

## ***The Weekly Observer***

June 10-14, 2024

*The 124<sup>th</sup> edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the G7 Apulia Summit, Japan's contributions to Ukraine's recovery, the Japan-Germany ACSA, the draft Honebuto, the LDP's proposed fundraising reform bill, the Tokyo gubernatorial election, the BOJ's monetary policy meeting, the GOJ's S&T white paper, the new "training visa" system, the current account surplus, and more.*

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

### **1. PM Attends G7 Summit and Ukraine Peace Summit**

- Prime Minister Kishida Fumio [traveled](#) to Italy and Switzerland from June 12-16 for the G7 Apulia Summit and the Ukraine Peace Summit.
- The leaders held six sessions — [Africa, Climate Change and Development](#); [Middle East](#); [Ukraine](#); [Migration](#); [Indo-Pacific and Economic Security](#); and [Artificial Intelligence and Energy/Africa and Mediterranean](#).
- The Apulia Communiqué [included](#) concerns about “China’s persistent industrial targeting and comprehensive non-market policies and practices that are leading to global spillovers, market distortions, and harmful overcapacity.” It also highlighted the creation of an action plan on AI use in work.
- During the summit, Kishida and Ukrainian President Volodymyr Zelenskyy [signed](#) a bilateral document [outlining](#) areas of support and cooperation in areas ranging from security to defense to humanitarian support. Kishida [stated](#) during the Ukraine session that Japan is considering measures against entities in China, India, the United Arab Emirates, Uzbekistan, and Kazakhstan for helping Russia circumvent sanctions.
- During Kishida’s informal talk with Italian Prime Minister Giorgia Meloni, the two leaders welcomed the [announcement](#) of the Japan-Italy Action Plan (2024-2027) and [agreed](#) to commence formal negotiations on the Japan-Italy Acquisition and Cross-Servicing Agreement (ACSA).
- On Saturday, Kishida [attended](#) the Ukraine Peace Summit and emphasized the importance of a “fair and lasting peace” in Ukraine, as well as Japan’s commitment to leading support in the areas of nuclear power safety and demining.

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

- On Friday, the Ministry of Foreign Affairs and Ministry of Defense [participated](#) in the Japan-U.S. Extended Deterrence Dialogue held at F.E. Warren Air Force Base in Cheyenne, Wyoming on June 13-14. They shared assessments of challenges related to China and the need for Beijing to acknowledge its nuclear weapons expansion.
- The Upper House [passed](#) a resolution urging for the swift recovery of the humanitarian situation in Gaza and a ceasefire between Israel and Hamas. Both Houses [passed](#) a resolution this week opposing Israel’s Rafah military operation.

- South Korean newspaper *JoongAng Ilbo* [reported](#) Thursday that a Japanese government delegation secretly met with members of the North Korean General Reconnaissance Bureau in Ulaanbaatar, Mongolia, in mid-May.
- On Tuesday, the GOJ [finalized](#) its foreign policy approach to emerging and developing countries, which focuses on providing financial assistance to Japanese firms providing capital investment in developing countries in key areas like AI and next-generation automobiles and promoting economic security cooperation.
- Minister for Foreign Affairs Kamikawa Yoko [issued](#) a statement welcoming the adoption of UNSC resolution 2735 on the situation in Gaza, which welcomes U.S. President Joe Biden's initiative calling on Hamas to accept the release of hostages and ceasefire and on both parties to implement the terms without delay.
- On Monday, the Japanese and Ukrainian governments [announced](#) twenty-three new public-private cooperative agreements in areas from agriculture to medical infrastructure, following up from the reconstruction conference back in February.

### 3. Defense/Security Developments

- On Friday, Minister of Defense Kihara Minoru [said](#) that the ministry will use undersea drones to find the remains of two JMSDF helicopters that crashed on April 20. Kihara [said](#) on Tuesday that all eight officers on board were confirmed dead.
- *Yomiuri* [reported](#) Wednesday that the Acquisition, Technology & Logistics Agency (ATLA) will begin R&D toward deploying over-the-horizon (OTH) radars as early as FY 2029, designed to monitor below the horizon, where existing radars cannot detect.
- The Diet [approved](#) the Acquisition and Cross-Servicing Agreement (ACSA) between Japan and Germany, which enables the JSDF and the German military to exchange food, fuel, and other procurements and provide services like transport.
- *Jiji* [reported](#) Monday that the Japan-Philippines Security Consultative Committee meeting ("2+2") will likely be held in Manila on July 8. The two sides are [expected to sign](#) a Reciprocal Access Agreement (RAA), which enables the JSDF and the Armed Forces of the Philippines to conduct joint exercises in each others' territory.
- On Sunday, U.S. Under Secretary of Defense for Acquisition and Sustainment William LaPlante and ATLA Commissioner Fukasawa Masaki [chaired](#) the inaugural session of the U.S.-Japan Defense Industrial Cooperation, Acquisition, and Sustainment (DICAS) Forum. The two agreed to establish working groups on missile co-production, co-sustainment of U.S. Navy ships and Air Force aircraft, and supply chain resiliency for priority defense requirements.

