

The Weekly Observer

July 24-28, 2023

The 82nd edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the Defense White Paper 2023, talks of Japan-PRC-ROC summit, North Korea's latest ICBM launch, the Japan-India foreign ministers' strategic dialogue, joint exercises with European countries, the party leaders' debate, the FY 2024 budget guidelines, the My Number Card issue, plans to raise the national average minimum wage, the new semiconductor equipment export controls, the BOJ's monetary policy tweak, new bans on exports to Russia, Japan-Australia GX and energy ministers' talks, the Monthly Economic Report, and more.

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I. News of the Week

1. Japan Releases Defense White Paper 2023

- On Friday, the Ministry of Defense [released](#) this year's "Defense of Japan," the country's annual defense white paper.
- In the opening section, Minister of Defense Hamada Yasukazu [refers](#) to the current period in time as a "new era of crisis" in which the world is facing its greatest trial since World War II.
- He also stated that MOD will focus on two priorities: maximizing effective use of current equipment and strengthening core areas of future defense capabilities. He added that the core element of defense capability is SDF personnel and that defense capability cannot be demonstrated without them.
- MOD [changed](#) its assessment of China — which the white paper [dedicates](#) the most pages to evaluate (31 pages) — from "strong concerns" to "an unprecedented and the greatest strategic challenge" ([same](#) as NSS 2022). It also changed language on Taiwan affairs from "important to the stability of the international community" to "growing concern among the entire international community."
- On the PRC-ROC military balance, MOD [said](#) the balance is tipping rapidly toward China. It also expressed "strong security concerns" about China-Russia military exercises. On North Korea, it said its activities "pose an even more grave and imminent threat to Japan's national security than ever before."
- The white paper also explains in detail the acquisition of counterstrike capabilities, the importance of information warfare and revitalization of the defense industry, and other issues discussed in the three revised security documents.

2. Japan-PRC-ROK to Hold Talks Toward Summit

- On Tuesday, Minister for Foreign Affairs Hayashi Yoshimasa [revealed](#) that during his meeting with China's top diplomat Wang Yi in Indonesia on July 14, the two agreed to restart the Japan-PRC-ROK process including summit and foreign minister talks.
- He said that it is very meaningful for the leaders of Japan, China, and Korea, who share a great responsibility for regional peace and prosperity, to gather together to discuss the direction of cooperation between the three countries, specific ways of cooperation, and various issues in the region.
- He added that a key issue to be discussed in the near future will be the release of the ALPS-treated wastewater from the Fukushima Daiichi nuclear power plant. He

reiterated that Japan will strongly request that China engage in scientific, evidence-based discussions on the matter.

- The three countries [plan](#) to hold working-level talks soon to resume meetings at the summit level, which have been on hold for the last four years. The last meeting was held before the pandemic and during the Japan-ROK conflict over wartime labor.
- China may be looking to drive a wedge in Japan-U.S.-ROK cooperation, which grows stronger under Kishida, Biden, and Yoon. Reports suggest the three countries will [aim](#) for a summit by the end of the year after the Japan-U.S.-ROK summit next month.

3. North Korea Launches Two ICBMs

- On Tuesday, MOD [announced](#) that North Korea launched two ballistic missiles eastward, which landed in the Sea of Japan outside Japan's EEZ.
- The missile [flew](#) a maximum distance of approximately 350-400 km and a maximum altitude of approximately 100 km. Prime Minister Kishida Fumio [strongly condemned](#) the launch, saying it was "absolutely unacceptable."
- Reports [suggest](#) that the missiles were launched to show resolve amid the *USS Annapolis* (nuclear-capable submarine) arriving at a naval base on Jeju Island. The *USS Kentucky* also arrived in South Korea for the first time in four decades last week.
- The North is expected to fire more missiles as it commemorates the seventieth anniversary of the Korean War on Thursday. Pyongyang [invited](#) senior Chinese and Russian delegations (Defense Minister Sergei Shoigu) to watch the military parade.
- Following the launch, MOFA Director General for Asian and Oceanian Affairs Funakoshi Takehiro [held](#) phone talks with U.S. Special Representative for the DPRK Ambassador Sung Kim and ROK Special Representative for Korean Peninsula Peace and Security Affairs Kim Gunn. They confirmed continued close trilateral cooperation in response to the serious challenge to the international community.

4. Foreign Policy Developments

- On Thursday, Hayashi [held](#) a Foreign Ministers' Strategic Dialogue with Indian Minister of External Affairs S. Jaishankar. They affirmed cooperation as G7 and G20 Presidencies for the success of the G20 New Delhi Summit in September, and the importance of cooperating to achieve a "Free and Open Indo-Pacific." Trade Minister Piyush Goyal also [revealed](#) that India has asked Japan to renegotiate their 2011 FTA to make it "more balanced and equitable."

