

The Weekly Observer

June 17-21, 2024

The 125th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the first-ever Japanese sanctions on Chinese entities in relation to the Russian war in Ukraine, JAXA's latest cyber breach, the end of the 213th Diet session, the GOJ's domestic policy documents, the Koike vs. Renho battle in the Tokyo governor's race, new revelations about the Abe faction's kickback scheme, the GOJ's FY 2024 digital policy action plan, the yen-dollar exchange rate, the May trade deficit, and more.

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I. News of the Week

1. Foreign Policy Developments

- On Friday, the GOJ [announced](#) sanctions on fifty-three individuals and eleven entities from China, India, Hong Kong, Kazakhstan, and Uzbekistan for aiding Russia's evasion of sanctions related to the war in Ukraine. The Chinese government [hinted](#) at retaliatory measures after the GOJ's first-ever sanctions targeting Chinese entities.
- Minister for Foreign Affairs Kamikawa Yoko [had](#) a phone conversation with South Korean Foreign Minister Cho Tae-yul, in which they agreed to work closely with the United States in light of increasing Russia-North Korea cooperation.
- On Wednesday, Prime Minister Kishida Fumio [revealed](#) that the GOJ will set up a new ambassador post in charge of coordinating efforts [related](#) to the Asia Zero Emissions Community (AZEC) initiative being pursued with nine Southeast Asian countries and Australia.
- Kishida [held](#) a summit meeting with Prime Minister Christopher Luxon of New Zealand, where the two discussed regional affairs and welcomed the agreement in principle in the negotiations of a bilateral Information Security Agreement.
- *Asahi* [reported](#) Tuesday that Kishida is arranging to travel to Germany for a summit meeting with Chancellor Olaf Scholz in mid-July, likely after the NATO Summit from July 9-11 in Washington, D.C., to discuss defense and economic security cooperation.
- On Monday, MOFA Director-General of Asian and Oceanian Affairs Bureau Namazu Hiroyuki [met](#) with Liu Jinsong, director-general of the Chinese Foreign Ministry's Asian Affairs Department, in Beijing and agreed to accelerate dialogue toward resolving issues of concern. Namazu urged Beijing to revoke the seafood import ban.

2. Defense/Security Developments

- *Nikkei* [reported](#) Friday that Japan Aerospace Exploration Agency (JAXA) may have leaked at least 10,000 items of confidential information to external sources during the multiple cyber attacks it endured in the last two years.
- The Ministry of Defense's Okinawa Defense Bureau [notified](#) local authorities that it plans to commence geological surveys in July around the relocation area of the U.S. Military's Naha Port Facility in Urasoe City, Okinawa. It plans to continue surveys until November 2024.
- On Thursday, Yoshida Yoshihide, chief of staff of the Joint Staff, [announced](#) that he held discussions with Chief of Staff Romeo Brawner Jr. of the Armed Forces of the

Philippines following the incident on June 17 where Chinese and Filipino vessels collided in the South China Sea.

- On Tuesday, the GOJ [approved](#) a report on the implementation of the Designated Secrets Protection Act, which found that the GOJ added fifty-three new items into the list of designated secrets in the last year. The total number is now at 751 items.
- On Monday, the JMSDF [announced](#) that it held the first joint naval exercises in the South China Sea with the U.S., Canada, and the Philippines' respective naval forces, amid Chinese aggression in the area. The JMSDF also held separate exercises with the navies of Türkiye and India in the waters around Kanto.

3. Diet Session Concludes with Enactment of Political Fundraising Reform Bill

- On Friday, the 213th ordinary Diet session [effectively came to an end](#), with the GOJ successfully passing/enacting sixty-one of the sixty-two bills it submitted to the Diet.
- Kishida [said](#) in a press conference that the LDP's proposed revision to the Political Funds Control Act was a "challenging task" of balancing transparency and preventive measures with securing political funds, a part of the democratic process. He stated that he is not thinking about calling an election anytime soon.
- The revised Political Funds Control Act was [enacted](#) on Wednesday, tightening restrictions on Diet members and creating new disclosure rules to secure transparency of political funding.
- The bill was notably passed without the Japan Innovation Party's (*Ishin*) support, after it [reversed](#) its Lower House vote in favor of the bill citing "betrayal" by Kishida to not follow through with reform of the "correspondence fees." Kishida [defended](#) his decision, stating that a specific deadline could not be included in the party-to-party agreement given "time constraints."
- During the leaders' debate, CDP leader Izumi Kenta [demanded](#) that Kishida dissolve the Lower House immediately and call a general election to ask voters what they thought of the reform bill. Kishida reiterated that he is focused on challenges at hand and not on dissolving the Lower House during the Diet session.
- In response to the debate, the CDP [submitted](#) a no-confidence resolution against the Cabinet on Thursday. Though it [received support](#) from *Ishin*, the JCP, and the DPFP, the resolution was defeated in the Lower House by the LDP and Komeito.

