

The Weekly Observer

June 24-28, 2024

The 126th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on North Korea's latest missile capabilities, the PM's scheduled visit to D.C. for the NATO Summit, a proposed Japan-EU security partnership agreement, Kono's reported desire to run for LDP president, the inaugural Japan-U.S.-ROK trilateral commerce and industry ministerial, the record-low yen depreciation, the inaugural expert panel session on laying the groundwork for the security clearance system, the Ninth Japan-ROK finance ministerial dialogue, the GOJ's Monthly Economic Report, and more.

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I. News of the Week

1. North Korea Allegedly Tests Multiple-Warhead Missile Capability

- On Thursday, North Korea [announced](#) that its Missile Administration successfully conducted the separation and guidance control test of individual mobile warheads, a significant addition to its arsenal as warheads can be guided to separate targets.
- On Wednesday, the Ministry of Defense (MOD) [announced](#) that North Korea launched at least one ballistic missile eastward, which flew at a maximum altitude of 100 kilometers and a distance of 200 kilometers before falling outside Japan's EEZ.
- The South Korean Armed Forces [announced](#) that the ballistic missile test likely failed, as the missile exploded above sea. The test was seen as a test launch of a solid-fuel hypersonic missile.
- The GOJ [strongly protested](#) and criticized the launch, stating that it threatened the peace and safety of Japan, the region, and the rest of the international community, as well as was a violation of UN Security Council resolutions.
- In response, Deputy Director-General of the Asian and Oceanian Affairs Bureau Hamamoto Yukiya [spoke](#) on the phone with U.S. Senior Official for North Korea Jung Pak and ROK Director-General for North Korean Nuclear Affairs Lee Jun-il and jointly criticized the launch as a violation of UN Security Council resolutions.

2. Foreign Policy Developments

- On Thursday, Chief Cabinet Secretary Hayashi Yoshimasa [said](#) that Prime Minister Kishida Fumio will accept an invitation to the NATO Summit in Washington, D.C., from July 9-11. Kishida will also [travel](#) to Kazakhstan in August for the inaugural summit meeting with the leaders of the five Central Asian countries.
- *Nikkei* [reported](#) that the GOJ will work with the United States and the Philippines to address disinformation, setting up a liaison council including experts to share information and best practices amid China and Russia's disinformation campaigns.
- Hayashi [revealed](#) that the GOJ strongly protested and urged South Korean research ships from conducting possible marine surveys in Japan's EEZ near the Takeshima Islands. This is the third time this month that the GOJ has protested on separate cases.
- On Monday, MOFA Director-General of the Asian and Oceanian Affairs Bureau Namazu Hiroyuki [attended](#) the trilateral senior officials meeting with the United States and South Korea and voiced mutual concern about the advancement of DPRK-Russia relations following President Vladimir Putin's visit to Pyongyang.

- MOFA [issued](#) its basic position on Lethal Autonomous Weapons Systems (LAWS) utilizing AI, which stated that use must be based on “people-centered principles” and emphasize responsible use. It emphasized that countries should not develop autonomous weapons that do not involve humans.
- Last Friday, MOFA Director-General of the European Affairs Bureau Nakagome Masashi [met](#) his Russian counterpart for the first time since the onset of the war, urging Russia to agree to an immediate ceasefire and voicing concern over Russia’s increasing military cooperation with North Korea.

3. Defense/Security Developments

- On Friday, Minister of Defense Kihara Minoru [confirmed](#) that the second Japan-Philippines “2+2” will be held in Manila from July 7-8. The two sides are expected to sign a Reciprocal Access Agreement” streamlining cooperation between the JSDF and the Armed Forces of the Philippines.
- Kihara also [announced](#) that the MOD plans to deploy a mobile warning and control radar in Kitadaito Island, Okinawa, to cover an “open spot” in surveillance in the Pacific Ocean side amid China’s increased maritime activities there.
- On Thursday, the JSDF [commenced](#) the trilateral “Freedom Edge” exercise with the United States and South Korea, which will include simultaneous exercises across the maritime, airborne, and cyber domains. The exercise will [end](#) on June 29.
- On Tuesday, Kihara [announced](#) that the JASDF will conduct joint exercises with the air forces of Germany, France, and Spain from July 19-25 in Japan. Italian Defense Minister Guido Crosetto [revealed](#) a day before that the Italian Air Force will also hold joint exercises with the JASDF in Japan in late August using the latest F-35s.
- *Nikkei* [reported](#) Monday that the European Union plans to sign security/defense industry cooperation agreements with Japan and South Korea — the first deals with Asian countries — with plans to conclude one with Japan as early as the end of the year. The deal would cover areas like co-investment in defense equipment production and cybersecurity — partly to reduce dependence on the United States.

