

The Weekly Observer

May 27-31, 2024

The 122nd edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the Japan-PRC-ROK Summit, North Korea's failed satellite launch, a senior CCP member's visit to Japan, the active cyber defense expert panel, the LDP's compromise with Komeito and Ishin on the political reform bill, CDP Upper House member Renho's surprising bid for Tokyo governor, the G7 Finance Ministers and Central Bank Governors' Meeting, METI's guaranteed loans for Rapidus, the BOJ's currency intervention amount, the long-term interest rate yield, and more.

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I. News of the Week

1. Ninth Japan-PRC-ROK Summit

- On Monday, Prime Minister Kishida Fumio [met](#) with Chinese Premier Li Qiang and South Korean President Yoon Suk-Yeol for the Ninth Japan-PRC-ROK Summit in Seoul, South Korea.
- In the joint declaration, the leaders [agreed](#) to accelerate discussions on a free trade agreement, increase people-to-people exchanges to 40 million by 2030, as well as reaffirmed the importance of maintaining peace, stability, and prosperity on the Korean Peninsula. They also committed to making efforts to regularize summits.
- The joint declaration notably [left out](#) mention of the denuclearization of the Korean Peninsula (China's concern) and any cooperation on sensitive technologies, which was pushed back against by the GOJ in particular.
- On Sunday, Kishida [met](#) Li, where the two agreed to promote mutually beneficial strategic relations and engagement at all levels of society. Kishida voiced his serious concerns about the East China Sea, the Fukushima seafood import ban, and the detainment of Japanese nationals in China. Li did not commit to making any changes.
- Kishida [met](#) Yoon for the tenth time since he came into office, where the two agreed to have their respective governments begin preparations for next year, which marks the sixtieth anniversary of Japan-ROK normalization.

2. North Korea Launches Missiles After Failed Satellite Launch

- On Monday, the Cabinet Secretariat [announced](#) that North Korea notified the GOJ that it would be testing a satellite from May 28-June 4.
- The Ministry of Defense (MOD) [announced](#) the following day that North Korea launched a projectile using ballistic missile technology for its satellite launch, though it appeared to fail within minutes from liftoff.
- The launch was [reported](#) to be a response to the Japan-PRC-ROK summit, in what appeared to be Pyongyang's attempt to observe whether Beijing was pursuing closer ties with key U.S. allies.
- On Thursday, North Korea launched multiple ballistic missiles, which flew a maximum distance of over 350 kilometers and landed outside Japan's EEZ.

- The ROK Armed Forces [assessed](#) that the North launched around ten short-range ballistic missiles (SRBMs) toward the Sea of Japan. The rare move was seen as a trial run to see if the North could penetrate U.S.-ROK air defenses.

3. Foreign Policy Developments

- On Friday, the Ministry of Foreign Affairs (MOFA) [announced](#) that Vice Minister Okano Masataka met with U.S. Deputy Secretary of State Kurt Campbell on Thursday in Washington, D.C., for the two countries' first Strategic Diplomacy and Development Dialogue. Focus was on engagement with the so-called Global South.
- On Wednesday, Kishida [received](#) a courtesy call from Liu Jiangchao, head of the CCP's International Department. The two reiterated the importance of promoting mutually beneficial strategic ties and enhancing dialogue to address issues of concern. Liu is viewed as a potential candidate to become foreign minister.
- Minister for Foreign Affairs Kamikawa Yoko also [met](#) with Liu, where she explained the GOJ's position on issues of concern like the East China Sea, Fukushima seafood import ban, and the detainment of Japanese nationals in China. She also [called](#) for the realization of mutual exchange visits by the foreign ministers.
- At a [meeting](#) with the Japan Association of Corporate Executives (*Keizai Doyukai*), Kamikawa [announced](#) that MOFA would be increasing the number of "regional economic directors" at embassies and consulates to support Japanese firms entering markets in emerging and developing countries in the so-called Global South.
- *Mainichi* [reported](#) Tuesday that Kishida is planning to travel to Kazakhstan in early August to participate in the first-ever summit with the five Central Asian countries. Japan aims to bolster ties with the natural resource-rich countries and put a check on Russia and China's strong influence in the region.
- On Monday, the GOJ [hosted](#) the "Ukraine Economic Reconstruction Promotion Preparation Council" meeting, where Deputy Chief Cabinet Secretary Murai Hideki [instructed](#) the GOJ to work with the private sector to provide support for Ukraine's mid- to long-term reconstruction. An international conference will be held in June.