- *Yomiuri* [reported](#) Saturday that the GOJ is planning to establish a third-party institution to oversee its use of telecommunications information related to “active cyber defense,” which enables the GOJ to preemptively respond to cyber attacks.

#### 4. GOJ Releases Draft Honebuto 2024

- On Tuesday, the GOJ [presented](#) a draft of this year’s Basic Policy on Economic and Fiscal Management and Reform (*Honebuto*) [during](#) the eighth session of the Council on Economic and Fiscal Policy.
- The document [emphasizes](#) that Japan is entering a “once in a millennium opportunity” to leave behind deflation and achieve a growth-oriented economy.
- Kishida stated during the meeting that the GOJ aims to establish higher wage hikes than inflation and will work on labor market reform and improving labor efficiency.
- The GOJ targets 1 percent real economic growth to combat the population decline and points out that the country can achieve a ¥100 trillion nominal economy by around 2040 if the elderly and women are employed and stable 2 percent inflation is realized.
- The GOJ revived language specifying a target for primary fiscal balance, which did not appear in the 2022 and 2023 editions, in FY 2025. It positions 2025-2027 as a period of “intense reform,” including expenditure cuts.

#### 5. Criticism Remains Strong Over LDP's Proposed Fundraising Reform

- On Friday, the CDP, Japan Innovation Party (*Ishin*), JCP, and DPFP [agreed](#) to accept the LDP’s [proposal](#) on Thursday to hold the Upper House Special Committee on Political Reform sessions on June 17-18, with Kishida in attendance on June 18. The opposition parties agreed not to comply with a vote should the LDP force one.
- On Thursday, *Ishin* leader Baba Nobuyuki [criticized](#) the LDP for going against its promise to revise rules surrounding what was formerly called the “correspondence fees” (now research, communications, and accommodation fees) during this Diet session. Komeito Secretary General Ishii Keiichi [indicated](#) that the Diet should go into out-of-session deliberations after June 23 if it does not discuss the fees.
- Komeito and opposition parties are also [criticizing](#) the LDP for its proposal to black out certain personal information related to “policy activity fee” receipts to be disclosed to the public ten years after the bill takes effect. They argue that transparency on use of the fees requires full disclosure.

- On this, Komeito and Ishin [agreed](#) to strongly demand that the LDP commit to establishing a third-party organization to review “policy activity fee” expenditure by January 1, 2026, when the bill takes effect.
- Meanwhile, *Nikkei* [reported](#) Monday that the CDP is preparing to submit a no-confidence motion against the Kishida Cabinet over the lackluster political fundraising reform bill. The motion may be submitted after the leaders’ debate.
- Kishida’s woes do not end there, as LDP Vice President and key Kishida benefactor Aso Taro [seemingly criticized](#) his handling of the reform bill, saying at an event over the weekend that reform “should not leave future seeds of trouble behind.”

## 6. Political Developments

- On Wednesday, Tokyo Metropolitan Governor Koike Yuriko [announced](#) that she will run for a third term as governor in the gubernatorial election slated for July 7. The LDP may [establish](#) a non-partisan political organization to indirectly support her bid, likely to avoid the negative attention a fully LDP-backed bid would garner.
- The LDP and CDP [agreed](#) to hold a leaders’ debate — the first one since 2021 and under the Kishida administration — on June 19, a day before the Tokyo gubernatorial race campaign period begins. The CDP may submit a no-confidence motion against the Cabinet following the debate.
- *Mainichi* [reported](#) that the LDP will give up on submitting amendments to the Constitution during this Diet session, largely to prioritize passing the revised Political Funds Control Act, which requires cooperation from the CDP and other opposition. Kishida will be unable to achieve his pledge to amend the Constitution by September.
- The Diet [enacted](#) legislation to redress Apple and Google’s duopoly on smartphone software, which bans the prioritization of big tech’s apps over competitors and interference with the entry of other app stores and payment systems. The bill is expected to take effect as early as the end of FY 2025.
- On Tuesday, the GOJ [presented](#) a draft of the 2024 Women’s *Honebuto*, which emphasizes the promotion of measures to increase female board members, women’s income, combat violence against women, and provide industry-specific support.
- On Monday, the revised Immigration Control and Refugee Recognition Act [took effect](#), which enables the GOJ to deport individuals applying for refugee status a third time barring extraordinary circumstances. According to the Ministry of Justice, around half the individuals who refused to leave the country were refugee applicants.

