

The Weekly Observer

September 25-29, 2023

The 90th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the Japan-China-South Korea senior officials' meeting, Tokyo and Okinawa's continued dispute over the U.S. base relocation, Japan and Germany commencing negotiations over a ACSA, Defense Minister Kihara's first phone call with U.S. Secretary of Defense Austin, the PM's announcement of the economic policy package pillars, the GOJ's proposed policies to tackle the "million yen barrier," the upcoming extraordinary Diet session next month, the BOJ's dilemma over its monetary policy exit strategy, METI's subsidy for Micron, METI Minister Nishimura's economic diplomacy, the GOJ's Monthly Economic Report, and more.

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I. News of the Week

1. Japan, China, and South Korea Look to Hold Summit in December

- On Tuesday, Senior Deputy Minister for Foreign Affairs Funakoshi Takehiro [met](#) China's Assistant Minister of Foreign Affairs Nong Rong and South Korea's Deputy Foreign Minister Chung Byung-won in Seoul to review the status of the trilateral cooperative summit.
- The three countries are [looking](#) to hold a foreign ministers' meeting in Busan in November and a summit in December. It would be the first summit since 2019. The annual summit had been [postponed](#) due to the pandemic and the souring of Japan-ROK relations under the Moon Jae-in administration.
- This development comes after Xi Jinping told South Korean Prime Minister Han Duck-soo on September 23 that he is willing to resume holding the summit at an appropriate time. Chief Cabinet Secretary Matsuno Hirokazu [told](#) reporters on Monday that the GOJ will support efforts to hold a summit by the end of the year.
- Analysis suggests that China is interested in resuming the annual summit following the strengthening of trilateral ties between Japan, South Korea, and the United States at the Camp David Summit in August. This could also be a way to divert attention from the [faltering](#) domestic economy.
- The officials [agreed](#) on the framework of the joint declaration to be issued after the summit. Six cooperation areas will be stressed: people-to-people exchanges; science, technology, and digital transformation; sustainable development and climate change; health and response to aging population; economics and trade; and peace and security.

2. Okinawa Demands End to Henoko Relocation

- On Thursday, Okinawa Governor Tamaki Denny [met](#) with Minister of State for Okinawa and Northern Territories Affairs Jimi Hanako and submitted a request to end the relocation of MCAS Futenma to Henoko and dialogue to resolve the dispute.
- This comes after Tamaki [informed](#) the GOJ that his government cannot approve the landfill request — upheld by the Supreme Court on September 4 — submitted by MOD to change the construction plans for the relocated U.S. military base.
- Last week, the GOJ “[recommended](#)” (administrative guidance) that the Okinawa government approve the request by September 27. Now, the GOJ has “[instructed](#)” compliance. The GOJ can sue Okinawa at the Supreme Court and “execute on behalf of the prefectural government” if it does not comply by the mid-October deadline.

- Tamaki has been actively opposing the relocation. Last week, he [delivered](#) a speech at the UN Human Rights Council meeting in Geneva, Switzerland, stating that the GOJ has forced through the relocation against Okinawans' protest.
- The governor also [failed](#) to meet new Minister of Defense Kihara Minoru, who had been [visiting](#) Okinawa from September 23-24 to inspect the JGSDF bases in Miyakojima and Ishigaki Island — the southwestern island chain. Kihara explained that his tight schedule did not allow for it (customary for new defense chief to meet).

3. Foreign Policy Developments

- NHK [reported](#) Friday that Minister for Foreign Affairs Kamikawa Yoko will visit Brunei, Vietnam, Laos, and Thailand from October 8-13 as part of outreach before the Japan-ASEAN special summit in December.
- MOFA [announced](#) that Japan and Germany will begin negotiations over a Acquisition and Cross-Servicing Agreement — designed to facilitate smoother transfer of military goods like fuel — to deepen security ties.
- On Thursday, the GOJ [handed](#) over two autotransformers — used to adjust line voltages — to Ukraine as energy infrastructure assistance for the latter's recovery and reconstruction as part of the UN Development Programme's human security program. The provision is estimated to benefit around 500,000 citizens in Kyiv.
- On Wednesday, Prime Minister Kishida Fumio [received](#) a courtesy call from Admiral John C. Aquilino, Commander of the U.S. Indo-Pacific Command. They exchanged views on alliance security and defense cooperation to strengthen deterrence and response capabilities in light of the increased DPRK and Chinese threat.
- On Monday, Kishida [received](#) a courtesy call from Minister of Industry and Advanced Technology and Special Envoy of the UAE to Japan Sultan Al Jaber. They exchanged views on cooperation toward the stabilization of the global oil market.
- The IAEA General Assembly was [held](#) from September 25-29. During the meeting, Japan and China traded barbs over the water discharge from the Fukushima Daiichi nuclear power plant. Minister of State for Science and Technology Policy Takaichi Sanae called out China for being the lone IAEA member making false claims not based on scientific evidence and imposing questionable export restrictions.

