

The Weekly Observer

October 30-November 3, 2023

The 95th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the G7 Guiding Principles and Code of Conduct for AI regulators, the Japan-Philippines summit meeting, Japan's additional aid for the situation in Gaza, a possible Japan-U.S. economic "2+2" on the sidelines of APEC, the Japan-U.K. "2+2" next week, the GOJ's economic stimulus package, the PM's forceful pursuit of the tax cut plan, the second political scandal for the reshuffled cabinet, the G7 Trade Ministers' Meeting, the BOJ's revision of yield curve control policy, Japan-Vietnam agreement on supply chain resilience, Toyota's record-high profit margins, the BOJ's inflation outlook and the GOJ's Monthly Economic Report, and more.

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I. News of the Week

1. G7 Issues AI Guiding Principles and Code of Conduct
 - On Monday, the leaders of the G7 countries [jointly released](#) the Hiroshima AI Process International Guiding Principles and International Code of Conduct for Organizations Developing Advanced AI Systems.
 - The guiding principles [list](#) eleven principles for developers to follow, including taking measures to evaluate and mitigate risks across the AI lifecycle and deploying content authentication measures like watermarking to enable the identification of AI-generated content.
 - The code of conduct — to be reviewed and updated regularly — [lists](#) specific measures that AI developers are recommended to take, like devoting particular attention to the risk of AI use for undemocratic acts including creating weapons of mass destruction or violating international human rights law.
 - The G7 [aims](#) to craft a comprehensive policy framework by the end of the year. It plans to consult government, academia, civil society, and the private sector, including G7 and non-G7 countries in the development of this framework. The leaders' statement also said that each G7 country will develop an action plan by year-end for the further advancement of the Hiroshima AI Process.
 - Following the release, Prime Minister Kishida Fumio [participated](#) virtually in the U.K.-hosted AI Safety Summit on Thursday. He emphasized that Japan aims to lead international rulemaking on AI regulations.
2. Japan and Philippines Seek “Quasi-alliance”
 - On Friday, Kishida [departed](#) Japan to travel to the Philippines and Malaysia from November 3-5. He first landed in Manila for a meeting with Ferdinand Marcos Jr.
 - Kishida and President Marcos [welcomed](#) the start of negotiations on the Reciprocal Access Agreement (RAA) — designed to streamline military-to-military engagement — and agreed to enhance further collaboration in areas like cybersecurity and economic security through the promotion of Japan-U.S.-Philippines cooperation.
 - The leaders agreed to follow through on the ¥600 billion infrastructure support by the public and private sectors to aid President Marcos' “Build Better More” policy. They also agreed to promote cooperation in areas like improving the investment environment, information and telecommunications, smart agriculture, decarbonization and energy including collaboration on the Asian Zero Emission Community (AZEC).

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- In the presence of the leaders, Ambassador to the Philippines Koshikawa Kazuhiko and Secretary of Foreign Affairs Enrique A. Manalo signed and exchanged notes for ₱600 million in “official security assistance” (OSA) grant aid to provide coastal radar systems to the Armed Forces of the Philippines in light of significant maritime security threats it faces in the South China Sea.
- *Sankei reports* that Kishida will likely deliver the first policy speech to the National Assembly of the Philippines by a Japanese prime minister on Saturday, stressing the importance of deepening bilateral security ties amid challenges in the region.

3. Japan Issues Additional \$65 Million Emergency Aid for Situation in Gaza

- On Thursday, Minister for Foreign Affairs Kamikawa Yoko departed for her visit to Israel, Palestine, and Jordan from November 2-5 amid the Israel-Hamas conflict.
- Kamikawa met Israeli Foreign Minister Eli Cohen on Friday and condemned the recent terror attacks by Hamas and others and expressed Japan’s solidarity with Israel. She said that a humanitarian pause is necessary and that all parties must act in accordance with international law, including international humanitarian law.
- Kamikawa also met Palestinian Foreign Minister Riad Malki and reiterated Japan’s position calling for the immediate release of hostages and securing the safety of citizens; all parties act in accordance with international law; and calming down the situation swiftly. She said that Japan is prepared to provide \$65 million in humanitarian aid and relief supplies for Palestine for the time being.
- Meanwhile, MOFA announced that a JSDF aircraft carrying forty-six passengers (20 Japanese, 15 Koreans, 4 Vietnamese, and 1 Taiwanese) arrived in Japan from Israel. Kamikawa announced on Thursday that a further ten Japanese nationals had evacuated the Gaza Strip through land routes to Egypt.
- On Tuesday, the GOJ announced that it would freeze the assets of nine individuals and one organization involved in terror acts linked to Hamas. Further, Kishida explained on Monday that Japan abstained from a UN vote on the “humanitarian pause” resolution tabled on October 27 because it lacked balance, not condemning Hamas’s terrorist acts or including the importance of protecting one’s nation based on international law.

