

The Weekly Observer

August 7-11, 2023

The 84th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on ex-PM Aso's trip to Taiwan, updates on the Japan-U.S.-ROK trilateral summit agenda, the Malabar exercise, the anniversary of the atomic bomb droppings, the My Number comprehensive review, the Fukushima water discharge plan, the upcoming Cabinet reshuffle, Japan's foray into Africa for resource diplomacy, the BOJ's opinions from the monetary policy meeting, tax reform to enhance economic security, alarming population projections, the current account balance and Economy Watchers Survey, and more.

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I. News of the Week

1. Ex-PM Aso Visits Taiwan

- LDP Vice President and former Prime Minister Aso Taro [traveled](#) to Taiwan from August 7-9, becoming the highest-ranked ruling party official to visit since Japan and Taiwan severed diplomatic ties in 1972.
- On Tuesday, Aso [met](#) President Tsai Ing-wen and Vice President Lai Ching-te, the ruling Democratic Progressive Party's presidential candidate. He told Tsai that Japan and Taiwan should continue to assist each other when necessary and discussed the prospective evacuation of Japanese nationals in the event of a contingency.
- Aso also [delivered](#) a speech at an international forum, stating that the Taiwan Strait is "gradually tilting toward a time of emergency" and that war must be avoided.
- He added that Japan, Taiwan, the United States, and other like-minded nations must show a "determination to fight" to deter war. This language, which was perceived by some as contradicting "exclusively defense-oriented" policy, was [reportedly coordinated](#) with the Prime Minister's Office, MOFA, and NSS.
- China subsequently [condemned](#) Aso's remarks, releasing a statement calling them "nonsense." Aso's trip comes amid a balancing game by Tokyo to engage Beijing while showing solidarity with Taiwan against a possible invasion.

2. Foreign Policy Developments

- On Thursday, U.S. Ambassador to Japan Rahm Emanuel [told](#) the media that the United States, Japan, and South Korea will agree to regularize trilateral summit meetings and include it in a communique to be issued after the summit on August 18.
- *Sankei* [reported](#) Wednesday that the GOJ and Chinese government are arranging for a summit meeting between Prime Minister Kishida Fumio and Premier Li Qiang on the sidelines of the ASEAN Summit in Indonesia from September 5-7. They plan to arrange a Kishida-Xi summit if the latter attends the G20 Summit or the APEC summit in November.
- Komeito leader Yamaguchi Natsuo [revealed](#) that, during his meeting with the prime minister, he asked Kishida to pen a letter to President Xi Jinping to bring with him on his visit to China from August 28-30.
- *Yomiuri* [reported](#) Tuesday that MOFA plans to include ¥5 billion — 150 percent more than the current budget — in its FY 2024 budget request to provide defense

equipment free of charge through OSA to like-minded countries Vietnam, Indonesia, the Philippines, Papua New Guinea, Mongolia, and Djibouti.

- On Monday, Minister for Foreign Affairs Hayashi Yoshimasa [met](#) with Iranian Foreign Minister Hossein Amir Abdollahian. He called on Iran to respond in a constructive manner and not [provide](#) Russia with weapons for the war in Ukraine.
- Over the weekend, diplomats from Ukraine, the G7, China, and the so-called Global South [met](#) in Saudi Arabia to discuss a diplomatic solution to the war in Ukraine. The countries agreed to continue discussions; Senior Deputy Minister for Foreign Affairs Yamada Shigeo said that peace in Ukraine will be grounded in the four principles agreed upon at the G7 Hiroshima Summit.

