

The Weekly Observer

October 2-6, 2023

The 91st edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on Defense Minister Kihara's first trip to the United States, Foreign Minister Kamikawa's expected foreign travel to Southeast Asia, updates regarding the GOJ and Okinawa's dispute over the relocation of MCAS Futenma, the PM's attendance at the RENGO Convention, the GOJ's IP protection strategy for AI, the GOJ's plan to request the dissolution of the Unification Church, the security clearance system, the BOJ's TANKAN, updates on yen intervention speculation, the loosening of land use restrictions for chip factories, the commencement of the second water discharge from Fukushima Daiichi, JGB-related developments, and more.

By Content

I. News of the Week

Foreign Policy/Security

1. Defense Minister Kihara Makes First Trip to America
2. Foreign Policy Developments
3. Defense/Security Developments

Domestic Politics

4. Kishida Becomes First PM to Attend RENGO Convention in 16 Years
5. GOJ to Compile Key Discussion Points on IP Protection Related to AI
6. Political Developments

Economics/Finance

7. GOJ to Align Security Clearance System with the U.S. and Europe
8. Large Business Sentiment Improves for Second Consecutive Quarter
9. Speculation of BOJ Intervention Heightens as Yen Exchange Rate Reaches ¥150
10. Economic Security Developments
11. Key Developments
12. State of the Economy

II. Public Opinion Polls

1. JNN (10/2)

I. News of the Week

1. Defense Minister Kihara Makes First Trip to America

- On Wednesday, Minister of Defense Kihara Minoru [met](#) with Secretary of Defense Lloyd Austin in Washington, D.C. This is his first foreign visit since he was appointed as defense minister last month.
- The ministers confirmed that they would not accept any unilateral changes to the status quo by force in any region in the world. They also noted the importance of the United States stating its commitment that Article V of the Japan-U.S. Security Treaty applies to the Senkaku Islands.
- They confirmed to accelerate discussions on roles, missions, and capabilities of the alliance including effective operation of counterstrike capabilities. They also affirmed to deepen cooperation toward the success of the joint development of the Glide Phase Interceptor (GPI) from the perspective of ensuring technological superiority.
- MOD [announced](#) on Thursday that Japan aims to push forward the acquisition of Tomahawk missiles from the United States by a year to 2025, given the deteriorating security environment in the region.
- The ministers also [discussed](#) the importance of the U.S. Air Force MQ-9s temporarily deployed to the JMSDF Kanoya Air base for strengthening intelligence, surveillance and reconnaissance (ISR) capabilities. The Tomahawks and MQ-9s will [deepen](#) integrated deterrence between Japan and the United States.

2. Foreign Policy Developments

- On Friday, MOFA [announced](#) that Minister for Foreign Affairs Kamikawa Yoko will be visiting Brunei, Vietnam, Laos, and Thailand from October 8-13 to discuss cooperation in a wide range of issues ahead of the Japan-ASEAN special summit in December.
- On Thursday, Vice Minister of Foreign Affairs Okano Masataka [participated](#) in the first strategic dialogue with his South Korean counterpart in [nine years](#) in Seoul. The two discussed deepening bilateral cooperation to continue improving ties and developing further cooperation with the United States. They also agreed to promote Japan-China-South Korea cooperation to realize a “free and open Indo-Pacific.”
- Deputy Chief Cabinet Secretary Murai Hideki [chaired](#) the GOJ’s third meeting toward promoting Ukraine’s economic reconstruction and instructed relevant ministries and agencies to accelerate preparations for the “Japan-Ukraine Conference for Promotion of Economic Reconstruction” to be held by early next year. MAFF

[announced](#) that it will establish a joint task force to reconstruct Ukraine's agriculture sector, including by exporting ag equipment and supporting ag startups go to Ukraine.