- *Nikkei* [reported](#) that the GOJ is considering providing Ukraine with defense equipment and dual-use infrastructure like ports for free [through](#) Official Security Assistance (OSA). The GOJ will finalize details before the bilateral Conference for promotion of Economic Reconstruction to be held in Tokyo by early next year.
- The LDP and Taiwan's ruling DPP [held](#) the fourth "2+2" meeting between foreign and defense lawmakers at LDP HQ. The two sides [agreed](#) to continue communicating through this mechanism on economic and security matters, especially in light of Chinese actions in the region. The LDP side [welcomed](#) Taiwan's CPTPP application.
- On Tuesday, MOFA Director General for Disarmament, Non-Proliferation and Science Kaifu Atsushi and METI Director General for Nuclear Accident Disaster Response Yumoto Keiichi [met](#) ROK MOFA Director General for Climate Change, Energy, Environmental and Scientific Affairs Bureau Yun Hyunsoo for a brief on the release of ALPS-treated water from Fukushima Daiichi. They reiterated that information about the released water will be disclosed quickly and transparently.
- On Monday, Vice Minister for Foreign Affairs Mori Takeo [held](#) trilateral phone talks with U.S. Deputy Secretary of State Wendy Sherman and ROK First Vice Minister of Foreign Affairs Chang Ho-jin. They strongly condemned North Korea's latest round of missile launches and exchanged views on cooperation in the Indo-Pacific region in response to China-Russia cooperation, economic security, and combating disinformation about the discharge of ALPS-treated water from Fukushima Daiichi.

5. Defense/Security Developments

- On Wednesday, the JASDF [commenced](#) its first-ever joint exercise with the French Air Force to be held from July 26-29 at Nyutabaru Air Base in Miyazaki. France sent four Rafale aircraft to the exercise, [marking](#) a significant development in engagement in the Indo-Pacific region as concern about Beijing's military buildup grows.
- The JASDF will [hold](#) similar exercises with the Italian Air Force and Royal Australian Air Force from August 2-10 and August 23-September 15, respectively. The training with Italy will involve aerial refueling and early warning aircraft. Italy will send around 160 personnel to Japan.
- On Tuesday, LDP policy chief Hagiuda Koichi [announced](#) that his Special Mission Committee exploring alternative defense funding sources will explore the possibility of selling the GOJ's 34 percent stake in NTT to help fund the defense buildup. The committee will set up a project team as early as August to discuss the matter. The NTT Law requires that the GOJ hold more than a third of issued shares.

- Kishida [instructed](#) the LDP and Komeito WT examining the loosening of the implementation guidelines for the three principles on transfer of defense equipment to resume discussions swiftly, which may happen as early as late next month. The GOJ aims to finalize discussions swiftly to conclude the next-generation fighter deal with the United Kingdom and Italy (requires revising implementation guidelines).
- *Nikkei* [reported](#) that the GOJ has unofficially selected about 200 startups to enter the defense industry, including those that develop advanced tech surveillance drones and those that provide cyberdefense training. MOD and METI look to hold information sessions to exchange information with them and lower the barrier for entry.
- *Yomiuri* [reported](#) Sunday that the GOJ has finalized plans to construct evacuation shelters in Miyakojima, Okinawa, in preparation for a possible Taiwan contingency. The GOJ will also consider building shelters in Yonaguni Island and Ishigaki Island.

6. Political Party Leaders Debate Policy Issues

- On Saturday, the Reiwa National Conference (Reiwa Rincho) [hosted](#) a debate between the leaders of the LDP, Komeito, CDP, Japan Innovation Party, and the Democratic Party for the People.
- In his speech, Kishida [emphasized](#) three points — a sustainable economy by pursuing investment in people and tackling climate change; diplomacy that brings the world back on track for cooperation, not division; and reforming the economy and society through policies addressing the declining birth rate and digital transformation.
- Komeito leader Yamaguchi Natsuo [stated](#) that the ruling coalition will work intensively in the next three years on policies addressing the declining birth rate. He stressed budget cuts to sustain social security spending and the importance of the LDP-Komeito coalition amid a challenge from *Ishin*.
- *Ishin* leader Baba Nobuyuki declared that his party will aim to become the main opposition after the next general election and the new party in power within the next ten years. He said the party will revise the scope and amount of its flagship basic income policy included in its 2021 policy manifesto.
- CDP leader Izumi Kenta said Japan should ease off yield curve control and eventually abolish it. DPFP leader Tamaki Yuichiro said he aims for 4 percent or higher wage hikes at next year's spring wage negotiations.