4. Political Developments

- On Friday, the GOJ [approved](#) an additional ¥139.6 billion budget from the FY 2024 reserve fund to finance reconstruction efforts in the Noto Peninsula region hit by the earthquake in January. Kishida [plans to visit](#) the region on July 1 to coincide with the establishment of the GOJ’s “Innovative Reconstruction Task Force.”

- *Mainichi* [reported](#) Thursday that the Lower House Commission on the Constitution may hold a board meeting on Friday to discuss out-of-session deliberations on amending the Constitution. The CDP plans to sit out, arguing that it is not the right time to discuss such an important issue when the Tokyo governor race is in motion.
- *Mainichi* [reported](#) Wednesday that Digital Minister Kono Taro informed faction boss and LDP Vice President Aso Taro of his intention to run for party president. Kono needs Aso's support to collect the faction's bloc vote.
- *Yomiuri* [reported](#) that not everyone is welcoming the idea of Kono running as the faction's candidate, as some view his policy positions as problematic. Some are floating Minister of Finance Suzuki Shunichi as a more benign candidate.
- On Sunday, Kishida [delivered](#) a speech at the memorial service commemorating the deaths of Okinawans during the Battle of Okinawa (1945), in which he [pledged](#) to realize an "economically strong Okinawa" but failed to mention the ongoing dispute between the GOJ and Okinawa on the relocation of MCAS Futenma to Henoko.

5. Inaugural Trilateral Japan-U.S.-ROK Commerce and Industry Ministerial

- On Tuesday, Minister of Economy, Trade and Industry Saito Ken [attended](#) the inaugural Japan-U.S.-ROK trilateral commerce and industry ministerial meeting with U.S. Secretary of Commerce Gina Raimondo and ROK Minister of Trade, Industry and Energy Ahn Duk-geun in Washington, D.C.
- The ministers agreed to hold the trilateral ministerial on an annual basis. The joint statement [released](#) after the meeting announced that the three countries agreed to prioritize cooperation to strengthen supply chain resilience in key areas like semiconductors and batteries.
- The ministers shared "concerns" over recent non-market measures — likely referring to China — which may lead to unreasonable and significant supply chain disruptions for critical minerals like gallium, germanium, and graphite.
- On export controls, the statement indicated that all three countries have an "inherent interest" in promoting responsible use of emerging technologies, while denying access to those that may use technologies to threaten global peace and security and undermine human rights.
- Saito [held](#) the Fourth Japan-U.S. Commercial and Industrial Partnership (JUCIP) Ministerial, where he and Raimondo agreed to identify and operationalize efforts in specific strategic sectors and pursue, as appropriate, actions to increase the resilience of strategic supply chains through strengthening supply and creating demand.

- Saito also [held](#) a bilateral meeting with Ahn, where the two agreed to establish a joint public-private framework toward developing a supply chain network and applications for hydrogen and ammonia, which are the decarbonized fuel of the next generation.