4. Foreign Policy Developments

- On Friday, Kamikawa issued a statement condemning Russia’s decision to revoke its ratification of the Comprehensive Nuclear Test Ban Treaty (CTBT) and urged it to show its commitment to the nuclear disarmament and non-proliferation regime.

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- *Nikkei* [reported](#) Wednesday that Japan plans to invite the five Central Asian countries — Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan — to join a G7 foreign ministers' session dedicated to Central Asia on November 8. The G7 seeks to deepen ties with the resource-rich countries amid Russian and Chinese overtures.
- *Sankei* [reported](#) Tuesday that Kishida is arranging to attend the COP28 climate change conference scheduled to be held in the UAE from November 30-December 12. He will likely take part in the World Action Climate Summit on December 1-2 to showcase Japan's efforts to tackle climate change.
- MOFA [announced](#) that it formally lodged a protest with the Chinese government over suspected unauthorized marine surveys (lowering wire) within Japan's exclusive economic zone (EEZ) around 334 kilometers west of Amami Oshima.
- *Sankei* [reported](#) Monday that Japan and the United States are arranging to hold the second Economic Policy Consultative Committee Meeting (economic “2+2”) on the sidelines of the APEC Summit on November 14-15. They will likely discuss deepening economic security cooperation in the face of Chinese assertiveness.
- On Saturday, Japan and the European Union (EU) [agreed](#) in principle to include provisions on the free flow of data into the Japan-EU Economic Partnership Agreement (EPA), which will [likely make it easier](#) for businesses to expand operations in Europe as it prohibits measures like requiring domestic data storage.

5. Defense/Security Developments

- *Mainichi* [reported](#) Friday that the LDP and Komeito will resume working team (WT) talks on November 8 for the first time in two months toward the revision of the Three Principles on Transfer of Defense Equipment and Technology. The two parties still disagree on the transfer of co-developed equipment and permissible export categories.
- MOFA [announced](#) Thursday that Kamikawa and Minister of Defense Kihara Minoru will meet with British Foreign Minister James Cleverly and Defense Minister Grant Shapps on November 7 for the fifth Japan-U.K. Security Consultative Committee meeting (“2+2”). This comes amid deepened bilateral security ties such as bilateral exercises under the RAA and the next-generation fighter jet program with Italy.
- MOD [announced](#) that Japan has delivered the first air surveillance radar system to the Philippine Air Force under a 2020 contract between Mitsubishi Electric and the Philippine Defense Department. This is the [first delivery](#) of completed equipment since the GOJ issued the three principles on defense transfers in 2014.

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- MOD [announced](#) Tuesday that Special Adviser to the Defense Minister Wada Yoshiaki met with Italian Defense Minister Guido Crosetto and U.K. Minister Shapps in Rome on Sunday to discuss the next-generation fighter jet program. *Reuters reported* that the Italian defense ministry said a treaty for the Global Combat Air Program (GCAP) will be signed in Tokyo by the end of the year.
- MOD and METI [held](#) the second meeting (first in September) to exchange opinions with four startups looking to enter the defense industry. The GOJ aims to encourage market entry to better utilize civilian technology for defense.
- MOD [announced](#) that a suspected Russian helicopter violated Japanese airspace off the coast of Nemuro, Hokkaido. Though for a very short time, this was the [first violation](#) of Japanese airspace by the Russians since March.

6. GOJ Announces ¥17 Trillion Economic Stimulus Package

- On Thursday, the GOJ [released](#) the contents of its economic stimulus package, which amounted to ¥17 trillion (project value of ¥37.4 trillion) and will be partially financed (¥13.1 trillion) by a supplementary budget to be submitted to the Diet.
- The package has [five pillars](#): protecting citizens' lives from inflation; realizing regional growth and income improvements through sustained wage hikes; promoting domestic investment in growth and critical sectors (e.g., semiconductors/GX); pursuing social reform to combat the declining birth rate; and national resilience.
- Public focus on the package has been on pillar one, which includes a flat-rate ¥30,000 income and ¥10,000 resident tax cut in June 2024 and a ¥70,000 cash handout for tax-exempt low-income households as early as by year-end (+ ¥30,000 from 2022).
- Kishida [explained](#) during a press conference that the package has been split into two phases — the first to deal with emergency inflation relief by year-end and the second to raise income starting next spring to the summer. He said that the package is designed to put an end to the long period of deflation.
- The GOJ [plans](#) to use part of the ¥5 trillion from leftover FY 2022 and 2023 reserve funds appropriated for the pandemic response, inflation relief, and high energy cost resulting from the war in Ukraine, to finance the supplementary budget.

