

The Weekly Observer

July 29-August 2, 2024

The 131st edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the Japan-U.S. “2+2,” the Quad foreign ministers meeting; the ASEAN-related meetings, plans to hold “2+2” meetings with India and Australia, the all-but-confirmed CDP leadership election, the BOJ hiking interest rates, the PM requesting consideration of an AI regulation, METI’s warning to Amazon Japan and Apple on business transparency, the consumer price index as well as labor statistics, and more.

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I. News of the Week

1. Japan-U.S. "2+2" Meeting

- On Sunday, Minister for Foreign Affairs Kamikawa Yoko and Minister of Defense Kihara Minoru met U.S. Secretary of State Antony Blinken and Secretary of Defense Lloyd Austin for the Security Consultative Committee ("2+2") meeting in Tokyo.
- The ministers agreed to establish working groups and discuss counterpart relationships between the JSDF Joint Operations Command and U.S. forces, welcomed the establishment of the Working Group for Future Fighter Training and Readiness, and welcomed the co-development of AMRAAM and upgraded PAC-3.
- The U.S. side will upgrade the USFJ Commander post from one focused on operational support and logistics to one coordinating policies as a counterpart to the JSDF Joint Operations Command.
- The ministers also held the inaugural extended deterrence ministerial, an extension of the regularly held extended deterrence dialogue since 2010. The two sides discussed measures for further strengthening U.S. nuclear posture amid a deteriorating security environment including China, Russia, and North Korea.
- The ministers also held a working dinner, where the two sides discussed women, peace, and security, investment in people for the alliance, and regional affairs.
- Kihara and Austin met with South Korean Minister of National Defense Shin Won-sik and signed the Memorandum of Cooperation on the Trilateral Security Cooperation Framework institutionalizing cooperation and continuing senior-level policy consultations, real-time missile data sharing, and trilateral exercises.

2. Quad Foreign Ministers Meet in Tokyo

- On Monday, Kamikawa hosted U.S. Secretary of State Blinken, Australian Foreign Minister Penny Wong, and Indian Foreign Minister S. Jaishankar in Tokyo for the first Quad foreign ministers' meeting since March 2023.
- In the joint statement, the ministers stated that they are "seriously concerned about the situation in the East and South China Seas," upgrading the language from the 2023 iteration noting the "importance of adherence to international law."
- The ministers expressed "serious concern" about the militarization of disputed features, and coercive and intimidating maneuvers in the South China Sea, an indirect reference to Chinese activities stirring up tensions with the Philippines.

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- The ministers stated that the four countries are “collectively advancing” a positive and practical agenda to support the region’s sustainable development, stability, and prosperity, responding to the region’s needs.
- The ministers said that they would continue to advance the development of a trusted, secure, and robust telecommunications network, and promote supplier diversification. They also committed to a more open, secure, stable, accessible, and peaceful cyberspace.
- The ministers expressed their “deepest concern” over the war in Ukraine and that the use or threat of use of nuclear weapons is unacceptable. They reiterated a need for a comprehensive, just, and lasting peace in line with international law.

3. Kamikawa Attends ASEAN-Related Meetings

- On Saturday, Kamikawa attended the East Asia Summit (EAS), the ASEAN Regional Forum (ARF), and the ASEAN+3 Foreign Ministers’ Meeting in Vientiane, Laos.
- The meetings underscored Japan’s commitment to deepen cooperation with ASEAN member states and to promote policies like the free and open Indo-Pacific.
- At the EAS, she voiced serious concerns about “dangerous and escalatory actions” at Second Thomas Shoal, as well as the fact that Japan is in close communication with the People’s Republic of China toward stabilizing bilateral relations.
- At the ARF, she reiterated the same points, as well as the fact that countries should respect the legitimate rights and interests of all stakeholders in the South China Sea. The discussion included North Korea, Russia, and Gaza.
- At the ASEAN+3 meeting, she welcomed the establishment of a “Rapid Financing Facility” to reinforce the Chiang Mai Initiative Multilateralization, continued support for food security initiatives, and pushing forth women, peace, and security issues.

4. Foreign Policy Developments

- *Yomiuri reported* Friday that the GOJ is arranging to hold a “2+2” meeting with India on September 20 and with Australia in early September, completing “2+2” meetings with all four countries ahead of the Quad leaders’ summit expected in late September.
- The Ministry of Foreign Affairs (MOFA) announced that it will establish a new “regional economic officer” position at the embassies in the United Kingdom and Türkiye, as well as the consulates in Istanbul and Dubai, to support Japanese businesses in the Central Asian market. It has already set up similar positions in ten countries and twelve official locations for the African and Southeast Asian market.

