

## ***The Weekly Observer***

October 23-27, 2023

*The 94<sup>th</sup> edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on Japan's latest response to the Israel-Hamas conflict, the exchange of messages between Japan and China's leaders commemorating the 45th anniversary of the signing of the Japan-PRC Peace and Friendship treaty, Japan and the Philippines negotiations over a reciprocal access agreement, the PM's policy speech to the Diet, the GOJ's tax cut plan, the by-elections over the weekend, the contents of the GOJ's economic package to be finalized next month, the GOJ's draft economic security action plan, the failed merger between Kioxia and Western Digital, speculation about an intervention in the forex market, the GOJ's monthly regional economic report, and more.*

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## **I. News of the Week**

### **1. Japan Issues \$10 Million Emergency Aid for Situation in Gaza**

- On Tuesday, MOFA [announced](#) that the GOJ has decided to extend emergency grant aid of \$10 million in response to the dire humanitarian situation in the Gaza Strip.
- Minister for Foreign Affairs Kamikawa Yoko [received](#) a courtesy call from Israeli Ambassador to Japan Gilad Cohen on Friday. She expressed Japan's solidarity with the people of Israel and requested cooperation for a humanitarian pause to implement humanitarian assistance in the Gaza Strip.
- Prime Minister Kishida Fumio [held](#) a phone call with French President Emmanuel Macron, where the two agreed to coordinate both bilaterally and through the G7 on various international issues, including the situation in the Middle East. This came after the G7 members — excluding Japan — [issued](#) a joint statement on Monday reiterating their support for Israel (all countries have had casualties in the conflict).
- *Nikkei* [reported](#) Tuesday that the GOJ plans to deploy three JSDF aircraft to neighboring Jordan in preparation for the further evacuation of Japanese nationals. There are currently around 800 nationals in Israel and the Gaza Strip.
- On Saturday, MOFA [announced](#) that a JSDF aircraft arrived back in Japan from Jordan carrying eighty-three individuals, including sixty Japanese nationals and eighteen Korean nationals.

### **2. Foreign Policy Developments**

- On Friday, MOFA [announced](#) that a team of IAEA officials and international experts from eleven countries completed their first four-day review mission after the start of the water discharge from Fukushima Daiichi nuclear power plant.
- On Wednesday, Kishida [held](#) a summit meeting with Prime Minister Mette Frederiksen of Denmark. The two leaders concurred to cooperate on economic security and to work together to realize a “Free and Open Indo-Pacific.”
- On Tuesday, MOFA [announced](#) the appointment of eighteen ambassadors across the world, an effort viewed as a way to support the United States’ growing commitments on three fronts — Asia, Europe, and the Middle East. The GOJ named former Vice Foreign Minister Yamada Shigeo as Ambassador to the United States and former Ambassador to Singapore Kanasugi Kenji as Ambassador to China.
- On Monday, Kishida and Kamikawa [exchanged](#) messages with Chinese Premier Li Qiang and Foreign Minister Wang Yi to celebrate the forty-fifth anniversary of the

conclusion of the 1978 Japan-China Peace and Friendship Treaty. Kishida reiterated his desire for “constructive and stable relations” amid various bilateral issues, while Li said China hopes to develop bilateral ties toward a new era by returning to the spirit of the 1978 treaty.

- Kamikawa attended the opening ceremony of the joint meeting held by the Japan-South Korea cooperation committee, stating the GOJ’s desire to shape a new era together as the severe security environment brings the two countries together.
- On Saturday, Kamikawa attended the Cairo Summit for Peace in Egypt and said the GOJ’s priorities for the situation in the Middle East are: the immediate release of hostages and securing the safety of civilians; adherence to international law; and calming the situation down as soon as possible. She also said that the window of opportunity for peace should not be shut due to the current situation.