3. Defense/Security Developments

- On Friday, Japan, the United States, Australia, and India [started](#) their first-ever “Malabar” naval exercise in Australia. The exercise, which will be held until August 21, will include around 2,000 personnel and aims to deepen security cooperation between the Quad countries amid heightened Chinese activity in the South China Sea.
- *Nikkei* [reported](#) that MOD will establish a regularly held council meeting with universities and research institutes by the end of the fiscal year to share research developments related to dual-use technologies, an area MOD has traditionally had little ties to due to strong opposition from academia to military-related projects.
- On Thursday, MOD [announced](#) twenty-three R&D projects in dual-use technologies that will receive financial support in FY 2023. They include research into technology to eliminate attacks that interfere with the positioning of communications satellites.
- On Tuesday, Minister of Defense Hamada Yasukazu [said](#) that there have been no leaks associated with the PLA hack into the ministry’s database dealing with the most sensitive information in 2020, as [reported](#) by the *Washington Post*. On Wednesday, DOD Deputy Press Secretary Sabrina Singh [stressed](#) that the United States is “very confident” that Japan will be able to address any security concerns.
- The MOD will [seek](#) a record-high budget of over ¥7 trillion in FY 2024, in line with efforts to double defense spending in the next five years. It will include funds to develop long-range missiles for counterstrike, two Aegis-equipped destroyers, [establish](#) a new counselor position to promote defense exports, and [increase](#) cyber and defense equipment R&D personnel by approximately five hundred.
- MOFA [announced](#) that the Reciprocal Access Agreement (RAA) between Japan and Australia will enter into force on August 13. The RAA will [facilitate](#) quicker

deployment of the JSDF and Australian Defense Force personnel and ease restrictions on the transportation of weapons and supplies for joint exercises and DR operations.

4. Japan Marks Anniversary of Atomic Bomb Droppings

- Japan marked the 78th anniversary of the U.S. atomic bombing on Hiroshima and Nagasaki on August 6 and 9, respectively.
- Prime Minister Kishida attended the memorial ceremony in Hiroshima and [delivered](#) a speech, reiterating that Japan will continue striving for a “world without nuclear weapons” as the only country to suffer use in war. He also said the GOJ will take measures including speeding up investigations into recognizing diseases caused by exposure to radiation as a means to continue aiding aging survivors.
- Hiroshima Mayor Matsui Kazumi [said](#) that leaders around the world must confront the reality that nuclear threats today reveal the “folly of nuclear deterrence theory.” He also urged the abolition of nuclear weapons.
- In Nagasaki, Mayor Suzuki Shiro [said](#) that nuclear-armed countries and states defended by nuclear umbrellas should “show courage” and break free from dependence on nuclear deterrence. He also called on the GOJ to “show resolve” and sign and ratify the Treaty on the Prohibition of Nuclear Weapons as soon as possible.
- Though Kishida didn’t attend the ceremony in Nagasaki due to the impending typhoon, he [stated](#) that he will arrange for a meeting with survivors this month.

5. GOJ to Complete My Number Comprehensive Review in End of November

- On Tuesday, the GOJ [convened](#) the HQ for the comprehensive My Number system review. Kishida instructed the Cabinet to complete the review by the end of November and report on progress every month.
- The Cabinet [issued](#) a policy package based on three pillars — issuing an interim report on the comprehensive review, implementing countermeasures to prevent recurrence of issues, and introducing responses to recover citizens’ trust.
- The interim report showed that of 15.15 million cases, there were 1,069 cases of personal insurance numbers being misallocated to the wrong accounts. There were also 118 errors in pension information for public servants.
- The review also found that fifty of 237 municipalities had errors in linking physical disability certificates with personal information. The GOJ [aims](#) to release a whole-of-government guideline in September to reduce human error.

- *Sankei* [reports](#) that the delay in completing the comprehensive review may make it difficult for Kishida to dissolve the Lower House and call a snap election by the end of the year amid the review of an issue of high public concern.