4. Defense/Security Developments

- *Nikkei* [reported](#) Friday that the GOJ plans to introduce domestically-made security software in all government computer devices starting FY 2025, in an effort to bolster

cybersecurity. MIC's National Institute of Information and Communications Technology (NICT) will develop the software based on private sector software.

- On Thursday, Kihara [held](#) a phone conference with U.S. Secretary of Defense Lloyd Austin [ahead](#) of his [visit](#) to D.C. from October 3-5. They discussed initiatives to strengthen alliance capabilities and affirmed further discussions on roles and missions and capabilities, including the effective operation of counterstrike capabilities.
- *Nikkei* [reported](#) that the GOJ selected thirty-three airports and seaports in ten prefectures as candidates for expanded public infrastructure to reinforce defense. The designated important hubs — many in the southwestern island chain like New Ishigaki Airport — will be expanded to make it easier for the JSDF to operate out of. The government has [started](#) outreach to local governments in Miyakojima, Okinawa.
- The JASDF [announced](#) that it will create a new shared office in Tokyo on October 2 to promote cooperation with approximately 250 startups in the space field. The office — to be open at least until the end of FY 2024 — will promote the use of civilian technology in defense R&D.
- *Yomiuri* [reported](#) Tuesday that Japan, the United Kingdom, and Italy are ironing out details to establish a joint HQ for the next-generation fighter jet project in the United Kingdom with a Japanese person at the helm. The HQ will subcontract the design and manufacture of the jet to a joint venture between Mitsubishi Heavy Industries, BAE Systems, and Leonardo — representing each of the three countries.
- *Nikkei* [reported](#) that MOD and JSDF are planning to implement a new system this year to significantly shorten the time from research to implementation for defense equipment, in an effort to keep up with ever-evolving technologies. It has been dubbed as a shift from “waterfall-style” to “agile-style” development, where prototypes will now be fielded and improved while in active use.

5. GOJ Reveals Pillars of Economic Policy Package

- On Monday, Kishida [instructed](#) the policy chiefs of the LDP and Komeito to compile an economic package as early as mid-October to respond to inflation and transition from a “cost-cutting” economy for the first time in thirty years.
- He [revealed](#) the five pillars of the economic package: inflation response; sustainable wage hikes and regional economic growth; promoting domestic investment; responding to the declining birth rate; and building national resilience. He then [instructed](#) his Cabinet on Tuesday to compile a package based on the pillars.

- Specific policies under each pillar [include](#) measures to relieve volatile price changes for utilities like gas; crafting a policy plan by year-end toward an asset management nation; tax breaks (emphasized a lot) for domestic investment in strategic fields like semiconductors; digitalization of administrative services to make them efficient; and emergency measures to prevent sexual exploitation of children and young adults.
- The GOJ will likely [divert](#) funds from the ¥4 trillion remaining in the FY 2023 supplementary budget for COVID-19 relief to finance the package. Kishida did not mention when the GOJ will formulate a supplementary budget to finance the remaining amount, though speculation suggests it could happen during the extraordinary Diet session set to start on October 20.
- NHK [reported](#) that the GOJ will also consider adding measures to reduce household expenses incurred due to inflation through cash handouts. The Cabinet also [revealed](#) on Wednesday measures to promote “new capitalism,” including re-skilling support toward labor market reform, strategic investment in critical areas to GX and DX, and policies promoting the asset doubling plan and Digital Garden City Nation initiative.
- LDP policy chief Hagiuda Koichi [told](#) the party policy division on Friday to compile opinions on what the economic policy package should include by October 12.