4. GOJ Issues Key Domestic Policy Documents

- On Friday, the GOJ [approved](#) this year's Basic Policy on Economic and Fiscal Management and Reform (*Honebuto*), the revised Action Plan for a New Form of Capitalism, and the Regulatory Reform Implementation Plan.
- The *Honebuto* [emphasizes](#) that Japan is entering a “once in a millennium opportunity” to leave behind deflation and achieve a growth-oriented economy and is on track to achieving a nominal GDP of ¥100 trillion around 2040.
- As part of the *Honebuto*, the GOJ also formed an “Economic and Fiscal Revival Plan” for FY 2025-2030, which indicates the target of realizing positive primary balance in FY 2025, which was mentioned for the first time in three years.
- Kishida has emphasized that the GOJ aims to establish higher wage hikes than inflation and will work on labor market reform and improving labor efficiency.
- The Action Plan for a New Form of Capitalism [commits](#) to supporting SMEs and smaller enterprises realize wage hikes and to reinforcing labor market reform, including the introduction of job-style employment and reskilling programs.
- The Regulatory Reform Implementation Plan [focuses](#) on digitalization, including improving operations of the Japan-style ridesharing services and utilizing drones to transport medical supplies and food during natural disasters.

5. Koike and Renho to Square Off in Tokyo Governor Race

- On Thursday, the [campaign period](#) for the Tokyo gubernatorial race slated for July 7 began. A total of fifty-six candidates are running for the capital's top job, far more than the twenty-two candidates that ran in 2020, which was a record high.
- Though the race will be contested between over fifty candidates, all eyes are on incumbent Governor Koike Yuriko and now-former CDP Upper House Diet member Renho, who will square off in a de facto ruling versus opposition party battle.
- Koike is running as the incumbent with the comfortable lead, [emphasizing](#) continuity and her accomplishments toward “Grand Reform 3.0” in her third term. Renho has [focused](#) her candidacy on childcare and cutting back wasteful spending by Koike.
- Koike is expected to be backed by the LDP, Komeito, and the DPFP, though the LDP [does not plan](#) on endorsing her, likely to maintain a safe distance between the scandal-plagued party and the incumbent governor.
- Meanwhile, key labor union voting bloc RENGO's Tokyo branch [decided](#) on Wednesday that it would throw its support behind Koike. RENGO itself will allow

subsidiary organizations to vote as they want, opening room for some to support Renho, who is closer to the bloc's traditional partner, the DPJ (now the CDP).

6. Political Developments

- On Friday, LDP members on the board of the Lower House Commission on the Constitution [proposed](#) holding out-of-session deliberations toward drafting amendments to the Constitution either on June 27 or July 4. The LDP aims to include an emergency situation clause to extend Diet member terms during emergencies.
- On Wednesday, the Diet [enacted](#) a bill to create the Japanese version of Britain's Disclosure and Barring Service, which aims to create a system to bar people with sex crime records from jobs involving contact with children. The Diet also [enacted](#) a bill enabling the GOJ to instruct local governments to take action during "situations that have a serious impact on citizen safety," like natural disasters or pandemics.
- On Tuesday, *Ishin* [submitted](#) a non-binding censure motion in the Upper House against Kishida for [effectively going back](#) on an agreement to pursue "correspondence fee" reform during the Diet session. It also [submitted](#) a censure motion against Steering Committee Chair Asao Keiichiro (LDP) for killing the aforementioned motion against Kishida prior to debate in the Upper House.
- Matsumoto Junichiro, former Abe faction "accountant," [revealed](#) in court that senior faction members requested that the kickback scheme, once ended by ex-President Abe Shinzo, be revived. The four senior members at the alleged meeting where the request was made — Shionoya Ryu, Shimomura Hakubun, Nishimura Yasutoshi, and Seko Hiroshige — [denied](#) the allegations during Diet hearings on the matter.
- The GOJ [presented](#) a draft of its "Digital Administrative Reform" plan, which included education related digital transformation (DX), consideration of non-taxi company entry into the ridesharing ecosystem, autonomous driving by FY 2025, DX in the elderly care sector, medical DX, online childcare services, faster digitized customs processes, and digitizing government databases.
- On Sunday, the LDP and Komeito [secured](#) a majority in the Okinawa prefectural assembly, a major win in the prefecture where Governor Tamaki Denny frequently clashes with Tokyo on U.S. base relocation and security issues. Tamaki's fervor on the U.S. bases issues has [led](#) to voter perception that he is neglecting economic issues.