6. GOJ to Decide on Fukushima Water Discharge Soon

- *Kyodo* [reported](#) Monday that Japan may begin releasing ALPS-treated radioactive water from the Fukushima Daiichi nuclear power plant into the sea between late August and early September.
- The GOJ is expected to determine the discharge date after Kishida returns on August 20 from the Japan-U.S.-ROK trilateral summit at Camp David. Kishida is expected to explain the plan to both Biden and Yoon at the summit.
- The report also suggests that Japan could delay the start of the release until after Kishida explains the plan to world leaders on the sidelines of the ASEAN Summit in Indonesia from September 5-7 and the G20 Summit in India on September 9-10.
- While Kishida stated that the GOJ is gradually deepening its trust with the fishing industry, it continues to firmly oppose the plan. He is expected to directly seek understanding from the president of the National Federation of Fisheries Cooperative Associations (*Zengyoren*) later this month [ahead](#) of a Cabinet meeting where the release date will be decided.
- China remains the most outspoken critic outside, [redoubling](#) its opposition to the IAEA approval of the plan at the latest NPT meeting in Vienna, Austria. China and Russia also [submitted](#) technical queries on Wednesday, raising concerns with the plan and urging Japan to scrap the plan. Reports [continue to show](#) food import controls persist against Japanese food products in China.

7. Other Political Developments

- *Yomiuri* [reported](#) Thursday that Kishida may reshuffle the Cabinet and party leadership from September 11-13 after the ASEAN Summit in Indonesia from September 4-7 and the G20 Summit in India on September 9-10. *Jiji* [reports](#) that it may be difficult to do this given the tight schedule (UN General Assembly starting on September 19) — the reshuffle could be delayed until the end of September.
- Kishida [announced](#) that the GOJ will establish a new subsidy program for firms raising wages to address the “¥1.06 million barrier,” in which a person making more than this amount may take home significantly less than a person below the barrier due to the rule mandating enrollment in employer-provided health and pension insurance.

He also [said](#) the GOJ will establish an industry, government, and academia partnership in September to promote efforts toward a circular economy.

- On Wednesday, the GOJ [held](#) the first cross-ministry/agency meeting toward promoting understanding of gender identity. Though it aims to craft guidelines and a basic plan based on the LGBT bill passed in June, there will likely be opposition from conservative lawmakers who are against aspects like designation of gender neutral public spaces (toilets/bathhouses) and education curriculum on gender identity.
- On Monday, the National Personnel Authority [recommended](#) that the GOJ raise monthly salaries for civil servants by an average of 0.96 percent (¥3,869) this year in a bid to attract more young talent to government jobs. It recommended a ¥10,000 per month salary hike for younger employers, the first increase in thirty-three years.
- *Nikkei* [reported](#) that the Abe faction is arranging to transition to a new leadership system involving a new executive board headed by Deputy President Shionoya Ryu. It aims to finalize the plan on August 17, but there has been pushback from those like Deputy President Shimomura Hakubun who want a new president named instead.

8. Japan Boosts Cooperation with Africa to Strengthen Critical Minerals Supply Chain

- Minister of Economy, Trade and Industry Nishimura Yasutoshi is [currently traveling](#) across Namibia, Congo, Zambia, Madagascar, South Africa and Angola from August 6-13 as part of the GOJ's efforts in resource diplomacy. It has also been viewed as a way for Japan to counter China's increasing presence in the region.
- On Friday, Japan and Zambia [agreed](#) to secure a robust supply chain of critical minerals essential to the energy transition. Like the other countries, Japan aims to increase the private sector presence in Zambia to deepen bilateral cooperation.
- On Thursday, Japan and Angola [signed](#) an investment protection agreement to foster secure investment in the latter, [recognizing](#) that it is one of the largest economies in Sub-Saharan Africa and one of the largest oil producers in Africa.
- Japan and Congo [agreed](#) to strengthen bilateral cooperation in resource expeditions for critical minerals like cobalt and through business exchanges. JOGMEC signed an agreement to cooperate in minerals exploration including for cobalt and lithium, key to manufacturing EV batteries.
- On Tuesday, Japan and Namibia agreed to [expand](#) bilateral cooperation in the mining sector to secure the critical minerals supply chain and to [enhance](#) trade and economic cooperation, particularly in renewable energy (hydrogen) and healthcare.