4. Defense/Security Developments

- On Friday, Minister of Defense Kihara Minoru [announced](#) that he will be meeting with U.S. Secretary of Defense Lloyd Austin and PRC Minister of National Defense Dong Jun on the sidelines of the Shangri-La Dialogue in Singapore over the weekend. This comes as China increases its provocations at [air](#) and in [waters](#) around Japan.

- Digital Minister Kono Taro [announced](#) that the GOJ will establish an expert panel to discuss legislation related to “active cyber defense,” which would enable the government to preemptively respond to cyber attacks. The seventeen member panel is expected to meet for the first time early next month.
- *Sankei* [reported](#) Thursday that the Japanese and U.S. governments plan to hold the inaugural session of the Forum on Defense Industrial Cooperation, Acquisition and Sustainment (DICAS) on June 10 in Tokyo. Possible topics include Patriot missile manufacturing, warship maintenance in Japan, and joint trainer aircraft development.
- On Wednesday, Kishida [received](#) a courtesy call from Admiral Samuel Paparo, Commander of the U.S. Indo-Pacific Command. Kishida congratulated Paparo on his appointment to lead INDOPACOM and expressed his government’s desire to work closely with his Command to strengthen alliance deterrence.
- *Nikkei* [reported](#) Monday that the 2024 Defense White Paper draft includes new language that the GOJ “cannot rule out the possibility that a serious situation akin to the war in Ukraine occurs in East Asia,” pointing to the heightened possibility of war across the Taiwan Strait.
- On Sunday, the JGSDF [held](#) its annual Fuji Firepower Exercise at the Higashifuji Exercise Area in Shizuoka. The largest live ammunition exercise in Japan was held to train for the hypothetical defense of remote islands, but with the addition of modern warfare like UAVs coordinating with mobile combat vehicles to shoot enemy targets.

5. LDP Compromises with Komeito and Ishin to Pass Political Reform Bill

- On Friday, Kishida [held](#) separate discussions with Komeito Chief Representative Yamaguchi Natsuo and Ishin leader Baba Nobuyuki and are expected to agree on a revised proposal to amend the Political Funds Control Act.
- The LDP proposed to Komeito: 1) lowering the disclosure threshold for political fundraising party ticket buyers to “over ¥50,000” from its initial “over ¥100,000” proposal and 2) establishing a third-party body to check the content/use of “policy activity fees.”
- The LDP proposed to Ishin: 1) a separate bill to disclose what used to be called the transportation and stationery fees and to return excess fees to national coffers, 2) an annual cap on “policy activity fees” and disclosure of receipts after ten years, and 3) a ban on tax breaks for donations made by Diet members to their own political organizations.

- The LDP initially had [agreed](#) to a compromise bill with Komeito that would have shelved the decision on the disclosure threshold for “three years following the enactment of the amended bill,” but Komeito [reversed](#) its decision on Thursday, after opposition parties [slammed](#) the coalition partner for “caving” and its supporters demanded tighter regulations/more transparency.
- The content of the revised proposal is close to what Komeito initially demanded from the LDP when the two parties disagreed on the content of the bill and resulted in the LDP submitting a bill on its own. The incident exposed [rifts](#) between the LDP and Komeito and within the LDP, as some pushed for Kishida to not compromise.
- The revised proposal will be [voted](#) on in the Lower House Special Committee on Political Reform on June 3, as Chairman Ishida Masatoshi (LDP) decided to override opposition parties’ demands for further deliberation. The bill, now supported by Komeito and Ishin, is expected to be enacted during this Diet session.

6. Political Developments

- On Friday, the GOJ [decided](#) to appropriate ¥52 billion in special allocation taxes to fund the “reconstruction fund” for Ishikawa prefecture, which was hit with the Noto Peninsula earthquake earlier this year.
- The Diet enacted several notable bills this week: an industrial competitiveness improvement bill [creating](#) a new “medium-sized” enterprise category for focused support; the revised agriculture act [including](#) food security; and a bill [introducing](#) the fixed income tax cut to start next month.
- On Thursday, Kishida [said](#) that he aims to achieve the goal of [attracting](#) ¥115 trillion in investments in 2027. He also [plans](#) to prepare a ¥500 billion budget to support businesses in construction and logistics to promote the automation of workflows.
- The LDP [indicated](#) during a Lower House Commission on the Constitution session that it may proceed with discussions on amending the Constitution in relation to emergency powers without parties opposing the amendments like the CDP.
- While the CDP [decided](#) to ban political fundraising parties while the Political Funds Control Act is being discussed in the Diet, the LDP has come under fire for a new scandal [involving](#) Diet members [receiving](#) inappropriate tax breaks for donations made to their own district branches (around 30 percent tax break).
- On Monday, CDP Upper House Diet member Renho [announced](#) that she would be running for Tokyo governor in July, as the main opposition aims to ride the wave to defeat Koike Yuriko, whom they position as too close to the LDP.

