

The Weekly Observer

July 10-14, 2023

The 80th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the PM's visit to Europe, the foreign minister's visit to Southeast Asia, North Korea's latest ballistic missile launch, the Japan-PRC foreign ministers' meeting, the MOD expert panel report on securing personnel, the LDP tax research commission's decision on the defense tax hike, the latest My Number-related developments, Japan and ASEAN's plans for new supply chain cooperation, the GOJ subsidy for SUMCO, the June Economy Watchers Survey, and more.

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I. News of the Week

1. PM Deepens Security Ties in Europe

- On Wednesday, Prime Minister Kishida Fumio [delivered](#) a speech welcoming increasing Euro-Atlantic involvement in the Indo-Pacific at the NATO Summit Meeting being held in Vilnius, Lithuania.
- Kishida explained that the peace and stability in the Indo-Pacific is directly linked to the stability and growth of the Euro-Atlantic region. He stated that Japan will use the \$30 million it has contributed to the NATO Trust Fund to provide non-lethal equipment, including Counter-Unmanned Aircraft Detection Systems, to Ukraine.
- Prior to the Summit, Kishida [held](#) a meeting with NATO Secretary General Jens Stoltenberg and [adopted](#) the new Individually Tailored Partnership Program outlining new security cooperation. Covering the next four years through 2026, the two sides will advance cooperation in sixteen areas, ranging from maritime security to outer space to disinformation.
- Following the NATO Summit, Kishida [held](#) a leaders' meeting with European Council President Charles Michel and European Commission President Ursula von der Leyen and [agreed](#) to establish a strategic dialogue at the foreign ministerial level.
- The leaders also agreed to expand security cooperation in traditional and new areas, including maritime security and cyberspace. They [welcomed](#) the administrative arrangement on cooperation in critical raw materials supply chains signed last week to share information on risk management, innovation, and recycling frameworks.
- The EU also [said](#) it would lift import restrictions on Japanese food introduced after the accident at TEPCO's Fukushima Daiichi Nuclear Power Plant in 2011.

2. Foreign Minister Hayashi Heads to Southeast Asia

- Minister of Foreign Affairs Hayashi Yoshimasa is in Indonesia from July 12-15 to [attend](#) the ASEAN-related foreign ministers' meetings. This year marks the fiftieth anniversary of Japan-ASEAN relations.
- He first attended the Japan-ASEAN Foreign Ministers' Meeting and said that the two sides aim to jointly announce a vision that sets out the broad direction of relations at the commemorative summit to be held in Tokyo from Dec. 16-18. ASEAN [may upgrade](#) ties with Japan to a comprehensive strategic partnership in September.
- Hayashi then [attended](#) the ASEAN+3 Foreign Ministers' Meeting, which includes China and South Korea. He explained that China's accusations regarding the release

of treated wastewater from the Fukushima nuclear plant were inaccurate. The ministers discussed cooperation based on four priority areas in the AOIP (maritime cooperation, connectivity, SDGs, and economics).

- He also [attended](#) the East Asian Summit Foreign Ministers' Meeting and said, in reference to China, that unilateral attempts to change the status quo by force should never be tolerated anywhere in the world. He also explained Japan's position on the wastewater discharge and that China's claim is not based on scientific evidence.
- At the 30th ASEAN Regional Forum, Hayashi [reiterated](#) the importance of cooperation with ASEAN and support for ASEAN centrality and unity. He strongly condemned Russia's aggression against Ukraine and North Korea's recent ICBM launch. He also voiced concern about Myanmar and called on China to be an important player in the international community in the non-proliferation space.
- Hayashi held two trilateral meetings on the sidelines of the ASEAN meetings. With the United States and the Philippines, the ministers [shared](#) the importance of promoting multilayered collaboration with allies and like-minded countries. With the U.S. and South Korea, the ministers [agreed](#) to continue close cooperation and reinforce responses to North Korea.