7. Economic Security and Tech Developments

- On Friday, the GOJ [approved](#) its FY 2024 action plan on digital policy, which [indicated](#) that Japan must prioritize the updating of aging systems and talent development to reduce the over ¥5 trillion digital services deficit.
- The GOJ [designated](#) Miyagi and Kumamoto prefectures as a national strategic special zone for receiving foreign workers in the chip industry, with preferential screening for foreign workers and smooth transition into the Specified Skilled Worker program after completing skills training.
- On Thursday, Renesas Electronics [finalized](#) the buyout of U.S. power semiconductor company Transphorm for \$339 million, in an effort to boost its presence in advanced gallium nitride (GaN) chips for electric vehicles. Meanwhile, *Nikkei* [reported](#) Sunday that Kioxia Holdings lifted its production cut for the first time in a year-and-eight months as it redeemed ¥540 billion in loans and received a new loan of ¥210 billion.
- *Nikkei* [reported](#) that the GOJ plans to include as early as August the manufacturing of components in the production of semiconductors as a core industry to security that requires prior screening of foreign stock acquisitions.
- *Nikkei* [reported](#) Sunday that METI's National Institute of Advanced Industrial Science and Technology (AIST) will partner with IBM for R&D into next-generation quantum computers with a “qubit” count exceeding 10,000 and a performance level seventy-five times greater than the current machines.
- *Nikkei* [reported](#) last Friday that NTT Data will begin providing both software and hardware for AI development — the loan of image processing chips (GPU) servers used for system development and data processing — as early as this fiscal year to reduce costs for users.

8. Key Economic/Financial Developments

- On Friday, Minister of Finance Suzuki Shunichi [said](#) that the U.S. Department of the Treasury's decision to add Japan to its currency watchlist does not mean the U.S. government views Japan's currency policy as “problematic.”
- The yen-dollar exchange rate [fell](#) to ¥159 for the first time in two months as market players considered a widening gap between U.S. and Japanese interest rates following a Federal Reserve Board official's view that inflation will take time to control.
- On Thursday, the Ministry of Economy, Trade and Industry (METI) [announced](#) that Minister Saito Ken will visit Washington, D.C. from June 25-28 to attend the inaugural trilateral Japan-U.S.-ROK commerce and industry ministers' meeting.

Minister of Finance Suzuki will [visit](#) Seoul on June 25 for a Japan-ROK finance ministers' dialogue, which resumed last year for the first time in six years.

- *Nikkei* [reported](#) that the Personal Information Protection Commission and the EU Commission agreed to work toward expanding the transfer rules for data from Europe to Japan from corporations to include research institutions and administrative bodies. This is expected to facilitate medical research utilizing European patient data.
- On Wednesday, the Bank of Japan (BOJ) [released](#) meeting minutes from its April monetary policy meeting, which [showed](#) that many board members supported starting discussions toward raising interest rates.
- *Asahi* [reported](#) Sunday that the GOJ's revised triennial Basic Energy Plan will approve the construction of new nuclear power plants on the condition that they replace old, retiring ones. The Plan will maintain the position that Japan aims to reduce dependence on nuclear power as much as possible.

9. State of the Economy

- On Friday, the Ministry of Internal Affairs and Communications [announced](#) that the consumer price index (CPI) in May excluding volatile fresh food items rose 2.5 percent from the same month last year to 107.5, with electricity prices [leading](#) the way with a 14.7 percent increase likely due to the renewables levy.
- On Wednesday, the Ministry of Finance [announced](#) that Japan ran a ¥1.22 trillion trade deficit in May, the [second consecutive month](#) in the red but a 11.6 percent smaller deficit compared to the same month last year, as auto and semiconductor exports increased. Both imports and exports rose during the month of May.
- On Tuesday, the BOJ [announced](#) that a new category of the services producer price index (SPPI), extracting industries with high labor costs as a percentage of production value, rose 2.8 percent in April from the same month last year. The thirty-two year high, excluding the impact of consumption tax hikes, indicates a shift in labor costs from labor shortages.
- The GOJ [approved](#) the annual White Paper on Tourism, which found that inbound tourism [rapidly recovered](#) from 2022 and resulted in a 31 percent increase in consumption per person in 2023 compared to pre-pandemic levels in 2019.
- On Monday, the Cabinet Office [announced](#) that seasonally adjusted machinery orders in April, a key indicator of private sector capital investment, [fell](#) for the first time in three months by 2.9 percent to ¥886.3 billion, as the manufacturing sector felt the after effects of an increase last month. Autos rose for the third consecutive month.

II. Public Opinion Poll

- A *Sankei*/FNN 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.

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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 (± 0)
Democratic Party for the People	1.1 (± 0)
Reiwa Shinsengumi	1.4 (+0.2)
Social Democratic Party	0.3 (-0.4)
Suffrage Party (Sanseitō)	0.2 (± 0)
Party to be Created by Everyone (Ex-NHK)	0.3 (-)
Independent (No Party)	44 (-0.3)