- Minister of Economy, Trade and Industry Nishimura Yasutoshi [participated](#) in a virtual IPEF ministerial meeting. The ministers [remained](#) eager to make significant progress on the trade pillar negotiations by the end of the year.
- Taiwan's Ministry of Foreign Affairs [announced](#) that a delegation of the Japan-ROC Diet Members' Consultative Council (*Nikkakon*), including forty-six lawmakers like LDP policy chief Hagiuda Koichi, will visit Taiwan from October 7-10 to attend Taiwan National Day celebrations. They'll meet with President Tsai Ing-wen as well.
- On Wednesday, Prime Minister Kishida Fumio [participated](#) in an online summit hosted by U.S. President Joe Biden. The Biden Administration [reportedly](#) held the summit to reassure allies and partners (the G7, EU, NATO, Poland, and Romania) of sustained U.S. commitment to Ukraine amid talks of "fatigue," as exemplified by the compromise bill to avert the government shutdown not including funding for Ukraine.

3. Defense/Security Developments

- On Friday, the LDP WG [exploring](#) the state of the NTT Act — which stipulates that the GOJ hold at least a third of the company's stocks — held a hearing with experts on how to regulate foreign investment if stocks are sold. Experts said the GOJ should reinforce the FEFTA to ensure the company is protected from foreign investors.
- On Thursday, Minister of Land, Infrastructure, Transport and Tourism Saito Tetsuo [filed](#) a lawsuit against the Okinawa government with the Fukuoka High Court's Naha branch to override Governor Tamaki Denny's decision to reject the landfill project — backed by the Supreme Court last month — necessary to relocate MCAS Futenma to Henoko. This is the second time the GOJ has filed a lawsuit over this issue.
- The GOJ [hosted](#) the "Japan-ASEAN Joint Public-Private Cybersecurity Forum" to commemorate the fiftieth anniversary of relations between the two sides. Non-profits from Japan and eight ASEAN countries [agreed](#) to bolster cooperation on cybersecurity issues, in an effort to reinforce public-private cybersecurity efforts.
- *Jiji* [reports](#) that Japan and the United States are making arrangements to move the U.S. Air Force MQ-9s from JASDF Kanoya Air Base to U.S. Air Force Kadena Air Base as early as November, in a bid to reinforce surveillance capabilities in the southwestern region amid Chinese military advancements in the area.
- *Sankei* [reported](#) Saturday that the GOJ plans to almost triple payment to JMSDF officers aboard frigates and other vessels starting FY 2024 in an effort to improve the

working conditions for JSDF officers. The GOJ positions this as a way to secure personnel amid shortages in areas of need due to the declining population.

4. Kishida Becomes First PM to Attend RENGO Convention in 16 Years

- On Thursday, Kishida [became](#) the first prime minister [since](#) Fukuda Yasuo in 2007 to attend the Eighteenth regular RENGO (labor union organization) convention.
- He stated that Japan must sustain wage hikes and spread the trend to regions, mid-sized businesses, and SMEs. Kishida's participation is seen as a way for the government and ruling coalition to get closer to RENGO, a key voting bloc traditionally supporting the opposition parties (DPJ-affiliated).
- RENGO [re-elected](#) President Yoshino Tomoko to another two-year term on Friday. It also [released](#) its 2024-2025 action plan, which states the goal of organizing political forces around the CDP and DPFP to realize key policies like sustained wage hikes.
- At the convention, CDP leader Izumi Kenta [called](#) on RENGO to support his party, stating that the CDP must win back the government and move policies forward to take back the lost three decades.
- DPFP leader Tamaki Yuichiro [noted](#) that it would be difficult to achieve a two-party system — RENGO's vision to have the CDP and DPFP work together against the ruling coalition— if it is divided itself.

5. GOJ to Compile Key Discussion Points on IP Protection Related to AI

- On Wednesday, the GOJ [convened](#) the inaugural meeting of the working group to consider intellectual property (IP) protection in the age of artificial intelligence. They agreed to compile key discussion points as early as the end of the year.
- The thirteen-member panel discussed ways of utilizing advanced technologies to determine products generated by AI. They will also discuss whether AI-generated products fall under patent rights or the Act Against Unfair Competition.
- Kishida [discussed](#) the opportunities inherent in AI during the Twentieth General Assembly of the Science and Technology in Society Forum held on Sunday. He said that the world must come up with ways to respond to disinformation and privacy violations related to the use of generative AI.
- The G7 is [expected](#) to begin discussions on how to utilize originator profiles (OP), a new technology in which a third-party certifies credible online information.