7. Cabinet Approves FY 2024 Budget Guidelines

- On Tuesday, the GOJ [adopted](#) the FY 2024 budget guidelines, which includes a special fund quota for promoting important policy measures related to Kishida's "New Capitalism" vision. The quota is likely to top ¥4 trillion like last year.
- The GOJ's Council on Economic and Fiscal Policy [noted](#) that Japan faces a critical moment in which to sustain wage increases and investment amid concerns of inflation pushing real income down and the risk of economic downturn abroad. It stated that the GOJ should shift to cutting expenses and supporting supply capability.
- At the Council's meeting, the Cabinet Office [presented](#) medium-term economic and fiscal calculations, which maintained the assessment that the country would attain primary balance in FY 2026 under a "growth" case of 3 percent economic growth.
- The GOJ [aims](#) to attain primary balance in FY 2025, but CAO's calculations show that the country will likely run a ¥1.3 trillion deficit due to an expected rise in spending on social security. This is ¥200 billion less than the January calculation.
- CAO further analyzed that the country could run a ¥700 billion surplus in FY 2025 if the GOJ could continue making spending more efficient. In the baseline scenario of zero percent growth, the deficit would grow to ¥2.3 trillion in FY 2025.

8. My Number Remains a Major Headache for the PM

- On Friday, Kishida [said](#) that he will hold a press conference soon (likely early August) to explain the GOJ's response to the new My Number health insurance card amid public opposition to the policy.
- The GOJ [plans](#) to abolish current health insurance cards in fall 2024 and integrate them with the My Number Cards. However, issues with personal information leaks (7,400 [cases](#) to date) have prompted some to question the timeline of the integration, especially as Cabinet approval [continues to fall](#).
- Senior LDP lawmakers, [including](#) policy chief Hagiuda and Upper House Secretary-General Seko Hiroshige, have led calls to scrap the timeline and prioritize relieving citizens' concerns over the merger.
- The opposition have also [called](#) on the GOJ to postpone the merger from fall 2024. The CDP has also [criticized](#) Digital Minister Kono Taro for traveling abroad during the comprehensive review of the My Number system supposed to be led by him.
- Kono responded that he is just doing his job, which requires taking care of other tasks. He also [reiterated](#) that the merger will go ahead as planned and that the GOJ will make use of the one year grace period (people can continue using old cards).

9. Other Political Developments

- On Friday, MHLW's Central Minimum Wages Council [finalized](#) plans to raise the average minimum wage from ¥961 to ¥1,002 nationwide. The rate of increase reached 4.3 percent, a high rate last seen in 1991. This is the first time the minimum wage has topped ¥1,000; at least half of Japanese workers will receive that amount.
- *Nikkei* [reported](#) Thursday that the GOJ is looking to use Microsoft's technology underpinning its ChatGPT generative AI for use in clerical work and analysis. The Digital Agency plans to spend over \$2 million to use the technology for one year.
- MIC [announced](#) Wednesday that Japan's population fell a record 800,523 people to an all-time low of 122.4 million as of Jan. 1, 2023. It is also the [first time](#) the population has declined in all forty-seven prefectures since 1973. Net population growth (births - deaths) was negative 793,324, a record-high. Meanwhile, the number of foreign nationals increased to a record-high of 2.99 million.
- Media reports [said](#) that the vote value disparities between regions topped two times in four Lower House districts (two last year) even after the redistricting of ten seats based on the latest census late last year. The largest gap stood at 2.054 times.
- According to CAO's annual survey on citizens' well-being [released](#) Monday, the overall life satisfaction indicator on average improved for a second straight year to 5.79/10 points. While the overall indicator rose, "household finances and assets" and "work environment and wages" sub-indicators fell [likely due](#) to inflation.

10. Japan Implements New Semiconductor Equipment Export Control Rules

- On Sunday, the GOJ implemented export controls [announced](#) back in May regarding twenty-three items, including advanced semiconductor manufacturing equipment.
- Under the measures, licenses will be [required](#) to export the items, which include extreme UV lithography equipment essential to manufacturing advanced chips.
- The GOJ will simplify the approval process for exports to forty-two "friendly" countries and regions, which notably does not include China. So-called legacy chips, which Japanese manufacturers sell a lot to China, will not be affected.
- The move is largely viewed as Japan's way of aligning itself with the United States. However, unlike the U.S. move in October, which explicitly restricted chips made using U.S. tools or designed for AI applications from being exported to China, Japan's restrictions do not explicitly target China.