7. PM "Forces" Through Tax Cut Inclusion in Stimulus Package

- This week, Kishida took time to defend the income tax cut despite strong opposition from within the ruling coalition. He [explained](#) that the tax cut aims to increase disposable income for citizens, especially households with children.

- Though Kishida touted the tax cut as necessary for the country to move away from deflation, many have questioned the effectiveness of the measure to combat inflation, with 65 percent of respondents in a recent *Nikkei* poll suggesting that a tax cut is not the appropriate way to deal with inflation.
- Kishida faced tough opposition from within the LDP, with members of the leadership like policy chief Hagiuda Koichi arguing that a tax cut and cash handouts would be too burdensome for local governments to handle. General Council Chair Moriyama Hiroshi also warned of the difficulties of ending this as a one-shot measure (Hashimoto Cabinet's tax cut remained in place for nine years until 2007).
- Others were unhappy with the prime minister pre-announcing the plan before discussions took place in the LDP Tax Research Commission, traditionally tasked with forming consensus on important tax-related matters. Reports stated that several lawmakers openly opposed the tax cut during a policy council meeting on October 31.
- A key question going forward is whether the tax cut will be a one-off measure like Kishida indicated on Tuesday. Both Hagiuda and Komeito leader Yamaguchi Natsuo suggested that the tax cut could be extended beyond 2024, possibly affecting the timing of the tax hike for defense and childcare spending postponed by at least a year.

8. Political Developments

- On Thursday, TEPCO began releasing its third batch of ALPS-treated water from the Fukushima Daiichi nuclear power plant. It will continue releasing 7,800 tons of water until November 20. It plans to release another batch this fiscal year.
- The GOJ announced that it will pay for the added expenses to construct the Osaka EXPO 2025 venue as part of the supplementary budget to be submitted to the Diet. Costs have almost doubled from original estimates to as much as ¥235 billion.
- In another blow to Kishida, State Minister of Justice Kakizawa Mito (Tokyo-15) resigned on Tuesday over allegations that he suggested that then-candidate Kimura Yayoi use illegal internet ads during her campaign for mayor of Koto ward, part of his district. Kimura has since resigned and is under investigation for violating the Public Offices Election Act. Kakizawa is also under scrutiny for possible vote-buying.
- Digital Minister Kono Taro announced that a working group under the Regulatory Reform Promotion Council will hold a meeting on November 6 to hear from service providers about the possibility of introducing ridesharing services in Japan.
- On Monday, the Naha branch of the Fukuoka High Court convened the first oral arguments over the relocation of U.S. Marine Corps Air Station Futenma to Henoko.

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The Okinawa government emphasized public opposition to the plan, while the GOJ accused Okinawa of illegally holding up the relocation. The hearing concluded on the same day. The Court will decide the date of its judgment on a later day.

- *Jiji reported* that the Immigration Bureau of Japan is arranging to ease requirements for foreign entrepreneurs to obtain residency status in the country. It could permit a two-year grace period from meeting the existing requirements — securing a place of business and having two or more employees or a capital fund of at least ¥5 million.

9. G7 Trade Ministers Emphasize Free and Fair Trade and Economic Resilience

- METI Minister Nishimura Yasutoshi and Foreign Minister Kamikawa participated in the G7 Trade Ministers' Meeting from October 28-29 in Osaka-Sakai. Australia, Chile, India, Indonesia, and Kenya joined the G7 ministers.
- Four sessions were held to discuss trade and sustainability; ensuring a level playing field; the 13th WTO Ministerial Conference; and economic coercion and enhancing supply chain resilience.
- In the joint statement, the ministers committed to working towards substantial WTO reform, ensuring a global level-playing field by discouraging protectionism and market distorting practices, and the need for cooperation to secure resilient and reliable supply chains for things like critical goods.
- The ministers also agreed to continue joint efforts to address economic coercion, ensure rapid information sharing, and collectively explore responses. They reaffirmed the importance of facilitating Data Free Flow with Trust (DFFT). In addition, they committed to promoting a circular economy and tackling decarbonization.
- The ministers acknowledged the importance of infrastructure and capacity building to enable developing countries to take part in multilateral trade. The G7 members also strongly called for the immediate repeal of unnecessary trade restrictions, including the import restrictions on Japanese food products (without naming China).

