co-creating" the future with its Asian partners and sharing the idea that no one will impose their will or exclude others from regional development.
- *Jiji* [reported](#) Wednesday that Kishida is considering attending the NATO leaders' meeting in July in Lithuania to bolster cooperation in light of Russia's invasion of Ukraine and China's military coercion.
- NHK [reported](#) Tuesday that the GOJ submitted its candidacy to become a non-permanent member of the UN Security Council in 2032. Japan currently serves a two-year term on the SC and aims to maintain presence in the long-term for reform.
- On Sunday, Kishida [exchanged views](#) for a short time with President Biden and President Yoon Suk-yeol. The three concurred on bringing Japan-U.S.-ROK coordination to a new height. Biden [reportedly](#) invited the two to come to Washington for another summit meeting.

## 5. Defense/Security Developments

- On Friday, Minister of Defense Hamada Yasukazu [revealed](#) that he will hold a meeting with U.S. Secretary of Defense Lloyd Austin in Tokyo on June 1.
- Hamada also stated that a JMSDF destroyer will fly the controversial (in ROK) Rising Sun flag when it participates in a multilateral naval exercise in waters near South Korea on May 31. The former Moon Jae-in administration [took issue](#) with Japanese vessels making port calls in South Korea with the flag raised.
- On Thursday, Japan and the United Arab Emirates [signed](#) the first-ever agreement concerning the transfer of defense equipment and technology between Japan and a Middle Eastern country.
- *Nikkei* [reported](#) that the U.S. Military plans to repair USFJ naval vessels in Japanese shipyards to ensure repairs are quick and enables the U.S. to be adequately prepared for possible contingencies in the region. This will be the first framework to have ships repaired outside bases in Japan.
- NHK [reported](#) Tuesday that the GOJ has drafted its first space security policy based on three principles—drastically expanding the use of space for national security; ensuring the safe and stable use of space; and creating a positive cycle of space security and space industry development. It also [notes](#) Japan's intention to join the

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Combined Space Operations Center co-led by the U.S., U.K., Australia and Canada likely in response to China and Russia's sophisticated counter-space weapons.

- Reports [suggest](#) that the GOJ's Defense White Paper will position counterstrike capabilities as necessary to reinforce defense and complement proactive diplomacy. It also [notes](#) that the cross-Strait military balance is increasingly tilting toward the PRC.

### 6. GOJ Releases Draft of Honebuto Document

- On Friday, the GOJ released a [draft outline](#) of the Basic Policies for Economic and Fiscal Management and Reform (*Honebuto no Hōshin*). The final version will be published in June.
- It has five sections: basic approach to macroeconomic management; accelerating “new capitalism”; responding to the changing environment surrounding Japan; mid-to long-term management of economic and fiscal management; and economic and fiscal management for the time being and approach toward FY 2024.
- Last week, the GOJ [finalized](#) guidelines for labor market reform, including reskilling to raise wages and establish a growing middle class.
- The policies include reinforcing supply chains and expanding domestic investment to crystalize “new capitalism”. It also includes reinforcing policies addressing the declining birth rate (doubling budget).
- It also [includes](#) accelerating green and digital reforms to expand domestic investment, as well as transforming industry by promoting startups and reinforcing supply chains through public-private partnerships.

### 7. Defense Spending Bill Passes Lower House

- On Tuesday, the Lower House [passed](#) the bill securing defense spending. It includes establishing a “defense reinforcement fund” from non-tax funds.
- The CDP, Japan Innovation Party, DPFP, JCP and other opposition parties opposed the bill on grounds that they cannot accept tax hikes to finance around ¥1 trillion of the defense spending increase.
- On Wednesday, the Upper House [began](#) deliberating the bill. The opposition questioned the GOJ's use of the reconstruction tax (3.11 related) to partially finance tax spending allocated to defense.

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- Questions still remain as to how sustainable the GOJ's funding plan is for the increased defense budget. Some argue that the use of surplus funds from the ordinary budget should not be allocated to defense.
- There are those in the ruling LDP that also oppose tax hikes and are considering alternative financing sources.

### 8. GOJ Plans to Raise Social Insurance Premiums to Fund Child-Rearing Budget

- Reports [emerged](#) this week regarding the GOJ's policies to address the declining birth rate and how it intends to finance these policies.
- Policies include expanding child allowance and daycare services. Funding is expected to be around ¥3 trillion a year for the next three years, coming from ¥1.1 trillion through social security reform, ¥0.9 trillion from consumption tax revenue, and ¥0.9-1 trillion through state financial support.
- The third funding pillar will be [financed](#) through hikes in insurance premiums. Each citizen will be [required](#) to contribute as much as ¥470 per month. The GOJ is also planning to introduce next fiscal year a transition bond to cover near-term funding.
- At an LDP meeting on Friday, lawmakers [voiced opposition](#) to social security reforms, which includes cutting spending on medical care and senior care. They argue that the GOJ should cut spending across the board.
- On Monday, Kishida [stated](#) that there are no plans to hike the consumption tax to finance these policies. Social insurance premiums will [likely be raised](#) starting FY 2026. The budget is [expected](#) to double by the early 2030s.