7. BOJ to Determine JGB Purchase Reduction in July

- On Friday, the Bank of Japan (BOJ) [determined](#) that it will decide on a plan to reduce JGB purchases in the next one to two years at the next monetary policy meeting scheduled for July 30-31.
- The change [indicates](#) the BOJ's transition towards quantitative tightening. The BOJ will discuss the matter with banks, securities companies, and other financial authorities to determine the specific amount to cut back purchases.
- At the press conference following the meeting, BOJ Governor Ueda Kazuo [stated](#) that the Bank finds it "appropriate" to reduce the amount of JGB purchases in a predictable manner while ensuring the flexibility in the government bond market.
- The BOJ decided during its March monetary policy meeting that it would end the negative interest rate policy and the yield curve control (YCC) to suppress long-term interest rates through JGB purchases.
- The BOJ's JGB amount [rose](#) approximately sixfold from ¥94 trillion in 2013 to ¥581 trillion at the end of FY 2023. This amounts to 54 percent of total issued JGBs, which is significantly higher than the 20 percent or so in government bonds held by the United States Federal Reserve Board (FRB).

8. Economic Security and Tech Developments

- *Nikkei* [reported](#) Thursday that chip designing firm EdgeCortex developed a new chip for generative AI computing that cuts electricity use to 25 percent of competitors. TOPPAN Holdings also [announced](#) on Monday that it created materials for AI and data center chips that cut manufacturing costs by half.
- *Nikkei* [reported](#) Wednesday that Toshiba plans an almost ¥100 billion capital investment into its semiconductor business between now and March 2027, mainly to reinforce its power chip manufacturing line for EVs and electric power facilities.
- On Wednesday, Mitsubishi Chemical Group [announced](#) that it will develop a new chip materials plant in Kitakyushu City, Fukuoka by fall 2025, focusing on doubling production capacity of resin for photoresist used in the formation of circuits and the first mass production of resins for cutting-edge semiconductors.
- On Tuesday, the GOJ [approved](#) the "Science & Technology/Innovation White Paper," which [positions](#) sustained investment in R&D and talent development for AI and reinforcing cooperation between top level researchers as a key to Japan's innovation.

- Minister in charge of Economic Security Takaichi Sanae [announced](#) that the GOJ will set up an expert panel, which will meet later this month, to design the security clearance system and identify information deemed critical to economic security.
- The GOJ [approved](#) the Personal Information Protection Commission's (PIPC) annual report, which [found](#) that personal information leaks or losses in FY 2023 hit 12,120 cases, the most since the PIPC began compiling the report in FY 2017.

## 9. Key Economic/Financial Developments

- On Friday, the Diet [enacted](#) the bill creating a new “training visa” to replace the Technical Intern Trainee Program (TITP), which enables workers to transition into the Specified Skilled Worker (SSW) program after three years subject to passing a test. The bill, to be implemented in 2027, will also give the GOJ the power to revoke permanent residency from foreign residents who deliberately fail to pay taxes.
- *Nikkei* [reported](#) Wednesday that the GOJ aims to begin construction of its “Global Startup Campus” in between Shibuya and Meguro in FY 2028. The GOJ's expert panel [issued](#) a report on May 31 urging the GOJ to deregulate and reform regulatory systems to attract top universities and researchers from abroad to the campus.
- On Tuesday, Mitsubishi Research Institute [announced](#) projections that social security benefits will top ¥165 trillion in 2040, when the elderly population reaches its peak. This is 1.25 times higher than the benefits distributed in FY 2020.
- On Monday, the Ministry of Land, Infrastructure, Transport and Tourism [conducted](#) on-site inspections at Matsuda and Honda HQs, regarding the falsification of testing data which resulted in shipment halts of certain vehicles. Matsuda plans to increase manufacturing of vehicle types not caught up in the scandal.
- The Ministry of Economy, Trade and Industry (METI) [selected](#) cartels including Marubeni and Chubu Electric as the lead on projects for demonstrating floating offshore wind power generation between FY 2024-2030. The projects, off the shores of Akita and Aichi, will be the [first](#) where output scale is above 10,000 kilowatts.