- The prime minister emphasized that Japan has been leading international efforts to create rules for AI use, especially through the Hiroshima AI Process established under the G7 at the Hiroshima Summit in May.

6. Political Developments

- On Friday, Kishida [instructed](#) his Cabinet during a meeting of the Comprehensive My Number Review HQ to finalize the review process by the end of November and finalize findings in early December. The GOJ [reported](#) an additional 103 cases where My Numbers and health insurance card information were mistakenly linked to other people's information. This brings the total to 8,544 mislinkages.
- The GOJ [finalized](#) its emergency package to reform the logistics industry amid a labor shortage (dubbed the 2024 problem). It [includes](#) a program to give points to shoppers who choose to have parcels left outside their doors (not in-person) and a target of doubling the volume of shipments using trains/ships within ten years.
- *Yomiuri* [reported](#) that the GOJ plans to submit a request with the Tokyo High Court on October 13 to dissolve the Unification Church. It wants to push forth the Church's dissolution, likely to demonstrate its effectiveness before a possible fall election.
- On Thursday, the [campaign period](#) for the by-elections in the Upper House Tokushima/Kochi constituency and the Lower House Nagasaki-4 district began. The elections, to be held on October 22, will determine whether Kishida finds the confidence to call an early snap election during the upcoming Diet session.
- On Wednesday, the GOJ [convened](#) its "Public-Private Coordination Forum" to expand domestic investment. Kishida announced measures to encourage investment, such as establishing a tax reduction system based on corporate activities and providing support for infrastructure development. He [announced](#) Friday that the GOJ will host a "asset management forum" toward reforms that foreign investors want.
- On Monday, the GOJ [convened](#) its Children's Future Strategy Council to discuss methods of financing childcare policy. Kishida instructed ministers to create a schedule for social security expenditure reform until FY 2028 to squeeze funds. So far, it has been [difficult](#) to secure the ¥3 trillion necessary to implement policy in the three years starting FY 2024 to accelerate childcare measures.

7. GOJ to Align Security Clearance System with the U.S. and Europe

- *Nikkei* [reported](#) Thursday that the GOJ aims to introduce a security clearance system (SCS) on par with the United States and Europe to facilitate intelligence sharing and business cooperation. The GOJ aims to submit legislation to the 2024 Diet session.

- The SCS sets two levels of sensitive information — information that would “seriously jeopardize” national security and information that “could be detrimental” to national security. It will likely cover economic sanctions data and critical technologies.
- The SCS will set similar levels of clearance as the United States — Top Secret, Secret, and Confidential. Japan is currently the only G7 country that has no SCS.
- The GOJ will likely introduce a prison term of up to ten years for those who have leaked or illegally accessed classified information, similar to the state secrets law.
- Marubeni Research Institute’s Imamura Takashi [said](#) that he hopes the GOJ clearly delineates what is covered under different tiers. University of Tokyo project lecturer Igata Akira said the SCS would make it easier for the private sector to participate in public procurement projects.

8. Large Business Sentiment Improves for Second Consecutive Quarter

- On Monday, the Bank of Japan (BOJ) [released](#) its Short-Term Economic Survey of Enterprises (TANKAN) for September.
- The survey showed that the diffusion index (DI) for large manufacturers improved four points from the last survey in June to +9, [improving](#) for the second straight quarter as a result of a recovery in auto production. The DI large non-manufacturers also improved four points to +27, improving for a record sixth consecutive quarter.
- Outlook for large manufacturers is expected to improve one point, while outlook for non-manufacturers is expected to fall six points due to the weak yen and high resource costs. Capital investment is [expected](#) to rise 13 percent in FY 2023, as firms increase investment to recover from the pandemic and invest in decarbonization.
- Meanwhile, firms’ consumer price outlook for the next one, three, and five years [remain higher](#) than the BOJ’s 2 percent target, at 2.5 percent, 2.2 percent, and 2.1 percent, respectively.
- The meeting minutes from the September monetary policy meeting [released](#) the same day showed that BOJ members are [split](#) on whether the Bank is ready to exit monetary easing, especially in relation to sustained inflation and wage hikes.