3. North Korea Launches Solid-Fuel ICBM

- On Wednesday, MOD [announced](#) that North Korea launched one ICBM eastward, which flew for a record high 74 minutes before landing outside Japan's EEZ.
- The missile flew a maximum distance of approximately 1,000 km and a maximum altitude of approximately 6,000 km. Chief Cabinet Secretary Matsuno Hirokazu [confirmed](#) Thursday that the missile was a solid fuel missile — one that can be flown at a faster speed and with easier storage (concealment).
- The missile flew a lofted trajectory, meaning the missile flew almost vertically to test long-range capability without flying the actual distance. Some [say](#) it is retaliation for alleged U.S. satellite aircraft flying above its EEZ, while others say it's a show of force before the seventieth anniversary of the armistice agreement on July 27.
- In response, the G7 foreign ministers [issued](#) a statement Thursday condemning in the strongest terms North Korea's "brazen launch" of another ICBM. The ministers reiterated their demand that Pyongyang abandon all nuclear weapons.
- [Prior](#) to the launch, the U.S., Japan, and South Korea's top generals (Chiefs of the Joint Staff) held a rare meeting in Hawaii to discuss regional issues. JASDF's F-2s and U.S. Air Force's F-15s also [held](#) a joint exercise in west Kyushu after the launch.

4. Foreign Policy Developments

- On Friday, Hayashi [met](#) with Wang Yi, China's top diplomat, and stated that Japan wants "constructive and stable" bilateral relations. He also clearly reiterated Japan's position on the discharge of ALPS-treated water into the sea and called upon China to approach the matter in a scientific manner. Kishida [informed](#) ROK President Yoon Suk-yeol on Wednesday that Japan will publish monitoring data promptly and take action, such as discharge suspension, should there be an issue.
- *Yomiuri* [reported](#) that the GOJ is contemplating the establishment of a "strategic dialogue" with Saudi Arabia and regularizing foreign minister meetings with the Gulf Cooperation Council largely for energy purposes. The two countries are [likely to sign](#) a MOC to jointly invest in rare earths mining in third countries when Kishida meets Crown Prince and Prime Minister Mohammed bin Salman Al Saud.
- On Thursday, Kishida [announced](#) that Japan plans to host a G7 online summit meeting on AI this fall to follow up on progress made through the "Hiroshima AI Process" discussing generative AI risks and standard-setting. Minister of Finance Suzuki Shunichi also [announced](#) that the G7 Finance Ministers and Central Bank Governors would be meeting on the sidelines of the G20 FMCBG from July 17-18.
- The leaders of Japan, Australia, New Zealand, and South Korea [met](#) on the sidelines of the NATO Summit and agreed to work with each other and with the United States, EU, and other like-minded countries for peace and stability in the Indo-Pacific region.
- On Tuesday, METI and ROK's Ministry of Trade, Industry and Energy [held](#) a Japan-Korea Export Control Policy Dialogue and signed a MOC stipulating that the countries hold periodic policy dialogues; make efforts to improve their export control systems; and swiftly hold dialogue if an inappropriate situation is discovered.
- MOFA [established](#) a division to strategically promote and strengthen official security assistance (OSA), to extend grant aid to militaries of partner countries. It will be placed under the Foreign Policy Bureau and include ten officials to select recipient countries and evaluate aid performance.

5. Defense/Security Developments

- On Friday, Kishida and Hamada [separately received](#) a courtesy call from Gen. Mark Milley, Chairman of the U.S. Joint Chiefs of Staff. They discussed a range of regional issues and agreed to continue strengthening alliance deterrence and responsiveness.

- Hamada [told](#) reporters that the MOD has not decided whether to deploy mobile air surveillance radars to Kitadaito, Okinawa, but will be holding a meeting with locals on July 20 to gain their understanding on the importance of having surveillance presence in the Pacific Ocean side of Japan.
- On Wednesday, a MOD expert panel [proposed](#) the modernization of recruitment — centered around improving labor conditions and securing highly skilled professionals — to attract personnel in cyber, outer space, and other areas amid the challenge of finding manpower in a country experiencing a declining birth rate. MOD will [reflect](#) the report in its FY 2024 budget request and submit legislation to reform the JSDF.
- *Japan Times* [reported](#) Tuesday that MOD and the JSDF plan to expand the GSDF’s Signal School in Yokosuka, Kanagawa, and other facilities to develop human resources capable of combating cyberattacks. The GOJ aims to increase the number of JSDF cyber specialists to around 4,000 and MOD to around 20,000 by FY 2027.
- On Monday, CCS Matsuno [indicated](#) that Japan did not oppose the United States’s plan to provide cluster munitions to Ukraine for its counteroffensive against Russia. The U.K., Germany, and Canada have expressed opposition. Tokyo did confirm that Washington will mitigate the impact of the weapons on civilians in Ukraine.