7. G7 Finance Ministers and Central Bank Governors' Meeting

- Minister of Finance Suzuki Shunichi and Bank of Japan (BOJ) Governor Ueda Kazuo participated in the G7 Finance Ministers and Central Bank Governors' Meeting in Stresa, Italy, from May 23-25.
- In the joint communiqué [issued](#) after the meeting, the ministers reaffirmed the May 2017 exchange rate commitments and to sound and well-communicated macroeconomic and structural policies.
- The ministers agreed to continue discussing the use of immobilized Russian sovereign assets to the benefit of Ukraine, though the U.S. [proposed](#) loans or bond issuance with interest guarantees, while the European Union proposed directing extraordinary profits stemming from the assets.
- The ministers also agreed to foster international cooperation on tax issues, with the United States [reportedly impeding](#) progress on digital services taxes, which was agreed upon by around 140 countries and regions in 2021.
- On China, the ministers [voiced](#) “concerns” about China’s non-market policies and practices, including the potential negative impacts of overcapacity. The communiqué stated that the G7 would consider steps to ensure a level playing field, in line with the World Trade Organization (WTO) principles.

8. Economic Security and Tech Developments

- On Friday, the Ministry of Economy, Trade and Industry (METI) [announced](#) that it will provide guarantees for loans to Rapidus, as the state-backed chip foundry looks to cover for funding shortfalls of around ¥4 trillion through private investments.
- The revised Act on Strengthening Industrial Competitiveness was [enacted](#), providing tax breaks for ten years to companies that reduce carbon emissions during the manufacture of green steel, EVs, semiconductors, green chemicals, and sustainable aviation fuel (SAF). Tax breaks will be determined based on production amounts.
- *Yomiuri* [reported](#) Thursday that the GOJ’s draft “Integrated Innovation Strategy 2024” will position “reinforcing competitiveness and securing safety of AI” as a pillar and establish an expert panel to consider the necessity of AI-related legislation.
- *Nikkei* [reported](#) that METI will tighten restrictions on the export of five out of twelve “specifically designated commodities” under the Economic Security Promotion Act, in an effort to prevent leaks to foreign countries. METI will expect prior notification ahead of mass production abroad, among other measures, as a condition for subsidies.

- On Tuesday, the Cabinet Office [released](#) its interim report on the relationship between AI and intellectual property (IP) rights, which [concluded](#) that such rights are not violated during the AI machine learning phase. The GOJ will consider providing compensation for IP owners who stand to lose from this decision.
- *Nikkei* [reported](#) that the Ministry of Internal Affairs and Communications will open calls for applications as early as the summer from firms developing standards for high-speed communications (6G) using light-based solutions.

9. Key Economic/Financial Developments

- On Friday, the Ministry of Finance (MOF) [announced](#) that total currency intervention from April 26-May 29 hit a record-high of ¥9.79 trillion, [reflecting](#) the suspected market intervention on April 29 and May 2.
- The GOJ expert panel on supporting startups finalized recommendations, [urging](#) the GOJ to swiftly develop an environment to attract domestic and foreign investment for advanced technology research, as well as provide funding and the latest equipment to support such research.
- The GOJ [approved](#) the White Paper on Manufacturing Industries, which pointed out that Japanese manufacturers abroad are finding it difficult to control the operations of foreign subsidiaries, [proposing](#) that the GOJ develop a common infrastructure for people, goods, capital, and data on a global and horizontal scale.
- On Wednesday, METI [announced](#) that it held the second meeting of the Japan-PRC Export Control Dialogue and an outreach event in Shanghai with the Bureau of Industry, Security, Import and Export Control of the Ministry of Commerce.
- MOF [announced](#) that Japan's net foreign assets at the end of 2023 hit a record-high of ¥471.31 trillion, up 12.2 percent from the end of 2022. Japan [maintained](#) its top position globally as a net asset nation for the thirty-third consecutive year.
- *Nikkei* [reported](#) Tuesday that METI will soon compile a report for the "Research Group on Corporate Transformation Toward Reinforcing Global Competitiveness," which will recommend enhancing human resource management to support business strategies consistent with an increase in overseas offices and foreign employees.