9. BOJ Debated Possible Exit From Monetary Policy Due to Sustained Inflation

- On Monday, the Bank of Japan [released](#) a summary of opinions from the monetary policy meeting held on July 27-28.
- While some members [saw](#) the need to make yield curve control (YCC) more flexible as a preventive measure against future risks, one member said that sustained achievement of the 2 percent inflation target was already in sight.
- Another opinion noted that recent wage hikes and pass-through of cost increases by firms have been suppressed for nearly three decades and that wages and selling prices could continue to “rise at a pace that has not been seen in the past.” This suggests some are convinced that conditions for phasing out monetary easing could align.
- Several members also said that the BOJ made the right decision to make the YCC flexible given both “upside and downside risks” to inflation.
- This shows the BOJ is unsure of whether inflation will continue to rise or fall, with expectations of core CPI falling below 2 percent in June not coming to fruition — core CPI [rose](#) 3.3 percent due to sustained selling prices by firms.

10. Economic Security Developments

- *Nikkei* [reported](#) Friday that METI will request in next fiscal year’s tax reform a new corporate tax break for firms based on the amount of domestically produced EV storage batteries and semiconductors, in a bid to reinforce economic security and encourage firms to produce strategic goods toward decarbonization. Current rules apply to a certain portion of investment, not corporate tax amounts.
- *Nikkei* [reported](#) that twelve semiconductor industry firms, including Sony Semiconductor Solutions and Tokyo Electron, are part of a working group led by SEMI Japan looking to enhance female representation in the industry as a way to increase employees. The ratio of women in semiconductor firms has fallen behind the average ratio of women in the manufacturing industry by almost 20 percent.
- Semiconductor manufacturer Renesas Electronics [announced](#) Tuesday that it will launch this year a takeover bid (TOB) for French fabless chip company Sequans Communications for around ¥28 billion to reinforce its IoT business.
- Tokyo Electron [announced](#) Thursday that its net profit in April-June was ¥64.3 billion, down 27 percent from the same period last year. Profit from chips for generative AI will likely be reflected in March 2025. Meanwhile, SUMCO also [announced](#) Tuesday that its net profit in July-September is expected to be ¥10.9 billion, down 64 percent from the same period last year, due to sluggish chip demand.

- Synthetic rubber manufacturer JSR, which will be bought by a GOJ-backed fund, [announced](#) that its net profit in April-June was a ¥2.5 billion deficit, down from a ¥5.7 billion surplus in the same period last year. Like SUMCO, this is also due to declining demand for smartphones and computers and data center investment, which in turn reduced demand for its semiconductor-related materials.

11. Key Economic/Financial Developments

- *Nikkei Asia* [reported](#) Wednesday that up to 42 percent of women and 50 percent of men born in 2005 could end up never having children, a serious concern for a country with a declining birth rate. This comes on the heels of the MHLW data [showing](#) that average life expectancy declined in 2022 for the second straight year, most likely due to COVID-19 and not a trend, which in fact shows it will start to rise again.
- On Tuesday, Australia's Woodside Energy Group [said](#) it entered a deal with LNG Japan to sell a 10 percent stake in its \$12 billion Scarborough LNG project in Australia for \$500 million, a major deal to support Japan's energy security.
- MAFF [announced](#) Monday that the food self-sufficiency rate on a caloric intake base stood at 38 percent in FY 2022, unchanged from last year but still near a record low. Meanwhile, production-value based self-sufficiency fell five points to 58 percent, a record-low since comparable data became available in 1965. MAFF [held](#) a food security expert panel meeting the next day and agreed to consider new legislation by year-end to give the GOJ more authority to direct logistics and food production.
- Toshiba [announced](#) that the TOB by JIP and other domestic partners had begun. Since its peak in 2008, Toshiba's revenue has fallen 60 percent to ¥3.36 trillion due to shaky business leadership and numerous issues like accounting fraud. CEO Shimada Taro [explained](#) that going private was the "best choice" for the company and stakeholders.
- The Japan Fair Trade Commission (FTC) [launched](#) a voluntary investigation into Tokio Marine & Nichido Fire Insurance, Mitsui Sumitomo Insurance, Sampo Japan Insurance, and Aioi Nissay Dowa Insurance, who have been accused of colluding on premiums for corporate clients. The Financial Services Agency (FSA) has also ordered them to look into the collusion matter and report their findings.
- *Nikkei Asia* [reported](#) Sunday that China has overtaken Japan as the world's leading automobile exporter in the first half of 2023, mostly due to the booming EV business and gains in European and Russian markets. China exported 2.14 million vehicles, up 76 percent on the year, as opposed to Japan, which exported 2.02 million.