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- On Wednesday, the G7 foreign ministers [issued](#) a statement expressing their solidarity with the people of Venezuela, who peacefully exercised their right to vote in a presidential election characterized by irregularities and lack of transparency.
- On Tuesday, Party to Realize Free Education leader Maehara Seiji [announced](#) that he and ex-LDP Secretary General Ishiba Shigeru would co-lead a cross-party delegation of Diet members focusing on security issues from August 12-14 to Taiwan. The group was invited by Taipei and plans to meet with President Lai Ching-te.
- On Monday, Minister of Education, Culture, Sports, Science and Technology (MEXT) Moriyama Masahito [visited](#) Ukraine for the inaugural “Joint Committee on Education and Science & Technology Cooperation” meeting, which will see twenty Ukrainian students arrive as state-funded exchange students for the next five years.
- On Saturday, Prime Minister Kishida Fumio [welcomed](#) the decision by UNESCO to list the Sado Island Gold Mines on the World Heritage List, following a consensus decision by member states of the World Heritage Committee, including South Korea.

5. Defense/Security Developments

- On Friday, Kihara [announced](#) that he instructed the JGSDF/JMSDF chiefs of staff to investigate reports alleging officers of having committed fraud to receive insurance for falsified injuries. The Ministry of Defense (MOD) had just [warned](#) Vice Minister Masuda Kazuo for not reporting on a separate fraud case involving compensation received for falsified diving data to the minister.
- The MOD [announced](#) that it will establish its “Research Center for Defense Innovation Technology” at Ebisu Garden Place in October. The Center is designed off the United States’ Defense Advanced Research Projects Agency (DARPA) and the Defense Innovation Unit (DIU), which conducts R&D on dual-use technologies.
- The Armed Forces of the Philippines [announced](#) that its navy and the JMSDF conducted communication and tactical exercises in the South China Sea, despite being trailed by two PLAN vessels. The first bilateral naval exercise was held as the JGSDF and U.S. Marine Corps [began](#) its largest joint exercise “Resolute Dragon” in Kyushu and Okinawa on Monday, designed to practice remote island defense.
- *Nikkei* [reported](#) Thursday that the GOJ will require critical infrastructure companies to report to the successor organization of the National center of Incident readiness and Strategy for Cybersecurity (NISC) on cyber attacks, aiming to integrate information and reinforce public-private information sharing for active cyber defense.

- On Tuesday, the Upper House Commission for Oversight of Information Protection decided to instruct Kihara to improve the MOD's information protection protocol, following the mishandling of classified information on thirty-eight JMSDF vessels. Kihara also pledged during the Lower House Committee on Security session to swiftly disclose information on arrests, following news that the MOD only disclosed information on four arrests made by the JSDF police related to compensation derived from falsified diving data after more than six months since the arrests.
- On Monday, Kihara met with Austin and Shin separately for bilateral meetings. With Austin, they agreed to discuss bilateral coordination on command and control and on the importance of cooperation from local communities with U.S. force presence (following U.S. personnel arrests). With Shin, they agreed to coordinate on mutual visits by defense ministers, resume mutual visits by chiefs of staff and between services, and activate unit exchanges including search and rescue exercises (SAREX).

6. Political Developments

- On Tuesday, the main opposition Constitutional Democratic Party (CDP) decided that it will determine election day for its leadership election — expected around September 16 — on August 7. A key decision point will be the partnership a new leader would pursue — leader Izumi Kenta on Friday agreed to resume policy talks with the Democratic Party for the People.
- LDP Upper House Diet member Hirose Megumi left the party after prosecutors searched her house and Diet office over allegations that she defrauded the state, receiving over ¥4 million in salary for a public secretary that did not work for her. Her staff explained that she struggled to make ends meet as a first-term lawmaker, even having other Diet member staff support the office, including the fraud scheme.
- The GOJ hosted the “Drug Development Ecosystem Summit,” where it indicated a five-year plan to double private investment into pharmaceutical startups and produce at least ten companies with a corporate value of over ¥10 billion.
- On Monday, the Cabinet Office presented at the Economic and Fiscal Policy Council meeting a projection that Japan will hit a positive primary balance (revenue exceeds expenditures) for the first time in FY2025 largely due to an increase in tax revenue. However, the positive balance is relatively small and could easily swing back into a negative balance if the GOJ does not restrain its spending.
- The Cabinet approved the budget request guidelines for FY 2025, it would require a 10 percent cut in discretionary spending (¥14 trillion) from FY2024 levels and instead create a special appropriation of ¥4 trillion, equivalent to triple the 10 percent cut, for key policies like childcare and defense.

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- Kishida convened the first meeting of the HQ to prevent discrimination against people with disabilities, following a Supreme Court ruling earlier this month determining the defunct Eugenics Protection Law unconstitutional. He instructed for a swift settlement of the court case given the aging plaintiffs and indicated that the GOJ would craft an action plan to ensure measures are taken to root out the issues.