10. State of the Economy

- On Friday, the Ministry of Health, Labor and Welfare (MHLW) [announced](#) that the seasonally adjusted effective jobs-to-applicants ratio in April was 1.26 times, down 0.02 point from March. Meanwhile, unemployment [remained](#) at 2.6 percent.

- *Nikkei* [reported](#) on Wednesday that its survey found that a record-high 94.1 percent of companies raised workers' base salary, on average ¥13,594 or a 75 percent hike from the previous year. The average wage hike also rose 1.61 points to 5.67 percent.
- The yield on newly issued ten-year JGBs, an indicator for long-term interest rates, [rose](#) to 1.07 percent, up 0.035 percent from the previous day, and the highest rate in twelve-and-a-half years as the U.S. long-term rate went up.
- On Tuesday, the BOJ [announced](#) that the services producer price index (SPPI) in April rose 2.8 percent from the same month last year to 111.9, as prices reflected a rise in personnel costs. This is the [largest increase](#) since the consumption tax hike in 2015 and excluding that since 1991.
- On Monday, the GOJ [released](#) its Monthly Economic Report for May and maintained for the fourth consecutive month the assessment that the economy is "recovering at a moderate pace, although it recently appears to be pausing." Meanwhile, the individual assessments for exports and industrial production were [raised](#) as the impact of the automobile quality issue diminishes.

II. Public Opinion Poll

- A *Nikkei* poll [released](#) on Monday showed Cabinet approval at 28 percent, up two points from April, while disapproval was 67 percent, down two points.
 - 39 percent of respondents said that they want the prime minister to focus on inflation relief; 35 percent said the economy in general; 34 percent said "politics and money"; 32 percent said childcare, education, and addressing the declining population; and 30 percent said pensions.
 - 49 percent of respondents said that they do not believe the Japan-PRC-ROK trilateral summit will lead to peace and stability in Asia, while 43 percent said they believe it will.
 - 83 percent of respondents said that they disapprove of Kishida's response to the "politics and money" scandal, while 10 percent said they approve.
 - 85 percent of respondents said that they do not believe the LDP's proposal to amend the Political Funds Control Act will prevent future "politics and money" issues, while 8 percent said they believe it will.
 - 75 percent of respondents said that they do not believe the fixed tax cut set to kick in next month will have a positive effect, while 19 percent said they believe it will.
 - 64 percent of respondents said that they disapprove of the Diet's activities including debates between the ruling and opposition parties, while 26 percent said they approve.

- 30 percent of respondents said that they do not believe the prime minister should rush to dissolve the Lower House; 23 percent said he should dissolve it by the fall; 22 percent said by the end of the Diet session in June; and 14 percent said by the end of the year.
- 41 percent of respondents said that they want the LDP-Komeito coalition to remain in power but see ruling and opposition parties compete after the next general election; 27 percent said they want a change in government; and 19 percent said they want the ruling coalition to remain in power.
- 43 percent of respondents said that they support amending the Constitution to extend the terms of Diet members during crises like an armed attack on Japan or a natural disaster, while 39 percent said they oppose it.
- 26 percent of respondents said that they would vote for the LDP in the upcoming general election; 16 percent each said the CDP and undecided; 13 percent said the Japan Innovation Party (*Ishin*); 6 percent said Komeito; 5 percent said Reiwa Shinsengumi; 4 percent said the JCP; 3 percent said the DPFP; 2 percent said the Suffrage Party; and 1 percent each said the SDP and other political parties.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	27 (-2)
Constitutional Democratic Party	12 (-1)
Japan Innovation Party (<i>Ishin</i>)	9 (+1)
Komeito	5 (+1)
Japan Communist Party	3 (-1)
Democratic Party for the People	2 (± 0)
Party to Realize Free Education	N/A (-)
Reiwa Shinsengumi	2 (-1)
Social Democratic Party	N/A (-)
Suffrage Party (Sanseitō)	1 (± 0)
Party to Protect the People from NHK	N/A (-)
Independent (No Party)	33 (± 0)