6. Yen Exchange Rate Reaches Thirty-Seven Year Low

- On Friday, the yen [depreciated](#) to ¥161 to the dollar, a thirty-seven year low as market actors speculated a growing gap between the Japanese and American interest rates following indications that the Federal Reserve Board would not rush to lower rates.
- Finance Minister Suzuki said that it is “undesirable” for the exchange rate to swing in a volatile fashion, pointing out that the GOJ is closely monitoring the situation and ready to “respond appropriately” to the volatility.
- The GOJ/Bank of Japan’s (BOJ) intervention at the end of April seems to have only lasted for two months, as the [assumption](#) that this move would buy time until the yen appreciated has gone sideways due to a stagnating U.S. economy.
- *Nikkei* [reported](#) that the GOJ/BOJ’s intent to seriously tackle the depreciating yen has been questioned by market actors as the GOJ announced additional gasoline subsidies for the August-October period, which will likely exacerbate the trade deficit as domestic income flows out to purchase energy imports.
- As a result of uncertainty over the possibility of intervention and the BOJ’s monetary policy, investors have [pulled back](#) from buying Japanese stocks — even exporting firms — which has resulted in an over ¥400 decline in the Nikkei 225 index on Thursday. This is the first time in four business days that the index has fallen.
- The GOJ [decided](#) to replace Vice Minister of Finance for International Affairs Kanda Masato — who orchestrated the forex intervention in April and May — with Mimura Atsushi, Director-General of the International Bureau, effective July 31.

7. Economic Security and Tech Developments

- On Thursday, Kyushu University and Taiwan’s National Yang Ming Chiao Tung University [signed](#) a Memorandum of Understanding (MOU) to establish a joint research lab on the utilization of plasma in chip manufacturing and nanotechnology.
- On Wednesday, the GOJ [convened](#) the inaugural session of the “Expert Panel on Protecting and Utilizing Information Critical to Economic Security,” which aims to come up with draft ordinances and implementation guidelines around the winter related to information requiring a security clearance.

- *Nikkei* [reported](#) Wednesday that the GOJ plans to amend the Personal Protection Information Act as early as 2025 to change rules related to the management of personal data. The obligation to report information leaks will be extended from three to five days to thirty days, cutting costs for firms that have taken sufficient measures.
- On Tuesday, the GOJ [approved](#) an ordinance to expand the continental shelf in the Ogasawara Plateau waters east of Chichijima, Ogasawara Islands, effective July 20. The added 120,000 square kilometers includes cobalt, a critical mineral for EV batteries which the Agency for Natural Resources and Energy will survey for.
- *Nikkei* [reported](#) Monday that NTT Data will operate a ¥100 billion or so real estate investment trust (REIT) that invests in data centers in the last quarter of FY 2025. The REIT is designed to procure funding to meet high demand for AI data centers.
- *Yomiuri* [reported](#) Saturday that Japan and the U.S. plan to introduce a third-party cybersecurity evaluation regime related to IoT devices, with plans to set up an expert panel and craft an action plan toward sharing evaluations as early as next fiscal year.

8. Key Economic/Financial Developments

- On Thursday, the Ministry of Health, Labor and Welfare (MHLW) [announced](#) that the National Pension Plan premium payment rate in FY 2023 hit a record-high for the twelfth consecutive year at 77.6 percent, while the number of applicants who joined hit a record-low of fourteen million.
- *Nikkei* [reported](#) that it will require firms with more than 301 employees, which includes an additional 18,000 firms, to publicly release the ratio of women in management positions. Japan's ratio is 12.9 percent, the lowest among G7 members.
- On Tuesday, Finance Minister Suzuki [met](#) with ROK Minister of Economy and Finance Sangmok Choi for the Ninth Japan-ROK Finance Ministerial Dialogue in Seoul. The two sides shared “serious concerns” about the sharp depreciation of the yen and won and agreed to take appropriate actions against excess volatility.
- The Ministry of Economy, Trade and Industry (METI) [began](#) discussions toward compiling its FY 2024 Basic Energy Plan, with the focus on the feasibility of restarting nuclear power plants and investing in next-generation reactors.
- *Nikkei* [reported](#) that the LDP and Komeito agreed to resume utility subsidies between August and October — likely around ¥1,850 a month — as energy costs remain high despite falling from the peak. Questions remain how long the policy can continue.

- On Monday, the BOJ [released](#) its summary of opinions from the June monetary policy meeting, which [showed](#) that board members were open to interest rate hikes in the near future, pending the situation with the yen and the inflation outlook next month.