### 3. Defense/Security Developments

- On Friday, the Joint Staff announced that the JSDF’s three services will hold an integrated exercise with the U.S. Army across Japan from November 10-20. They will conduct exercises anticipating landing of aircraft at civilian airports and the protection of nuclear power plants.
- MOD announced that Special Adviser to the Defense Minister Wada Yoshiaki will travel to Rome, Italy, for a meeting with the defense ministers of the United Kingdom and Italy on October 30-31. Minister of Defense Kihara Minoru will miss the meeting due to prior commitments to attend the extraordinary Diet session.
- *Kyodo* reported Wednesday that Japan and the Philippines plan to start negotiations for a reciprocal access agreement (RAA) — the first with an ASEAN country — when Kishida visits the Philippines on November 3. Kishida and Marcos are expected to discuss defense equipment transfers under the new “official security assistance” framework established in April.
- Mitsubishi Electric announced that it will invest around ¥22 billion to construct eight new factories starting April 2025 at three facilities for the manufacture of defense equipment, in response to the GOJ’s increased defense budget.
- On Tuesday, Defense Minister Kihara announced that Japan and the United Kingdom will apply the RAA for the first time to hold Exercise Vigilant Isles 23 from November 15-26 in Japan.
- *Sankei* reported that MOD aims to elevate the rank of the JSDF 15th Brigade, tasked with defending the southwestern islands, to a division in 2026 in response to Chinese

military assertiveness. This increases troop numbers to around three thousand and raises the rank of the commander from Major General to Lieutenant General.

#### 4. PM Focuses on Economy in Diet Policy Speech

- On Monday, Kishida [delivered](#) a policy speech to open the extraordinary Diet session. He emphasized “the economy, the economy, the economy” as the priority.
- Kishida outlined the two pillars of the GOJ’s approach — bolstering Japan’s supply capacity and providing returns to the people to combat inflation. He did not mention specifics about the tax cut.
- Under the first pillar, Kishida pledged to rejuvenate the economy by implementing measures over the next two to three years, including large-scale investment in critical areas to security like semiconductors and tax cuts to create an environment for sustained wage hikes and robust investment. Under the second pillar, he promised “returns” to the citizens on higher tax revenue through the economic package, as well as an extension to gas and utility subsidies into next spring.
- While the ruling coalition [praised](#) Kishida’s speech as “powerful,” the opposition parties said he did not address key issues like tax hikes and the My Number card and that he lacked the charisma as a leader to direct the country in troubled times.
- During PM questioning on [Wednesday](#) and [Thursday](#), the opposition parties pressed Kishida on his economic policies, defense reinforcements, and LDP lawmaker ties to the Unification Church.

#### 5. GOJ to Introduce ¥40,000 Tax Cut to Combat Inflation

- On Thursday, Kishida [revealed](#) the GOJ’s tax cut plan, which he described as giving back to citizens for the ¥3.5 trillion increase in tax revenue over the past two years.
- The plan includes a ¥70,000 cash handout to low-income households as early as possible and a ¥40,000 flat rate income and resident tax cut in June 2024 as part of inflation relief and to provide child allowance to families earlier than planned.
- The GOJ [plans](#) to note the tax cut as a temporary measure amounting to around ¥3.5 trillion in its economic package to be finalized early next month. One [proposal](#) is to introduce an income cap to exclude those with income over ¥20 million from the tax cut, which Kishida is against. The prime minister [said](#) on Friday that the GOJ will delay the tax hike to finance defense spending until at least FY 2025.
- The tax cut plan has received criticism from both ruling and opposition parties. Some in the ruling coalition [criticize](#) Kishida for pre-announcing the plan before discussions

in the parties and advocate for cash handouts over a tax cut. The opposition believes Kishida is deceiving the public by announcing a tax cut while also planning to raise taxes soon to finance defense and childcare spending.

- The LDP Tax Research Commission began discussions on the specifics of the tax cut plan on Friday, with the goal of finalizing it by year-end along with the FY 2024 tax reform plan. There seems to be a gap in thinking between the LDP and Komeito, with the LDP proposing the tax cut for one year while Komeito wants an “economic provision” to possibly extend the tax cut depending on the state of the economy.