9. Speculation of BOJ Intervention Heightens as Yen Exchange Rate Reaches ¥150

- On Friday, Minister of Finance Suzuki Shunichi [said](#) that the GOJ will consider many factors when determining whether moves in the foreign exchange market are “excessive,” requiring intervention.

- The GOJ and BOJ are focusing on the speed of currency fluctuations rather than targeting a specific rate level when they judge a need to intervene in the market.
- Suzuki [said](#) on Thursday that the GOJ will not exclude any measures when it determines the volatility of exchange rates is excessive. The yen-dollar exchange rate fell to ¥150~ to the dollar on Tuesday.
- Suzuki denied speculation that the GOJ and BOJ intervened in the foreign exchange market on Tuesday, when the exchange rate at one point surged to ¥147 to the dollar.
- The effects of the rapidly weakening yen [spilled over](#) to the domestic bond market, with the interest on newly-issued five year JGBs rising 0.02 percent to 0.34 percent, a high rate last seen in June 2013. Investors sold JGBs as they speculated that the weakening yen meant the BOJ was heading toward revising its monetary policy.

10. Economic Security Developments

- *Nikkei* [reported](#) Friday that Toshiba Devices & Storage Co. developed a design that miniaturized power semiconductors. It reduces resistance value by 20 percent by arranging components that adjust the current to flow in one direction in a checkerboard pattern. Toshiba aims to export prototypes for EV batteries this year.
- *Nikkei* [reported](#) Thursday that Fujitsu — in cooperation with Tokyo Electron, Fujifilm, Mitsubishi Chemical Group, and Mizuho FinTech — began operating the first quantum computer developed by a Japanese company.
- On Wednesday, Kishida [announced](#) that the GOJ will loosen restrictions on land use to permit the construction of factories in normally restricted areas like farmland for critical commodities like semiconductors and storage batteries. This is part of the GOJ's efforts to promote the attractiveness of Japan as a site for foreign factories.
- The GOJ [aims to roll out](#) the new land policy — which aims to address issues of land shortages for large facilities — alongside tax and budget reforms in December. METI revealed that there is only 10,000 hectares of industrial land available in the country. This is about two-thirds of available land compared to 2011.
- On Tuesday, METI [announced](#) that it will provide up to ¥192 billion in subsidies to top U.S. chip memory manufacturer Micron Technology for capital investment and R&D in its Hiroshima plant. The GOJ plans to support Micron's efforts to manufacture 40,000 advanced DRAM a month as early as the end of FY 2025.
- On Sunday, the National Institute of Advanced Industrial Science and Technology (AIST) [established](#) an advanced chip research center to reinforce chip manufacturing

foundations by conducting research on two-nanometer chip technology and 3D integration technology to improve chip performance without miniaturization.

11. Key Economic/Financial Developments

- On Friday, METI [announced](#) that it signed a MOC on cross-border transportation of carbon dioxide with the Japan Organization for Metals and Energy Security (JOGMEC) and PETRONAS, Malaysia's state-owned oil company, to realize a carbon capture and storage project that will contribute to greenhouse gas reduction.
- METI [announced](#) a list of thirty startups that it plans to support in efforts to resolve social issues while maintaining high profits. It chose thirty out of five hundred applicants, who will be given opportunities to join public procurement projects and obtain international certification "Benefit Corporation" that shows a business is meeting high standards of verified performance, accountability, and transparency.
- On Thursday, TEPCO [announced](#) that it commenced the second round of water discharge (seventeen days) from the Fukushima Daiichi nuclear power plant. The company started its compensation process for businesses adversely affected by the discharge on Monday, which will be open for applications until November 20.
- On Tuesday, METI [announced](#) three candidates for pilot programs of floating offshore wind power generation off the coasts of Hokkaido (two), Akita, and Aichi. The GOJ will open applications for businesses and decide on two areas this year. METI also selected waters off the coast of Aomori and Yamagata as "promotion areas" to transition toward opening applications for wind power development.
- On Monday, Kishida [attended](#) the Nikkei Sustainable Forum and announced that the GOJ will craft a code of conduct for asset owners like corporate pension funds as early as summer 2024. He [said](#) that the GOJ will require that employees and other beneficiaries get an appropriate return on investment and boost their income.
- *Nikkei* [reported](#) that the GOJ is planning to require trading companies to submit import plans including alternative procurement routes in anticipation of crises like food shortages. The GOJ will provide import assistance if firms provide alternative procurement routes, the period of procurement, and amount. It aims to submit relevant legislation to the ordinary Diet session next year.