7. BOJ Hikes Interest Rates to 0.25 Percent

- On Wednesday, the Bank of Japan (BOJ) decided at its monthly monetary policy meeting to raise its policy interest rate from 0-0.1 percent to 0.25 percent, a clear indication that Japan is heading back to a “world with interest rates.”
- Governor Ueda Kazuo explained that the BOJ made the decision with the understanding that the hike would “not have a strong negative impact on the economy” given low real interest rates. He added that it is better to gradually raise rates and that 0.25 percent was appropriate to ensure inflation did not get out of hand.
- The BOJ also decided to cut back on its purchase of JGBs, reducing purchases by around ¥400 billion per quarter and then halving total purchases to around ¥3 trillion by the final quarter of FY 2025. This is expected to water down the BOJ’s share of JGBs from the current near 54 percent by 7-8 percent.
- The BOJ’s Outlook for Economic Activity and Prices report downgraded core consumer price index (CPI) in FY 2024 from 2.8 percent to 2.5 percent, while upgrading the CPI in FY 2025 to 1.9 percent to 2.1 percent. It noted that there is an upside risk as instability continues in the economic situation across the world.
- Experts believe that the BOJ will hike rates again by the end of the year and is likely to continue doing so at a steady pace as long as its economic outlook is in sync with real economic performance.
- Meanwhile, the yen appreciated to ¥146 to the dollar on Friday, as investors reacted to the BOJ’s rate hike and the U.S. employment statistics that show a slowing economy — therefore the low likelihood of a further rate hike and a narrowing gap between the Japanese and U.S. policy interest rate. Experts claim the yen could appreciate to as much as ¥141 to the dollar by the end of the year.

8. Economic Security and Tech Developments

- On Friday, Kishida instructed the expert panel considering AI regulations to consider all measures, including legislation, based on four principles: balancing AI safety and enhancing competitiveness; a flexible regulatory system to adapt to technological

changes; adherence to international guidelines; and appropriate procurement and use by the GOJ. The GOJ [aims](#) to submit a bill at next year's ordinary Diet session.

- *Reuters* [reported](#) Thursday that the Biden Administration will soon tighten export control restrictions to prevent certain Chinese chipmakers from receiving a broader array of semiconductor manufacturing equipment, while excluding key allies like Japan and Netherlands from the new restrictions.
- On Wednesday, the GOJ [indicated](#) its basic position on the security clearance system during an expert panel meeting, which will [require](#) ministries and agencies to select a handler to oversee the approval process, as well as the private sector to set up a handler overseeing the clearance process too.
- Advanced Semiconductor Engineering (ASE), a Taiwanese company and leading provider of semiconductor packaging and test manufacturing services, [announced](#) on Friday that it will acquire approximately 160,000 square meters of land in Kitakyushu City, Fukuoka, for USD 23.4 million (JPY 3.4 billion).
- *Nikkei Asia* [reported](#) Monday that the GOJ is considering an “exceptional” bill for the fall extraordinary Diet session to guarantee loans for the state-backed chip foundry Rapidus. The GOJ, which has committed around ¥1 trillion to the startup, aims to assist Rapidus in filling the ¥3-4 trillion funding gap it needs to achieve its goal of mass-manufacturing advanced 2-nanometer chips by 2027
- The finance ministry’s Fiscal System Council [recommended](#) that the financial investment and loan program (FILP) — an investment and lending program using non-tax funding like FILP bond issuance and dividends from government-held shares — be utilized to support growth sectors such as supply chain resilience in critical areas like semiconductors. The GOJ will also closely scrutinize companies receiving the “industrial investment” funds, which it requested a record-high ¥474.7 billion

9. Key Economic/Financial Developments

- On Friday, the Ministry of Economy, Trade and Industry (METI) [advised](#) Amazon Japan and Apple to improve transactions with companies that use their platforms. Amazon was [advised](#) to be more transparent about selling fees, while Apple missed its deadline to provide app providers with Japanese terms and conditions.
- On Thursday, the GOJ [announced](#) that outgoing Vice Minister of Finance for International Affairs Kanda Masato — dubbed “Reiwa’s Mr. Yen” for orchestrating forex intervention during his tenure [amounting](#) to ¥24 trillion — as special advisor to the Cabinet on finance and international economy.