## 6. Mixed By-Election Results Diminish Possibility of Snap Election

- On Sunday, Japan held by-elections in the Lower House Nagasaki-4 district and the Upper House Tokushima-Kochi constituency — both conservative strongholds.
- Both seats were previously held by the LDP — the Nagasaki seat was vacated after former Regional Revitalization Minister Kitamura Seigo passed away; the Tokushima-Kochi seat after a former LDP lawmaker resigned over alleged violent behavior against his secretaries. It retained Nagasaki-4 and lost Tokushima-Kochi.
- Despite winning in Nagasaki, it was closer than many expected, with Kaneko Yozo, son of a former Upper House member of the Kishida faction, narrowly defeating the opposition candidate after receiving criticism for being a legacy candidate.
- The mixed results will complicate Kishida’s snap election strategy, already challenging given the packed domestic and diplomatic schedule until the end of the year. Many view the results as an indication that Kishida will avoid calling an election by the end of the year.
- Further concerning for the ruling coalition is the fact that it failed to capture the independent vote — a swing bloc critical for general elections — in both races. According to *Kyodo*’s exit poll, the LDP candidates only won 17 and 36 percent of the independent vote, respectively, and less than 80 percent of the LDP vote.
- Following success in uniting behind a single candidate in the by-elections, opposition parties CDP and JCP reportedly agreed to cooperate in the upcoming general election. The move has been criticized of late by RENGO, the CDP’s labor union bloc, as antithetical to the two sides’ political vision (JCP being a communist party).

## 7. Political Developments

- *Sankei* reported Friday on the specifics of the GOJ’s economic package to be finalized on November 2, which includes expanding local allocation funds to finance

cash handouts to low-income households, extending gas and utility subsidies until April 2024, and providing up to ¥500,000 per employee to firms that address the “¥1.6 million barrier.”

- The expert panel discussing the acceptance of foreign workers revised its initial draft for a new system replacing the technical intern trainee program (TITP), which now includes restrictions on firms to prevent unjustified job changes under the relaxed rules allowing changes based on language and technical skills.
- On Thursday, the Cabinet approved the appointment of Upper House lawmaker Honda Akiko to replace Yamada Taro as parliamentary vice minister of education, after he resigned over an alleged extramarital affair. Honda becomes the sole woman appointed as state minister or parliamentary vice minister.
- Kishida announced that the GOJ will move forward the distribution of expanded child allowance from February 2025 to December 2024, as part of the GOJ’s economic package. The new child allowance abolishes the income restriction and extends it until high school, as well as provides ¥30,000 per child after the third child.
- On Wednesday, the LDP and Komeito convened the first meeting of the project team (PT) looking to secure financial assets from the Unification Church for victim relief. The ruling coalition is against supporting the opposition legislation to seize the Church’s assets to prevent them from moving assets abroad, as it could violate freedom of religion and rights to financial assets enshrined in the Constitution. The PT aims to come to a conclusion by mid-November.
- The Supreme Court declared in a historic ruling that a law requiring surgery to remove a person’s reproductive capabilities to register a gender change was unconstitutional. The ruling is expected to spur Diet discussions on amending the Save the Gender Identity Disorder Act, which conservatives are against changing.

## 8. GOJ Drafts Economic Security Action Plan

- On Tuesday, the GOJ presented a draft economic security action plan to the METI expert panel on reinforcing the industrial and technological base related to economic security.
- It entails three pillars — promoting industry, protecting industry, and partnerships with the international community.
- Promotion includes reinforcing supply chains to secure technological superiority in key sectors like computing and defense, diversifying imports, R&D, industrial infrastructure, and finance. Protection includes preventing leaks of technology critical

to security, reinforcing public-private cooperation and reinforcing cybersecurity and data policy. Partnership includes a new framework to address economic coercion.

- Under supply chain resilience, the GOJ [floated](#) the idea of revising export control mechanisms to prevent leaks of critical technology. METI will begin discussing specific reforms this fall.
- The GOJ [plans](#) to include the action plan in its economic package and secure funding for it in the FY 2023 supplementary budget to be submitted to the ongoing extraordinary Diet session.