- There are concerns that Japan may be hit with retaliatory measures, namely via China's new licensing requirements for gallium and germanium — both essential for producing high-speed chips and for renewable technologies like EVs. So far, the licensing requirements are apparently aimed at the United States for imposing chip-related restrictions. China has [only expressed](#) dissatisfaction with Tokyo.

11. BOJ Decides to Tweak Yield Curve Control Policy

- On Friday, the Bank of Japan [held](#) its third monetary policy meeting since the appointment of Governor Ueda Kazuo. The Bank [tweaked](#) its monetary policy, a potential step to [end](#) the yield curve control (YCC) policy.
- The BOJ [decided](#) to permit the long-term interest rate to float above 0.5 percent depending on the market, though it kept the upper limit at “around” 0.5 percent. It also voted to allow the ten-year GOJ bond yields to rise up to 1 percent.
- The Bank also decided to maintain the basic policy framework, keeping in place negative interest rate policy and purchases of exchange-traded funds (ETFs).
- Ueda [said](#) that monetary easing and YCC will continue as the 2 percent inflation target accompanied by wage increases is far from being realized. He said that the tweaks will enhance the sustainability of monetary easing and YCC. The Bank set the 1 percent cap as a “precaution” to maintain bond market stability (avoid over-purchase of GOJ bonds).
- Following the meeting, the BOJ [announced](#) it would conduct a fixed-price bond-buying operation to purchase a limitless amount of newly issued ten-year bonds at 1 percent going forward. It conducted such an operation at 0.5 percent in the morning for the first time since March 10, purchasing ¥842.9 billion in bonds.
- Long-term interest rates [rose](#) sharply in the morning, with the ten-year yield crossing the ceiling of 0.5 percent for the first time in more than four months. Analysts say the BOJ left some discretion by introducing flexibility rather than widening the band in a “de facto removal” of YCC at a gradual pace.

12. Economic Security Developments

- On Friday, METI [announced](#) that it would expand a ban on exports to Russia from August 9 to include used cars exceeding 1,9000 cubic centimeters in engine capacity, EVs and hybrids, and tires for large vehicles, [in line](#) with G7 sanctions against Russia for its war with Ukraine. Around 750 items were added to the export ban list, including iron and other metals that account for about 20 percent of exports to Russia.

- METI also [announced](#) that it will provide up to ¥20 billion in subsidies for semiconductor raw materials production facilities. It will cover costs for seven companies including JFE Steel producing rare gasses used as raw materials and stockpiling helium in an effort to stabilize domestic chip production.
- *Nikkei* [reported](#) Thursday that Sumitomo Electric Industries will invest around ¥30 billion to build a new plant in Toyama to start producing in 2027 up to 120,000 energy-efficient silicon carbide wafers annually for next-generation semiconductors, which is expected to extend the mileage of EVs by 10 percent.
- *Nikkei* [reported](#) that METI will initiate a “long-term decarbonization power auction” in January guaranteeing a fixed income for utility companies for twenty years. Its (subsidies to offset costs) scope will be expanded from geothermal plants using hydrogen or ammonia, large-scale batteries, construction of and replacement of nuclear power plants to include costs for safety measures at nuclear plants.
- *Yomiuri* [reported](#) Tuesday that the G7 plans to set targets for the level of dependence for critical minerals (like lithium) from specific countries — chiefly China — and increase imports from other countries to diversify supply chains. The IEA will finalize recommendations for which minerals to diversify by the end of the year.
- *Nikkei* [reported](#) Monday that METI will provide, through cloud services, a new supercomputer as early as next year with computing capability roughly 2.5 times greater than existing machines through the National Institute of Advanced Industrial Science and Technology to support generative AI development by domestic firms.

13. Key Economic/Financial Developments

- On Friday, the Cabinet [approved](#) the strategy promoting the transition to a decarbonized growth-oriented economic structure, which entails GX efforts, the issuance of GX economy transition bonds as upfront investment, and the carbon pricing system to encourage decarbonization efforts by the private sector.
- Kansai Electric Power Co. [restarted](#) the forty-eight-year-old Takahama No. 1 nuclear power plant in Fukui for the first time in twelve years. It is the oldest reactor not set for decommissioning and may become the first in the country to effectively operate for more than sixty years, as permitted by the law enacted in May.
- *Nikkei* [reported](#) Thursday that METI will cooperate with the United States, Australia, and New Zealand to support startup entry into the Pacific Island countries. It will financially support pilot projects in areas like decarbonization technologies and digital financial services to deepen ties there amid China’s growing influence.