6. LDP Tax Commission Hints FY 2024 Tax Hike for Defense Spending Unlikely

- On Thursday, Chairperson Miyazawa Yoichi of the LDP Research Commission on the Tax System [said](#) that the commission confirmed that it would be “impossible” to raise the corporate tax in FY 2024 to finance increased defense spending.
- During the “inner” meeting (closed session) of senior members, the commission [came to the conclusion](#) that it would be extremely difficult to prepare legislation for the corporate tax hike for the extraordinary Diet session this fall.
- The Tax Research Commission normally holds discussions on the tax system in November ahead of the release of the ruling coalition’s tax guidelines. It was pushed forward this year as the GOJ Tax Commission has already published its report.
- The GOJ [decided](#) at the end of last year that it would raise the corporate, income, and tobacco tax “at an appropriate time after FY 2024.” However, strong pushback from within the party prompted it to soften language to “flexibly determined” in the Basic Policy issued last month.
- Reports [suggest](#) that opposition to introducing an early tax hike was fueled further by news of high tax revenue in FY 2022, which reached a record-high ¥71.1 trillion. This was ¥3 trillion higher than projected and could be used to finance defense.

7. Other Political Developments

- On Friday, METI [issued](#) business improvement orders to five power companies — Kansai Electric Power, Kyushu Electric Power, Chugoku Electric Power, Chubu Electric Power Miraiz, and Kyuden Mirai Energy Corp. — over a cartel in electricity sales to corporate clients. They were ordered not to exchange information on their electricity rates and to punish those involved in the cartel. They must report preventive measures by August 10.
- Health Minister Kato Katsunobu [said](#) that the GOJ will issue an ordinance stipulating that existing health insurance cards will be abolished on Dec. 8, 2024. The cards will [remain](#) effective until fall 2025. Digital Minister Kono Taro [said](#) Monday that the comprehensive review of the My Number system will be concluded in early August.
- On Wednesday, Kishida [announced](#) that Japan will immediately cease discharge of ALPS-treated water if radiation levels exceed the standard. METI Minister Nishimura Yasutoshi [explained](#) the safety of the discharge to the Japan Fisheries Association on Friday. The JFA understood but maintained opposition to the discharge.
- On Tuesday, LDP Upper House Secretary General Seko Hiroshige [said](#) that he voiced his concern regarding Kono's lengthy foreign travel during the review of the My Number system. Kono will be out of the country from July 12-22 and says he will be back when the results are out and are ready to be released.
- On Monday, the MHLW [revealed](#) its draft guideline for insured long-term care. It will include reinforcing support for young carers — children and young people who take care of family members on a daily basis — from FY 2024. It also states that the MHLW will conclude discussions on raising long-term care premiums by year-end.

8. Japan and ASEAN Plan New Dialogue on Supply Chains

- *Nikkei* [reported](#) Wednesday that Japan and ASEAN want to hold regular talks on economic security, looking to strengthen supply chains for critical goods and craft a joint response to economic coercion.
- Hayashi was expected to iron out details regarding Tokyo's expanded cooperation with ASEAN ahead of the summit in September and the December meeting.
- Japan hopes that the new talks with ASEAN will enable the two sides to cooperate swiftly in response to economic coercion, likely by China, as well as in establishing alternative supply chains for key minerals.

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- Southeast Asia is a major producer of nickel and cobalt, which are critical for EV batteries and defense-related technology. ASEAN also plays a key role in pharmaceuticals and other areas where Japan relies heavily on China.
- The GOJ plans to offer support through the new guidelines regarding ODA, which allows Tokyo to approach developing countries with assistance rather than waiting to receive a request.

9. Key Economic/Financial Developments

- On Friday, METI Minister Nishimura [announced](#) that the ministry will subsidize ¥75 billion (\$530 million) for semiconductor company SUMCO's new silicon wafer factories in Saga as part of the Economic Security Promotion Act (critical good). SUMCO — merger [between](#) Sumitomo Metal Industries and Mitsubishi Materials — has the world's second largest share for basic substrate material used in chip circuits.
- *Nikkei* [reported](#) that the Bank of Japan will likely revise upward its core CPI projection from the last analysis in April after this month's monetary policy meeting (July 27-28). There is a possibility inflation exceeds 2 percent in FY 2023.
- METI [decided](#) Wednesday that Mitsubishi Heavy Industries will take on the central role in designing and delegating construction of the next-generation nuclear power plant starting next year. This move was made in response to the lack of clear structure and responsibility among participating companies in the Monju power plant project.
- The Nuclear Regulation Authority [discussed](#) the qualifications of TEPCO as a nuclear plant operator following the discovery of a series of flaws in measures against terrorism at its Kashiwazaki-Kariwa plant. The NRA plans to conduct a screening on whether TEPCO is following its pledge to invest appropriately in safety measures.
- On Tuesday, Sumitomo Mitsui Financial Group (SMFG) [launched](#) Jenius Bank, a new digital banking service in the United States, to enter the fast-growing but fiercely competitive U.S consumer finance market. The Bank will begin with personal loans but plans to expand into savings accounts and a mobile app within a year.