10. BOJ Tweaks YCC But Not Negative Interest Rate Policy

- On Tuesday, the Bank of Japan (BOJ) made another adjustment to the yield curve control (YCC) framework, introducing more policy flexibility and using 1 percent as a new reference point for ten-year JGB yields.
- The BOJ dropped the wording that ten-year yields should fluctuate around plus or minus 0.5 percent, but maintained the overall framework of targeting short-term rates at minus 0.1 percent and ten-year yields at around zero.

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- The BOJ statement omits references to consecutive unlimited fixed-rate purchases of JGBs, suggesting that it will take a more flexible approach toward interest rates. Governor Ueda Kazuo said in a press conference that the tweak was intended to put interest rates back in the hands of market players.
- The move is [viewed](#) as a response to long-term interest yields outpacing the BOJ's anticipation. On Tuesday, the yield reached a decade high of 0.955 percent, close to the 1 percent "cap" set by Governor Ueda. This does not mean the Bank will not intervene if the yield excessively rises above 1 percent.
- *Nikkei* [reports](#) that the Bank could revise its negative interest rate policy as early as January 2024, though it would depend on inflation, the external economic situation, market environment, and political considerations.
- Following the decision, the yen [weakened](#) to ¥150 to the dollar, prompting speculation about a possible intervention by the GOJ/BOJ, while the Nikkei Stock Average [rose](#) 2.41 percent on Wednesday to ¥31,601 as investors expect higher returns from export-related stocks given the weaker yen.

11. Economic Security Developments

- On Friday, METI Minister Nishimura [traveled](#) to Hanoi and held a meeting with Minister of Industry and Trade Nguyễn Hồng Diên. The ministers [agreed](#) to enhance supply chain resilience by promoting investment by Japanese companies, cooperation between companies, and continue to work on measures like supply chain diversification subsidies.
- On Thursday, MinebeaMitsumi [announced](#) that it will acquire Hitachi Power Device, a segment of Hitachi, for around ¥40 billion, in an effort to strengthen its capacity to develop power chip-related technologies.
- On Wednesday, Renesas Electronics [announced](#) that it began mass production of high-performance microcomputers with central processing units (CPU) made by U.K. semiconductor and software design company Arm. To be used in fingerprint scanners and robots, its operating frequency (calculation speed) is up to 480 megahertz, double that of conventional products.
- Rohm Semiconductor President Matsumoto Isao [said](#) that his company will discuss joint ventures with Toshiba — which it purchased stocks worth ¥300 billion in — once the company goes private at the end of the year.
- On Tuesday, SBI Holdings and Taiwanese chip contract manufacturer Powerchip Semiconductor Manufacturing Corp. (PSMC) [announced](#) that they will invest more

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than ¥800 billion to construct a chip manufacturing facility in Ohira, Miyagi. The first phase is expected to yield production equivalent to 10,000 twelve inch wafers in 2027. PSMC will send up to 250 employees to Japan.

- On Monday, U.S. computer drive manufacturer and data storage company Western Digital [announced](#) that it will separate the NAND data storage flash memory business, following the failure of merger talks with Kioxia.

12. Key Economic/Financial Developments

- *Nikkei* [reported](#) Friday that the MHLW will consider raising nursing care insurance premiums for those over 65 years of age in higher income brackets starting FY 2024 to lower costs for low-income earners. One proposal is to set the income target above ¥4.1 million, which includes 1.4 million people or 4 percent of the senior population.
- On Thursday, the Government Pension Investment Fund (GPIF), one of the world's largest institutional investors, [announced](#) that its profit in the third quarter of 2023 was a ¥683.2 billion deficit, the first negative quarter in three quarters due to decline in bond prices resulting from higher domestic interest rates.
- On Wednesday, the Nuclear Regulation Authority (NRA) [approved](#) the extension of the operating lifetimes of the No. 1 and No. 2 reactors at Kyushu Electric Power Co.'s Sendai nuclear power plant in Kagoshima to sixty years. The number of power plants with a lifetime over forty years will reach seventeen in the next ten years.
- Toyota Motor [announced](#) that its profit in April-September 2023 was a record-high ¥2.56 trillion, outpacing Tesla's profit margin in the same period. Toyota's [margin](#) was 11.8 percent, beating Tesla's 9.4 percent aided by a weak yen and price hikes.
- On Tuesday, METI Minister Nishimura [met](#) with Canadian Minister of Small Business, Export Promotion and International Trade Mary Ng to discuss promoting bilateral cooperation and exchange views on the CPTPP and deliverables from the G7 Trade Ministers' Meeting.
- The Japan Atomic Energy Agency (JAEA) [agreed](#) to expand cooperation with U.S. nuclear reactor design and development engineering company TerraPower toward the development of a fast reactor, the next generation of nuclear power generation. It will obtain technical support for the conceptual design of a demo reactor to commence sometime after FY 2024.