## 9. Economic Security Developments

- *Nikkei* [reported](#) Friday that Taiwan's Powerchip Semiconductor Manufacturing Corporation finalized plans to build a chip factory in Miyagi prefecture with SBI Holdings. It will spend ¥400 billion for the first facility and begin operations in 2026.
- *Nikkei* [reported](#) Thursday that Kioxia Holdings' merger plan with the chip division of U.S.-firm Western Digital (WD) failed to materialize, after it failed to secure approval from South Korean firm SK Hynix, an indirect stakeholder in Kioxia. The companies also failed to agree on merger conditions with Bain Capital, Kioxia's top shareholder.
- Denso President Hayashi Shinnosuke [announced](#) that the leading auto parts maker and supplier to Toyota Motor will invest about ¥500 billion in the semiconductor business by 2030 to develop high-performance chips for automobiles.
- On Tuesday, Minister of Economy, Trade and Industry Nishimura Yasutoshi [told](#) *Nikkei* that Japan aims to set shared standards with the United States and Europe on subsidies for electric vehicles, semiconductors, and other critical fields to promote fair competition amid the rise of protectionist measures prioritizing country interests.
- Semiconductor company Socionext [announced](#) Monday that it will develop chips for next-generation automobiles utilizing self-driving technology. It will begin designing three nanometer chips and aim to begin mass production in 2026.
- *Sankei* [reported](#) Saturday that the GOJ is planning to begin a pilot program in FY 2024 to mine for rare earths in the seabed of Minamitorishima, Japan's easternmost island, to reduce import dependence on China. It plans to include funding in the FY 2023 supplementary budget to be submitted to the extraordinary Diet session.

## 10. Key Economic/Financial Developments

- On Thursday, the yen [fell](#) to a one-year low of ¥150 to the dollar, heightening speculation that the GOJ/BOJ will intervene in the foreign exchange market. Minister

of Finance Suzuki Shunichi [said](#) authorities were watching with “a sense of urgency,” but made no comments about intervention.

- Nomura Holdings [announced](#) Thursday that it is reassessing its mainland China business, as its Shanghai-based securities joint venture continues to record losses amid the pandemic and a slowing Chinese economy.
- On Tuesday, METI Minister Nishimura [met](#) with Danish Prime Minister Frederiksen and signed a memorandum of cooperation on hydrogen and ammonia and an agreement on floating offshore wind production cooperation. The [aim](#) is to combine Japan’s know-how on floating offshore wind production with top offshore wind firms from Denmark.
- Mitsubishi Motors [announced](#) that it is withdrawing from automobile production in China, as cheaper domestic substitutes for electric vehicles flood the market. Mitsubishi will end production at the only new car factory in Changsha.
- On Monday, the Japan Fair Trade Commission (FTC) [announced](#) that it will commence an investigation into Google for alleged antitrust violations, unreasonably demanding that smartphone makers favors its apps over rival products. This is the [first time](#) the FTC disclosed an individual case at the initial stage of a probe. U.S. and European regulators have already concluded that Google has violated antitrust laws.
- The Ministry of Internal Affairs and Communications [announced](#) that it will allocate the so-called platinum spectrum high-frequency band (700-900 MHz) to Rakuten Mobile, which improves mobile services especially inside buildings. Rakuten is the [only one](#) of Japan’s four major wireless carriers to not have access.

## 11. State of the Economy

- On Thursday, interest on newly-issued ten year JGBs in the domestic bond market [reached](#) 0.885 percent for the first time since July 2013, as foreign investors in particular sell JGBs in anticipation of the Bank of Japan revising monetary policy at its upcoming monetary policy meeting on October 30-31.
- This comes as interest on newly-issued twenty year JGBs also [reached](#) a ten-year high of 1.68 percent on Monday. As with the shorter term bonds, investors are selling JGBs across the board ahead of a possible policy tweak at the BOJ’s policy meeting.
- On Wednesday, MOF [released](#) its monthly regional economic report, which maintained the assessment that the economy is slowly recovering. It [raised](#) assessments in Hokkaido, Tokai, Kyushu, and Okinawa. It pointed out that there is a risk of global downturn as financial authorities proceed with monetary tightening.

## *The Weekly Observer (10/23-10/27)*

- On Tuesday, the BOJ [announced](#) that the weighted median of the consumer price index in September rose 2 percent from the same month last year, [reaching](#) 2 percent for the first time since statistics became available in January 2001. All three of the BOJ's [measures of underlying inflation](#) topped 2 percent.
- *Nikkei* [reported](#) that the IMF projects that Japan's nominal GDP in 2023 is expected to be overtaken by Germany and fall from third to fourth in the world on a dollar basis due to the yen's depreciation. This is the first time in a decade that Japan has fallen from the third spot. The IMF also [projects](#) that India will likely have a larger GDP than Japan in 2026.

## **II. Public Opinion Poll**

- None