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- On Tuesday, Kishida [instructed](#) his Cabinet to [compile](#) a policy package by the end of the year outlining efforts toward a circular economy, such as recycling used solar panels. On Wednesday, he [instructed](#) the Cabinet to [finalize](#) new rules to promote private sector investment into decarbonized energy and broad-area power grids.
- The South Korean government [announced](#) that it will chair, with Japan as vice chair, the Indo-Pacific Economic Framework for Prosperity's (IPEF) crisis response network, which aims to develop a system for the stable procurement of critical commodities like chips and critical minerals amongst the members during a crisis.
- Chief Cabinet Secretary Hayashi Yoshimasa [said](#) that the GOJ welcomes the decision by Aomori Prefecture Governor Miyashita Soichiro to approve the siting of the interim storage facility for spent nuclear fuel in Mutsu City. The prefecture said in May that it wants the spent fuel out of the city “within fifty years” from storage.
- *Nikkei* [reported](#) Monday that Mitsubishi Motors plans to join the Honda-Nissan coalition, rivaling the Toyota coalition as Japan’s second largest grouping of automotive manufacturers, in a bid to [survive](#) the EV competition dominated by foreign competitors like Tesla, BYD, and Xiaomi.

10. State of the Economy

- On Wednesday, the Cabinet Office (CAO) [announced](#) that the seasonally adjusted consumer confidence index in July [improved](#) for the second consecutive month, up 0.3 point to 36.7, as consumers perceived better prospects for future livelihoods.
- The CAO maintained the assessment that “improvement is stagnating.” Out of the four indicators, overall livelihood, employment, and willingness to buy durable goods improved by less than one point, while income growth fell 0.2 point.
- METI [announced](#) that the seasonally adjusted industrial production index in June fell 3.6 percent to 100.6, the [first decrease](#) in two months as the automotive and production machinery sector failed to produce due to scandal or decrease in exports.
- On Tuesday, the Ministry of Health, Labor and Welfare (MHLW) [announced](#) that the seasonally adjusted jobs-to-applicants ratio in June was 1.23 times, down 0.01 point from the previous month, as inflation [contributed](#) to more jobs in high-earning sectors but a cutback in open positions due to higher labor costs.
- This was the third consecutive month the ratio fell and at a rate last seen in March 2022. Meanwhile, the Ministry of Internal Affairs and Communications [found](#) the unemployment rate fell 0.1 point to 2.5 percent, the first improvement in five months.

II. Public Opinion Poll

- A *Nikkei* poll [released](#) on Monday showed Cabinet approval at 28 percent, up three points from June, while disapproval was 64 percent, down three points.
 - 32 percent of respondents each said that they want the prime minister to focus on inflation relief, the economy in general, pensions, and childcare/education/addressing the declining birth rate.
 - 57 percent of respondents said that the GOJ should end the old-age pension for active employees — pension cuts for high earning seniors — to encourage employment, while 29 percent said it should not be changed due to issues like securing funding.
 - 47 percent of respondents said that they believe the Diet should amend the law governing campaign posters following numerous incidents during the Tokyo gubernatorial race; 35 percent said the public notice boards should be scrapped or decreased; and 11 percent said there is no need to amend the law.
 - 69 percent of respondents said that they support separate surnames for married couples, while 23 percent said they oppose such a system.
 - 55 percent of respondents said that they want Kishida to continue as prime minister until the end of his term as LDP president in September; 25 percent said they want him out immediately; and 13 percent said as long as possible.
 - 33 percent of respondents said that they believe the Lower House should be dissolved for an election by the fall; 22 percent said there is no reason to rush; 16 percent said by the end of the year; 12 percent said on the same day as the Upper House election next summer; and 7 percent said by next spring.
 - 36 percent of respondents said that they want the ruling coalition and opposition parties to be competitive after the next general election; 27 percent said they want a change in government; and 24 percent said they want the LDP and Komeito to maintain power.
 - 24 percent of respondents said that, out of the choices, they would like Ishiba Shigeru to be the next LDP president; 23 percent said they can't say or don't know; 15 percent said Koizumi Shinjiro; 8 percent said Takaichi Sanae; 6 percent each said Kishida and Kamikawa Yoko; 5 percent each said Kono Taro and Suga Yoshihide; 2 percent each said Noda Seiko and Hayashi Yoshimasa; and 1 percent each said Motegi Toshimitsu, Obuchi Yuko, and Kobayashi Takayuki.
 - 30 percent of respondents said that they plan to vote for the LDP in the upcoming general election; 18 percent said undecided; 13 percent said the CDP; 11 percent said the Japan Innovation Party; 5 percent said Komeito; 4 percent said the JCP; 3 percent each said the DPFP and *Reiwa Shinsengumi*; and 1 percent each said the SDP and the *Sanseitō*.
- The survey also collected data on the latest approval ratings of political parties.

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Political Party	Approval Rating (%)
Liberal Democratic Party	32 (+1)
Constitutional Democratic Party	10 (+1)
Japan Innovation Party (<i>Ishin</i>)	6 (-3)
Komeito	5 (+2)
Japan Communist Party	3 (-1)
Democratic Party for the People	2 (± 0)
Reiwa Shinsengumi	2 (± 0)
Social Democratic Party	1 (+1)
Suffrage Party (Sanseitō)	1 (± 0)
Independent (No Party)	35 (+2)