6. GOJ Announces Policies to Address the “Million Yen Barrier”

- On Wednesday, MHLW [announced](#) its reinforced support package to respond to the “income barrier” that arises due to tax and compensation policies that kick in after income reaches a certain threshold ([dubbed](#) the “million yen barrier”).
- Currently, employees that [make more](#) than ¥1.3 million and work at a firm with fewer than one hundred employees are taken off benefits and must pay for social insurance. The new measure, to begin in October, will allow employees to go over the threshold amount for up to two consecutive years and remain on benefits (insurance-exempt).
- Employees that make more than ¥1.06 million and work at a firm of more than 101 employees are required to participate in the welfare pension. Under the new measures, the government will [reduce](#) social insurance fees for firms that provide handouts to employees to reduce their fees and will provide up to ¥500,000 per employee to firms that provide handouts, raise wages, and extend weekly work hours.
- Currently, some companies cut spouses of employees off their “spouse deduction” benefits once an employee’s annual income reaches ¥1.03 million. The new measure encourages firms to revise the standard for providing spousal benefits.

- The GOJ [foresees](#) this as a temporary measure ahead of structural reform to redress the inherent unfairness of the system, which some argue allow those not paying for social insurance to receive benefits. Structural reform could [come](#) in 2025 when the GOJ plans to reform the pension system.

7. Political Developments

- On Friday, Kishida [announced](#) that the GOJ and ruling coalition plan to convene an extraordinary Diet session on October 20. He also [said](#) that the GOJ will submit a supplementary budget bill to finance the economic package and that he has no plans to dissolve the Lower House and call a snap election at the moment.
- Kishida [announced](#) that the GOJ will craft an emergency package to revolutionize logistics, part of its response to deal with the “2024 problem,” or worsening of the truck driver problem when overtime regulations are imposed next year. The GOJ aims to include measures like promoting automation of cargo handling and driving in its economic package to be finalized as early as mid-next month.
- *Yomiuri* [reported](#) Wednesday that Kishida plans to become the first prime minister in sixteen years to attend RENGO’s biennial convention from October 5-6, in a bid to emphasize cooperation with labor to promote sustainable wage hikes in the country.
- Kishida [instructed](#) his Cabinet at the inaugural meeting to address dementia to develop an adequate patient access and monitoring mechanism for the new drug “Lecanemab”; promote drug development by revising the pricing mechanism; and resolve issues like identifying guarantors for dementia patients.
- On Tuesday, the GOJ [decided](#) that the new immigration system to approve “semi-refugee” status to evacuees from conflict zones — like Ukraine — will take effect on December 1. The new measure makes it easier for evacuees to gain permanent residency, which was previously limited to temporary stay in the country.

8. BOJ Meeting Minutes Show Split Among Members on Exit Strategy

- On Wednesday, the Bank of Japan (BOJ) [released](#) a summary of minutes from the monetary policy meeting held from July 27-28. It showed divisions within the Bank on its assessment of inflation and wage trends, which impacts its policy exit strategy.
- Last Friday, the Bank [decided](#) at its monthly monetary policy meeting to maintain its current policies — mainly the yield curve control, negative interest rate policy, and ETF purchases, amid speculation that it is headed toward an exit from the policy.

- In July, some members [pointed out](#) that the two percent inflation target is within sight, while others argued that revising the Bank's monetary easing policy is a distant goal. Members also disagreed on whether wage hikes would be sustained given weak profitability for many of the companies facing deficits.
- On the yield curve control, some [said](#) that the Bank should continue easing, while others suggested that the YCC should be made more flexible as the Bank seeks an exit strategy from current policies, which aim for stable inflation and wage hikes.
- The division comes as the Bank [combats](#) rising long-term interest rates. On Friday, the benchmark yield on newly-issued ten year JGBs reached a ten-year high of 0.77. The Bank responded by purchasing JGB's worth ¥300 billion with more than five and less than ten years until maturity.

9. Economic Security Developments

- *Nikkei* [reported](#) Friday that METI plans to soon provide as much as ¥192 billion in subsidies to Micron Technology for capital investment at its Hiroshima plant. The U.S. chip maker aims to manufacture advanced chip DRAMs as early as 2026.
- On Thursday, Shimizu Atsuo, general manager of the operations division at RAPIDUS, [revealed](#) that the chipmaker plans to hire 20-30 technicians at its new Chitose plant every month. The firm aims to manufacture advanced chips starting 2027. Hokkaido, where the plant resides, [plans](#) to decide on the water source necessary for mass production of chips in early October.
- *Nikkei* [reported](#) Wednesday that Panasonic plans to reuse old EV batteries by extracting rare metals from them and using them in new batteries by 2028. The goal is to reduce battery production costs and environmental costs. Approximately 90 percent of Panasonic's EV batteries contain recyclable nickel.
- *Nikkei* [reported](#) Tuesday that Dutch chip manufacturing equipment maker ASML plans to establish a technology support center in Hokkaido sometime around the latter half of 2024 to support RAPIDUS's chip production. It reflects a growing trend among chip-related firms to de-risk and engage the Japanese market.
- *Nikkei* [reported](#) Monday that chip manufacturing equipment maker TOWA developed encapsulation equipment that combined multiple chips into one for efficient data center operations, among other things. The new, advanced technology bundles six chips into one and will be exported to TSMC, the world's top chip manufacturer.
- *Nikkei* [reported](#) Sunday that Mitsubishi Chemical aims to begin operations at its new domestic facility in March 2025 manufacturing polymeric material for photoresist for