## 10. State of the Economy

- According to the Business Outlook Survey (April-June) [released](#) by the Cabinet Office and Ministry of Finance (MOF) on Thursday, business sentiment index (BSI) for large corporations rose 0.42 points to 0.4, the [first positive value](#) in two quarters.

- The same survey projected that capital investment would increase 12.1 percent in FY 2024 from a year earlier, [pushed](#) by greater investment in chemical and non-ferrous metal manufacturing.
- On Wednesday, the BOJ [announced](#) that the corporate goods price index (CGPI) in May rose 2.4 percent from the same month last year to 122.2, with the rate of increase also rising for the fourth consecutive month by 1.3 points. The tax levy on utility bills for renewables promotion and price hike on copper [contributed](#) to the rise.
- On Monday, MOF [announced](#) that Japan ran a ¥2.51 billion current account surplus in April, up 8.2 percent from the same month last year. This was the [highest surplus](#) in April since records became available, as bond interest and overseas dividends rose.
- The Economy Watchers Survey [found](#) that the diffusion index in May fell 1.7 points from April to 45.7, the third consecutive month in decline as [concerns](#) about inflation persisted. The Cabinet Office (CAO) maintained the assessment that the “economy has continued moderate recovery, though it has shown some weakness recently.”
- CAO [announced](#) that revised real GDP in the January-March period fell 0.5 percent from the last quarter, which is equivalent to a 1.8 percent decrease annually. The value was [revised upward](#) from May as capital investments increased.

## **II. Public Opinion Poll**

- An NHK poll [released](#) on Monday showed Cabinet approval at 21 percent, down three points from [May](#), while disapproval was 60 percent, up five points.
  - 48 percent of respondents [said](#) that they support the Kishida Cabinet because it seems better than the alternatives; 22 percent said because it includes a party they support; and 13 percent said because they trust the prime minister.
  - 49 percent of respondents said that they do not support the Kishida Cabinet because they have no expectations for its policies; 24 percent said because it lacks executive ability; and 9 percent said because they do not trust him.
  - 32 percent of respondents said that they somewhat disapprove of the LDP’s revised Political Funds Control Act; 30 percent said they somewhat approve; 28 percent said they strongly disapprove; and 3 percent said they strongly approve.
  - 75 percent of respondents said that the LDP’s bill requiring the disclosure of “policy activity fees” after ten years was unreasonable, while 13 percent said it was reasonable.
  - 40 percent of respondents said that they believe fundraising parties should be banned; 24 percent said the disclosure threshold should be lowered further from ¥50,000; 22 percent said it was reasonable; and 3 percent said it should not have been lowered from ¥200,000.

- 50 percent of respondents said that they believe corporate/organizational donations should be banned, while 35 percent said it should not be banned.
- 34 percent of respondents said that they somewhat disapprove of the GOJ's fixed income tax cut; 33 percent said they somewhat approve; 18 percent said they strongly disapprove; and 7 percent said they strongly approve.
- 47 percent of respondents said that they are somewhat thinking about energy conservation as utilities hike prices; 26 percent said they are very much thinking about it; 16 percent said they are not really thinking about it; and 6 percent said they are not thinking about it at all.
- 54 percent of respondents said that they are very concerned about the total fertility rate falling to an all-time low; 31 percent said they are somewhat concerned; 6 percent said they are not so concerned; and 2 percent said they are not concerned.
- 46 percent of the respondents said that they do not really believe that the new funding for childcare will redress the declining birth rate; 23 percent said they somewhat believe it will; 20 percent said they do not believe it will at all; and 3 percent said they strongly believe it will.
- 37 percent of respondents said that they are somewhat interested in the Paris Olympic/Paralympic Games; 28 percent said they are not so interested; 17 percent said they are very interested; and 11 percent said they are not interested at all.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	25.5 (-2)
Constitutional Democratic Party	9.5 (+2.9)
Japan Innovation Party ( <i>Ishin</i> )	3.6 (-0.9)
Komeito	2.4 (-0.7)
Japan Communist Party	3 ( $\pm 0$ )
Democratic Party for the People	1.1 ( $\pm 0$ )
Reiwa Shinsengumi	1.4 (+0.2)
Social Democratic Party	0.3 (-0.4)
Suffrage Party (Sanseitō)	0.2 ( $\pm 0$ )
Party to be Created by Everyone (Ex-NHK)	0.3 (-)
Independent (No Party)	44 (-0.3)