12. State of the Economy

- The BOJ [announced](#) Thursday that July's corporate goods price index (CGPI) was 119.3, up 3.6 percent from the same month last year, while the rate of increase fell 0.7 points from June. Although prices were pushed up [due](#) to weakening rise of import prices, there is a continued trend to pass on higher costs to consumers.
- According to CAO's Economy Watchers Survey [released](#) on Tuesday, July's diffusion index comparing sentiment to three months ago was 54.4, up 0.8 points and the first improvement in two months [due](#) to summer sales. CAO maintained its assessment that the "economy is recovering at a moderate pace" for the third straight month. Meanwhile, data [showed](#) that bankruptcies in July hit a high of 758 cases, up 53 percent from the same month last year, the highest number since COVID-19 began.
- MOF [announced](#) that the current account balance for Jan.-June stood at a ¥8.13 trillion surplus, up 11.1 percent from the same period last year, [largely due](#) to the slowdown in price hikes for resources like oil and an increase in auto exports resulting from the alleviation of chip shortages.
- [According](#) to MIC's Household Survey for June, real consumption for households of more than two people was ¥275,545, down 4.2 percent from the same month last year. This is the fourth consecutive month consumption has fallen, [mostly due](#) to a decrease in consumption of household items like food and electronics.
- [According](#) to MHLW's Monthly Labor Survey for June, real wages fell 1.6 percent from a year earlier, down for the fifteenth straight month, as wage hikes [failed](#) to keep up with accelerating inflation. Nominal wages rose 2.3 percent due to an increase in bonuses (3.5 percent) and the gradual effect of overall wage hikes.
- CAO [announced](#) Monday that June's business composite index was 115.2, up 0.9 points from May. The index [rose](#) for the third straight month as shipments of electronic components like smartphone capacitors were strong. CAO maintained the assessment that the economy is "improving" for the third straight month.

II. Public Opinion Poll

- A JNN poll [released](#) on Monday showed Cabinet approval rating was 37 percent, down four points from July, while disapproval was 59 percent, up two points.
 - 69 percent of respondents said that the GOJ should either "postpone" or "withdraw" its current plan to abolish the health insurance card by next fall.
 - 60 percent of respondents said that Kishida's explanation about the "certificate of status" temporarily replacing health insurance cards makes "little" or "no" sense.
 - 82 percent of respondents said that the comprehensive system review will not resolve issues with the My Number information leaks.

- 50 percent of respondents said that they supported the GOJ's plan to discharge ALPS-treated water from the Fukushima Daiichi nuclear power plant, while 35 percent said they opposed it.
 - 72 percent of respondents said that they believe the GOJ's explanation regarding the water discharge has been inadequate, while 18 percent said it was adequate.
 - 53 percent of respondents said that they do not believe that revising the Three Principles on Transfer of Defense Equipment and Technology, permitting export of lethal weapons, is necessary, while 35 percent said it should be revised.
 - 57 percent of respondents [said](#) that Kishida should continue as prime minister until his term as LDP president runs out in September 2024; 23 percent said he should be replaced immediately; and 14 percent said as long as possible.
 - 16 percent of respondents each said that they want Ishiba Shigeru and Kono Taro as next prime minister; 14 percent said Koizumi Shinjiro; 6 percent said Takaichi Sanae; 5 percent said Kishida; and 2 percent each said Motegi Toshimitsu, Noda Seiko, and Hayashi Yoshimasa.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	31 (+1)
Constitutional Democratic Party	5 (+1)
Japan Innovation Party (<i>Ishin no Kai</i>)	7 (+1)
Komeito	3 (-2)
Japan Communist Party	2 (±0)
Democratic Party for the People	2 (±0)
Reiwa Shinsengumi	3 (+1)
Social Democratic Party	0 (±0)
Seijika Joshi 48 Party	0 (±0)
Suffrage Party (Sanseitō)	1 (±0)
Independent (No Party)	44 (-2)