argon fluoride — critical to making fine semiconductor circuits. It aims to double production, expanding its world share and reinforcing the domestic chip supply chain.

10. Key Economic/Financial Developments

- On Friday, METI Minister Nishimura Yasutoshi [participated](#) in the IEA Critical Minerals and Clean Energy Summit. The summit [delivered](#) six key actions on critical minerals: accelerating progress toward diversification; unlocking the power of technology and recycling; promoting market transparency; enhancing information; creating incentives for sustainable and responsible practices; and fostering international collaboration.
- On Wednesday, Tsuruma City Mayor Hitakatsu Naoki [announced](#) that his city will not apply to participate in a literature review necessary to be considered a candidate for the final disposal site for nuclear waste. The city assembly, which voted on September 12 in favor of the application, is [considering](#) submitting in December a resolution requiring a citizens' referendum on the matter.
- METI [signed](#) a memorandum of cooperation with Petronas, Malaysia's state-owned energy company, to commence the first-ever carbon capture and storage (CCS) project abroad in 2028. The plan [involves](#) Japan sending liquefied carbon dioxide for storage at gas fields off the coast of Malaysia owned by Petronas.
- On Tuesday, Nishimura [held](#) the inaugural "Central Asia + Japan" economic and energy ministerial dialogue. In the joint statement, the countries [reaffirmed](#) their Paris Agreement commitments and agreed to deepen cooperation toward a clean energy transition toward net zero emissions in the post-2050 period.
- On Monday, Nishimura [hosted](#) the Third Asia Green Growth Partnership Ministerial Meeting, where participants discussed the importance of supporting a green energy transition and providing financial support for the transition. Japan and the UAE also signed a joint declaration to deepen cooperation toward realizing the Middle East as a "global green energy hub."
- Nishimura [participated](#) in the Sixth Hydrogen Energy Ministerial Meeting, where participants agreed on a global target of raising hydrogen demand to 150 million tons toward 2030, of which 90 million would be renewable and low-carbon hydrogen. They also agreed to employ 800,000 new workers in the hydrogen industry by 2030.

11. State of the Economy

- On Friday, CAO [released](#) September's Consumer Confidence Survey, which showed the index down one point from August at 35.2. Inflation led to a cutback in spending,

with the index dropping for a second straight month. The GOJ [revised](#) its assessment downward to “movement toward improvements appears to have stalled.”

- MHLW [announced](#) that the seasonally adjusted jobs-to-applicants ratio in August remained unchanged at 1.29 times, indicating that while applicants want new jobs that pay better, firms are unwilling to hire more given inflation. The unemployment rate [announced](#) by MIC also remained unchanged at 2.7 percent.
- METI [announced](#) that the provisional industrial production index in August [remained](#) unchanged at 103.8. It assessed that production was flat, shipments increased, and inventories and inventory ratio fell. While petroleum and coal products pushed the index up, motor vehicles and iron and other metals pushed it back down.
- On Tuesday, the GOJ [released](#) its monthly economic report for September, in which it maintained the assessment that the economy is “recovering at a moderate pace” for the fifth straight month. It [revised](#) upward corporate profits as “improving as a whole,” while downgrading housing construction to “containing weakness.” It also revised language on domestic corporate goods prices to “falling flat.”
- The BOJ [announced](#) that weighted median inflation rose 1.8 percent in August from the same month last year, a higher rate of increase compared to July and a record-high since the statistic became available in 2001. The Bank [collects](#) data on the trimmed mean, weighted median, and mode to determine underlying inflation. This indicates that underlying inflation is catching up to the 2 percent target.
- On Monday, the BOJ [released](#) its real exports and imports data for August, which showed the export and import indices at 109.7 and 103.7, respectively. Both [fell](#) for the first time in three months, likely in response to a real increase in exports in June-July and the weakening of the Chinese economy.

II. Public Opinion Poll

- None