9. State of the Economy

- On Friday, METI [announced](#) that the industrial production index rose 2.8 percent in May from April to 103.6, the [first time](#) in two months the index went up as the auto industry and the electrical and telecommunications machinery industry led the way.
- On Thursday, the GOJ [released](#) its Monthly Economic Report, which maintained the assessment that the economy is “recovering at a moderate pace” though it has been stagnant as of late, for the fifth straight month. The effective jobs-to-applicants ratio in May [fell](#) 0.2 point to 1.24 times; unemployment [remained](#) at 2.6 percent.
- The BOJ [announced](#) that household financial assets rose 7.1 percent at the end of March from the same month last year to ¥2.19 quadrillion, topping the record-high for the fifth consecutive quarter as unrealized gains on stocks and mutual funds increased due to high stock prices.
- On Tuesday, the Cabinet Office [announced](#) that it would correct the revised GDP numbers from the January-March 2024 period on July 1, reflecting changes to the construction index affecting housing and capital investments.
- The BOJ [announced](#) that the services producer price index (SPPI) in May rose 2.5 percent from the same month last year to 106.9, a smaller rate of increase [compared](#) to 2.7 percent in April. Meanwhile, listed companies [increased](#) their cash reserves from FY 2022 by around 9 percent to ¥114 trillion off the back of the weak yen.
- *Nikkei* [reported](#) that inbound tourism has increased fivefold from 2010 to around a nominal value of ¥7.2 trillion in the January-March period, equivalent to the second most profitable export behind automobiles. MOFA [announced](#) that visa issuance also rose threefold last year from the year prior to around 4.16 million.

II. Public Opinion Poll

- A *Mainichi* poll [released](#) on Monday showed Cabinet approval at 17 percent, down three points from May, while disapproval was 77 percent, up three points.
 - 80 percent of respondents said that they do not believe the revised Political Funds Control Act will prevent future incidents like the kickback scandal, while 11 percent said they believe it will.

- 76 percent of respondents said that they believe political fundraising party ticket buyers should be fully disclosed; 14 percent said the ¥50,000 threshold was appropriate; and 3 percent said it should be lower.
- 87 percent of respondents said that they do not believe the ten year disclosure rule for “policy activity fees” will result in political reform, while 7 percent said they believe it will.
- 68 percent of respondents said that the Diet should continue deliberations toward fully banning corporate/organizational donations, while 17 percent said there is no need to continue discussions.
- 79 percent of respondents said that they do not believe that Kishida exemplified leadership in addressing the kickback scandal, while 9 percent said they believe he did exemplify leadership.
- 57 percent of respondents said that they support the introduction of separate surnames for married couples, while 22 percent said they oppose it.
- 70 percent of respondents said that they disapprove of the fixed tax cut as an appropriate inflation relief measure, while 18 percent said they approve.
- 90 percent of respondents said that they do not believe that the bill related to children and childcare will stop the declining population problem, while 2 percent said they believe it will.
- 33 percent of respondents said that they want a CDP-led opposition coalition government after the next general election; 20 percent said a different administration; 15 percent said an LDP-Komeito-Ishin government; and 11 percent said the LDP-Komeito government.
- 39 percent of respondents said that they do not see a good candidate for prime minister in the list provided; 20 percent said Ishiba Shigeru; 9 percent said Takaichi Sanae; 8 percent said Kamikawa Yoko; 7 percent said Koizumi Shinjiro; 6 percent said Suga Yoshihide; 5 percent each said Kishida and Kono Taro; and 1 percent said Motegi Toshimitsu.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	18 (+1)
Constitutional Democratic Party	17 (-3)
Japan Innovation Party (<i>Ishin</i>)	8 (-2)
Komeito	4 (+1)
Japan Communist Party	6 (-1)
Democratic Party for the People	4 (+1)

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Reiwa Shinsengumi	5 (± 0)
Party to Realize Free Education	0 (± 0)
Social Democratic Party	1 (± 0)
Suffrage Party (Sanseitō)	1 (-1)
Party to be Created by Everyone (Ex-NHK)	0 (± 0)
Independent (No Party)	32 (+4)