### 9. Komeito Ends Electoral Cooperation with LDP in Tokyo

- On Thursday, Komeito Secretary General Ishii Keiichi [informed](#) LDP Secretary General Motegi Toshimitsu that his party will not cooperate with its coalition partner in Tokyo in the next general election.
- Komeito cited “a loss in trust” for ending cooperation. The two parties had disagreed over Komeito’s desire to field a candidate in the new Tokyo-28 district created under redistricting of SMDs.
- Komeito decided that it will not field a candidate in T-28, but that it would withhold endorsements for LDP candidates in all thirty of Tokyo’s SMDs. Ishii explained that this would not signal the end of electoral cooperation altogether.

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- The LDP [rejected](#) Komeito's request, which stems from a desire to add another seat in Tokyo from its existing one seat. Reports suggest Komeito is feeling pressure to expand seats in areas other than Osaka, where its stronghold may be challenged by *Ishin*, which announced it will field candidates in districts Komeito holds.
- *Jiji* [reported](#) Saturday that LDP lawmakers in toss-up districts are urging the prime minister to continue negotiating with Komeito to reverse its decision. These lawmakers need the 10,000-20,000 votes Komeito can garner to get re-elected.

### 10. Other Political Developments

- *Yomiuri* [reported](#) Friday that the GOJ plans to introduce a new policy providing ¥10,000 per high school student (first and second child in family) per month and ¥30,000 per month to children (third child on) between ages zero and high school as part of the expansion of child allowance. The current program sets limits between ages three and elementary school.
- MHLW's [Vital Statistics Report](#) showed that the number of children born between Jan.-March 2023 was 182,477. This is 5.1 percent [lower](#) than last year and consistent with trends of low birth rates.
- *Ishin* and DPFP [submitted](#) their version of the legislation promoting understanding of LGBT persons. It utilizes the English word "gender identity" in place of "sexual identity" (*sei doitsusei* and *sei jinin*) and includes a provision requiring "care so that all citizens can live with peace of mind." The ruling coalition and CDP/JCP/SDP have their own versions submitted to the Diet.
- On Thursday, MIC [announced](#) that there were 113 cases of mislinkage of My Number points in ninety municipalities across Japan. Points acquired through card usage linked to bank accounts were distributed to the wrong accounts due to a system malfunction.
- On Tuesday, the LDP [approved](#) the expansion of the [Specified Skilled Worker program](#) by increasing the number of industries covered by SSW (ii) requiring higher skill proficiency from two (construction; shipbuilding) to eleven. This reflects Tokyo's desire to attract more skilled workers amid a global competition for workers.

### 11. BOJ Governor Ueda Stresses Importance of Maintaining Monetary Policy

- On Thursday, BOJ Governor Ueda Kazuo [indicated](#) in an interview with domestic news outlets that the Bank will maintain its loose monetary policy to sustainably achieve 2 percent inflation.

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- Ueda assessed that though inflation is above 2 percent currently, this is temporarily due to high energy costs which will subside soon.
- He stated that reversing policy now would lead to negative effects on areas such as employment as inflation rates fall.
- Ueda further stated that the Bank plans to maintain its current monetary policy but would be flexible in changing it should there be significant changes in its effect.
- Economists [believe](#) that while current inflation rates have been a result of supply-side effects such as high resource costs, recent CPI statistics show that demand-side effects are taking place. This means inflation may stay above 2 percent.

### 12. Japan and U.S. Agree to Create Roadmap for Semiconductor Cooperation

- On Friday, Minister of Economy, Trade and Industry Nishimura Yasutoshi [held](#) a meeting with U.S. Secretary of Commerce Gina Raimondo in Detroit.
- During the second Japan-U.S. Commercial and Industrial Partnership meeting, the two ministers welcomed cooperation on semiconductors, export controls, digitalization, as well as expanding cooperation on bio/quantum and with Pacific Island countries.
- In the [joint statement](#), the ministers agreed to encourage cooperation between the to-be-established U.S. National Semiconductor Technology Center and the Leading-Edge Semiconductor Technology Center of Japan for roadmapping for technological and human resource development.
- The ministers concurred that both countries will continue to advance efforts to prevent goods and technologies from being misused for violations or abuses of human rights, including through identification of items in cooperation with relevant countries.
- The two ministers agreed to identify areas for cooperation to strengthen pharmaceutical supply chains, enhance competitiveness in biomanufacturing, and promote collaboration among drug discovery start-ups. They also agreed to work together to help promote the development of resilient quantum technologies supply chains to identify critical materials and components in their respective countries.

### 13. Key Economic/Financial Developments

- On Thursday, the APEC Trade Ministers' Meeting [began](#) in Detroit. METI Minister Nishimura said he aims to communicate responses to issues such as market distortion and economic coercion. China and Russia are also part of APEC.