10. State of the Economy

- According to the BOJ's [release](#) on Wednesday, the corporate goods price index in June went up 4.1 percent compared to the same month last year. The rate of increase [shrunk](#) for the sixth consecutive month and hit the lowest increase since April 2021. It is likely the rate was affected by lower import prices and the GOJ's utility subsidies.

- According to the BOJ's [Opinion Survey](#), the general public on average believes that prices in a year will be 10.5 percent higher than today. While this number [slightly fell](#), 95.5 percent of respondents said they feel prices are higher now than last year.
- According to CAO's [release](#), May machinery orders (excluding volatile ship and power company orders), a leading indicator of capital investment, fell 7.6 percent from the previous month to ¥83.15 billion. This is the second month the stat has dropped. Non-manufacturing orders fell 19 percent.
- According to MOF's [release](#) of the balance of payments statistics on Monday, Japan logged a ¥1.86 trillion surplus in May, the [fourth consecutive month](#) in the black and 2.4 times higher surplus than the same month last year. The trade deficit shrunk as energy prices settled and import prices fell.
- According to CAO's [Economy Watchers Survey](#) for June, worker sentiment stood at 53.6, down 1.4 points from May, indicating they are feeling less optimistic about the economy. The index [fell](#) for the first time in five months. It seems consumption has settled down after a surge following the lowering of COVID-19 classification (flu).
- A survey [released](#) by Tokyo Shoko Research showed that the number of corporate bankruptcies for the Jan.-June 2023 period rose 32.1 percent from a year earlier to a five-year high of 4,042. This comes as companies [begin repaying](#) interest-free and unsecured loans, which lenders extended under the GOJ's COVID-19 program.

II. Public Opinion Poll

- An NHK poll [released](#) on Monday showed Cabinet approval rating was 38 percent, [down](#) five points from June, while disapproval was 41 percent, up four points.
 - 50 percent of respondents [said](#) that they approve of the Cabinet because its better than other Cabinets; 22 percent said because it includes a party they support; and 10 percent said because they trust the prime minister.
 - 46 percent of respondents said that they disapprove because the policies are not promising; 22 percent said because it doesn't have executive ability; and 11 percent each said because they don't trust the prime minister.
 - 49 percent of respondents said that they believe the GOJ's comprehensive review of the My Number system is inappropriate, while 33 percent said they believe it has been appropriate.
 - 49 percent of respondents said that they oppose the expansion of the use of My Number, while 35 percent said they support it.
 - 36 percent of respondents said that they believe the abolishment of the health insurance card should be postponed; 35 percent said it should be revoked; and 22 percent said it should be abolished as scheduled.

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- 35 percent of respondents said that they support the GOJ’s policy to release treated radioactive wastewater from the Fukushima nuclear power plant, while 20 percent said that they oppose it.
 - 46 percent of respondents said that they have some fear the COVID-19 virus may spread again; 25 percent said they don’t have much concern; 16 percent said they have serious concerns; and 9 percent said they don’t have any fear.
 - 63 percent of respondents said that they oppose the GOJ relaxing defense export rules and allowing export of lethal weapons, while 24 percent said they support it.
 - 57 percent of respondents said that they believe the economy is recovering, while 10 percent said they do feel it is recovering.
 - 41 percent of respondents said that they don’t have much expectation for the GOJ’s policies addressing the declining birth rate; 26 percent said they have some expectation; 21 percent said they have no expectation; and 7 percent said they have great expectation.
 - 38 percent of respondents said that they do not really believe the LGBT bill will resolve sexual discrimination; 37 percent said they somewhat believe it will; 11 percent said it will not; and 3 percent said it will greatly resolve it.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	34 (-1)
Constitutional Democratic Party	5 (+1)
Japan Innovation Party (<i>Ishin no Kai</i>)	6 (±0)
Komeito	4 (±0)
Japan Communist Party	2 (±0)
Democratic Party for the People	1 (±0)
Reiwa Shinsengumi	1 (±0)
Social Democratic Party	1 (±0)
Seijika Joshi 48 Party	0 (±0)
Suffrage Party (Sanseitō)	1 (±0)
Independent (No Party)	39 (±0)