- On Wednesday, Minister of Economy, Trade and Industry Nishimura Yasutoshi [held](#) a meeting with Australian Climate Change and Energy Minister Chris Bowen in Tokyo. The two shared the importance of stable energy supply from Australia in light of unstable energy security resulting from the war in Ukraine. Bowen [reassured](#) that Australia will remain a reliable supplier for Japan even as new rules require new LNG facilities to be carbon neutral and existing facilities to lower emissions by 4.9 percent.
- The Nuclear Regulation Authority [finalized](#) a document certifying that the Joyo experimental fast breeder nuclear reactor in Ibaraki has passed the safety standards introduced after the 2011 accident in Fukushima to restart. Japan Atomic Energy Agency, the operator, aims to restart it by March 2025 after local approval.
- On Tuesday, Nippon Export and Investment Insurance (NEXI) Chairman and CEO Kuroda Atsuo [said](#) that the underwriting amount for trade insurance in FY 2022 was ¥7.6 trillion, a ten percent increase from FY 2021 largely due to heightened risk to trade such as the COVID-19 pandemic and the war in Ukraine.

14. State of the Economy

- On Friday, the BOJ [projected](#) that the core consumer price index excluding fresh food will increase 2.5 percent during the current fiscal year, raising the assessment from the previous forecast at 1.8 percent.
- The BOJ also projected that inflation would hit 1.9 percent in FY 2024, [despite](#) core CPI hitting 3.3 percent in June, the fifteenth consecutive month above the Bank's 2 percent inflation target.
- In the Monthly Economic Report [released](#) on Wednesday, CAO maintained its assessment that the “economy is recovering at a moderate pace” for the third straight month due to recovering individual consumption and capital investments.
- CAO [raised](#) the assessment for business conditions (first time in over a year) and public investment (first time in eleven months) as firms' business sentiment improved due to cost transfers and loosening supply constraints for items like semiconductors.
- MOF [upgraded](#) its assessment of the economy to “recovering at a moderate pace” for the first time in a year-and-a-half on the back of a recovery in service sector demand. It also upgraded assessments for nine of eleven regions in the country.

II. Public Opinion Poll

- A *Mainichi* poll [released](#) on Monday showed Cabinet approval rating was 28 percent, down five points from June, while disapproval was 65 percent, up seven points.

- 63 percent of respondents said that they have concerns about the My Number system, while 25 percent said that they do not.
- 34 percent of respondents said that they do not feel a lot of merit comes from the My Number Card; 29 percent said they believe that there is some merit; 17 percent said they believe there is no merit; and 12 percent said there is great merit.
- 51 percent of respondents said that they don't have expectations for Digital Minister Kono and his role leading the comprehensive review of the My Number system, while 33 percent said they have expectations.
- 44 percent of respondents said that they do not feel concerned about the release of ALPS-treated water from Fukushima Daiichi nuclear power plant, while 35 percent said they feel concerned.
- 53 percent of respondents said that they believe the GOJ and TEPCO's explanations about the release have been inadequate, while 24 percent said they believe that it has been adequate.
- 46 percent of respondents said that they do not really prepare for natural disasters; 38 percent said they somewhat prepare; 11 percent said they don't prepare at all; and 5 percent said that they are fully prepared.
- 48 percent of respondents said that they oppose the GOJ relaxing rules for exporting defense equipment to permit transfers of lethal weapons, while 32 percent said that they support it.
- 40 percent of respondents said that they do not approve of ex-Prime Minister Abe or Kishida's political stance; 33 percent said they favor Abe over Kishida; 10 percent each said Kishida and both.
- 64 percent of respondents said that they still have interest in the Unification Church issue; 18 percent said they weren't interested ever since the media took an interest after Abe's assassination; and 13 percent said interest has waned.
- 36 percent of respondents said that the Lower House should be dissolved this year; 23 percent said by the next LDP presidential election in September 2024; and 19 percent said by the end of the Lower House term in October 2025.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	24 (-5)
Constitutional Democratic Party	9 (-1)
Japan Innovation Party (<i>Ishin no Kai</i>)	16 (+1)
Komeito	4 (±0)
Japan Communist Party	6 (±0)

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Democratic Party for the People	4 (+1)
Reiwa Shinsengumi	7 (+2)
Social Democratic Party	0 (-1)
Seijika Joshi 48 Party	1 (+1)
Suffrage Party (Sanseitō)	3 (± 0)
Independent (No Party)	25 (+2)