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- *Nikkei* [reported](#) that the GOJ will expand employment insurance to part-time workers by FY 2028. Currently, part-time workers working fewer than twenty hours a week are not eligible for insurance and cannot receive unemployment benefits.
- The Nuclear Regulation Authority [decided](#) Wednesday that it will allow the Japan Atomic Energy Agency's Joyo experimental fast reactor to restart after the reactor passed new regulatory standards. The JAEA aims to restart it at the end of FY 2024.
- On Tuesday, METI [promulgated](#) a revised ordinance based on FEFTA restricting exports of twenty-three items including semiconductor equipment. The measure takes effect on July 23 and require individual approval by METI for exports to countries that are not any of the forty-two “friendly” nations and regions (excludes China).
- On Monday, the Cabinet Office's expert panel on gender equality [finalized recommendations](#) including encouraging firms in the Tokyo Stock Exchange's Prime Market to elect at least one woman to the board of directors by FY 2025.

### 14. State of the Economy

- According to MOF's [release](#) on Friday, Japan's net foreign assets as of the end of FY 2022 was a record-high ¥418.63 trillion. [Largely due](#) to a weak yen, an increase in net foreign assets results in increased dividends and interest income from overseas, which improves the current account balance and raises the sovereign credit rating.
- According to the Cabinet Office's [Monthly Economic Report](#) for May released on Thursday, Japan's economy is, for the first time in three years, “recovering” albeit at a moderate pace. [Improvements](#) in private consumption has contributed to the recovery, though whether it sticks depends on risks abroad and whether wages rise sustainably.
- According to MHLW's [Monthly Labor Survey](#) for 2022 released on Tuesday, real wages excluding changes in inflation went down 1.8 percent compared to last year. This is the [first fall](#) in two years as rise in prices exceeded nominal salary increases.
- *Nikkei* [reported](#) that real wages are expected to increase on an annual basis in the second half of 2023 as inflation subsides and wages are raised. As of May 8, wage hike rates this year are at a thirty-year high, around 3.67 percent.
- According to CAO's [release](#) on Monday, expected machinery orders in April-June in the private sector (indicator for capital investment) rose 4.6 percent from the last quarter. Higher inflation has [contributed](#) to the second consecutive quarter on the rise.

## **II. Public Opinion Poll**

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- A *Yomiuri* poll [released](#) on Monday showed Cabinet approval rating was 56 percent, up nine points from April, while disapproval was 33 percent, down four points.
  - 45 percent of respondents said that they supported the Kishida Cabinet because there are no better alternatives; 16 percent said because it is centered around the LDP; and 12 percent said because they have high expectations for its policies.
  - 36 percent of respondents said that they do not support the Cabinet because they have no expectations for its policies; 16 percent said because Kishida lacks executive ability; and 15 percent said because they do not trust Kishida.
  - 56 percent of respondents said that they want the prime minister to continue as leader until his term as LDP president ends in September 2024; 26 percent said as long as possible; and 15 percent said they want him replaced as soon as possible.
  - 43 percent of respondents said that they believe the general election should not be held until lawmaker terms expire in fall 2025; 20 percent said sometime after this year; 19 percent said this year; and 11 percent said as soon as possible.
  - 41 percent of respondents said that they plan to vote for the LDP in the proportional representation section of the election; 14 percent said undecided; 13 percent said the Japan Innovation Party; 8 percent said the CDP; 4 percent said Reiwa Shinsengumi; 3 percent each said Komeito and the JCP; 2 percent each said the DPFP and Sanseitō; one percent each said the SDP and Seijika Joshi.
  - 72 percent of respondents said that they approve of the GOJ's decision to downgrade COVID-19 legally to the equivalent of the seasonal flu, while 21 percent said that they disapprove.
  - 53 percent of respondents said that they believe Kishida has exerted his leadership at the G7 Summit, while 30 percent said that they do not think so.
  - 57 percent of respondents said that the Summit has built momentum toward "a world without nuclear weapons," while 34 percent said that it has not.
  - 68 percent of respondents said that they believe G7 unity will be strengthened against China and Russia during the G7 Summit, while 23 percent said that they do not believe so.
  - 75 percent of respondents said that they believe the G7 should cooperate to create international rules for the use of AI generators, while 14 percent said that they believe they should not.
  - 86 percent of respondents said that they believe legal measures should be put in place to prevent the malicious use of AI generators, while 8 percent said that they do not believe there should be legislation.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	38 (+4)

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Constitutional Democratic Party	5 (+1)
Japan Innovation Party	7 (+1)
Komeito	2 (-1)
Japan Communist Party	3 (+1)
Democratic Party for the People	1 (-1)
Reiwa Shinsengumi	2 (+1)
Social Democratic Party	0 (±0)
Suffrage Party (Sanseitō)	1 (±0)
Independent (No Party)	37 (-4)