12. State of the Economy

- On Friday, CAO [announced](#) that the assessment of the economy in August, based on indices on business conditions, remained unchanged at "[improving](#)" for the fifth consecutive month. The provisional composite index was 114.3, up 0.1 point.

- [According](#) to MIC's Family Income and Expenditure Survey, consumption among families of more than two persons in August fell 2.5 percent to ¥293,161, [dropping](#) for the sixth consecutive month as food and other expenses rose. Seven of ten consumption items fell below levels recorded the same month last year.
- The interest on newly-issued forty-year JGBs [rose](#) 0.02 percent to 2 percent for the first time in ten years as concern for weak super-long bond demand spread among investors. Life insurance and other investors are not in a rush to buy up super-long term JGBs as speculation continues as to whether the BOJ will tweak its policy.
- On Wednesday, interest on the benchmark newly-issued ten-year JGBs [rose](#) to 0.8 percent for the first time in ten years as a result of the widening gap with long-term interest rates in the United States (4.8 percent). The "shadow long-term interest rate" [observed](#) in the Overnight Index Swap (OIS) market reached 1 percent, indicating that long-term interest rates reached the effective 1 percent cap set by the BOJ.
- The BOJ [announced](#) that it estimated the "demand-supply gap" in April-June 2023 was negative 0.07 percent, in the negative range for the thirteenth consecutive quarter. The negative rate [narrowed](#) from -0.41 in January-March, indicating that the economy is heading toward an exit from deflation.
- On Tuesday, MOF [raised](#) the nominal interest rate on ten-year JGBs from 0.4 percent in September to 0.8 percent for the first time in ten years, as long-term interest rates rise around the world and the BOJ revises its policy. Higher nominal rates increase the GOJ's principal and interest expenses, further constraining its fiscal budget.

II. Public Opinion Poll

- A JNN poll [released](#) on Monday showed Cabinet approval rating was 40 percent, up one point from September, while disapproval remained unchanged at 58 percent.
 - 63 percent of respondents said that they have no expectations for the Kishida Cabinet's economic policy package, while 35 percent said they have expectations.
 - 52 percent of respondents said that they disapproved of the Kishida Cabinet's reshuffled look, while 21 percent said they approved.
 - 49 percent of respondents said that they believed it was a problem that the new Cabinet did not include any women as state ministers or parliamentary vice ministers, while 48 percent said they believed it was not a problem.
 - 57 percent of respondents said that they disapproved of Kishida's decision to appoint Obuchi Yuko, who resigned over a political scandal in 2014, as head of the LDP's election strategy HQ.

The Weekly Observer (10/2-10/6)

- 71 percent of respondents said that they believe the GOJ's new policies to redress the "million yen barrier" will not resolve the disincentives for some to work, while 19 percent said they believe it will.
 - 64 percent of respondents said that they are not satisfied with the fact that the Osaka 2025 EXPO costs have ballooned 1.8 times to ¥230 billion, while 23 percent said they understand the increased costs.
 - 49 percent of respondents said that they oppose the introduction of the invoice system allowing businesses paying consumption tax to receive tax credits, while 26 percent said they support it.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	31.6 (-0.8)
Constitutional Democratic Party	5.1 (+0.2)
Japan Innovation Party	5.5 (-0.6)
Komeito	2.4 (-0.4)
Japan Communist Party	2.7 (+0.5)
Democratic Party for the People	1.4 (+0.1)
Reiwa Shinsengumi	1.2 (+0.2)
Social Democratic Party	0.3 (-0.2)
Suffrage Party (Sanseitō)	0.7 (-0.7)
Seijika Joshi 48 Party	0 (-0.1)
Independent (No Party)	45.7 (+2.3)