13. State of the Economy

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- On Friday, the JTUC Research Institute for Advancement of Living Standards — RENGO's think tank — finalized a survey that showed only 6.9 percent of respondents believe their wages have outpaced inflation in the last year.
- On Tuesday, CAO released its October Consumer Confidence Survey, which showed the index up 0.5 points from last month at 35.7, the first improvement in three months. Of the four categories — overall livelihood, income growth, employment, and willingness to buy durable goods — the three other than employment rose.
- MHLW announced that the seasonally adjusted jobs-to-applicants ratio in September was 1.29 times, unchanged from August. While the service sector increased employment, manufacturing and construction cut back due to high resource costs. The unemployment rate announced by MIC fell 0.1 point to 2.6 percent.
- The BOJ's Outlook Report revised upward core CPI in 2023 and 2024 to 2.8 percent and in 2025 to 1.7 percent, respectively, noting the possibility of realizing a positive cycle of wage and inflation hikes in FY 2025.
- On Monday, the GOJ released October's Monthly Economic Report, which maintained that the economy is “recovering at a moderate pace” for the sixth straight month. It noted that though the economy is expected to continue this path in the short-term, there is a downside risk from a global economic slowdown, including the effects of global monetary tightening and concerns about the Chinese economy.
- CAO announced that there are approximately 5.3 million “potential workers” in Japan that are either working shorter hours as part-time workers or lack the necessary skills to move up the career ladder. Developing these workers will help resolve the labor shortage despite historically low unemployment rates.

II. Public Opinion Poll

- A *Nikkei* poll released on Monday showed Cabinet approval rating was 33 percent, down nine points from September, while disapproval was 59 percent, up eight points and the highest disapproval rating since Kishida took office and the LDP regained power in 2012.
 - 38 percent of respondents said that they want Kishida to focus on inflation relief; 36 percent said the economy in general; and 32 percent said childcare, education, and addressing the declining birth rate.
 - 58 percent of respondents said that they have no expectations for the GOJ's economic stimulus package, while 37 percent said they have expectations.
 - 35 percent of respondents said that they want the GOJ to use surplus tax revenue to implement a tax cut; 26 percent said to finance policies like defense spending and childcare; 20 percent said to pay back bond debt; and 14 percent said for cash handouts.

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- 65 percent of respondents said that they do not believe an income tax cut is the appropriate policy to combat inflation, while 24 percent said they believe it is.
- 46 percent of respondents said that they support Kishida's efforts to raise wages and provide tax breaks to companies to promote investment, while 38 percent said they oppose such efforts.
- 45 percent of respondents said that they support the introduction of ridesharing services in Japan, while 39 percent said they oppose it.
- 45 percent of respondents said that they disapprove of the GOJ's diplomatic efforts concerning the situation in the Middle East, while 34 percent said they approve.
- 42 percent of respondents said that they believe there is no need to rush the dissolution of the Lower House to call a general election; 18 percent said that it should happen in the first half of next year; 15 percent said by the end of the year; and 14 percent said by the LDP presidential election in September 2024.
- 29 percent of respondents said that they plan to vote for the LDP or an LDP candidate in the upcoming general election; 17 percent said undecided; 13 percent said Ishin; 10 percent said CDP; 5 percent each said Komeito and the DPFP; 4 percent each said the JCP and Reiwa Shinsengumi; and 2 percent said Sanseitō.
- 45 percent of respondents said that they have more hopes for Ishin as an opposition party than the CDP; 27 percent said the CDP; and 18 percent said neither was better.

- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	32 (-6)
Constitutional Democratic Party	9 (+3)
Japan Innovation Party	9 (-2)
Komeito	5 (+1)
Japan Communist Party	4 (-1)
Democratic Party for the People	3 (±0)
Reiwa Shinsengumi	3 (±0)
Social Democratic Party	1 (+1)
Suffrage Party (Sanseitō)	1 (±0)
Independent (No Party)	30 (+6)