

## ***The Weekly Observer***

May 12-16, 2025

*The 172<sup>nd</sup> edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the upcoming third round of Japan-U.S. tariff negotiations, LDP Vice President Aso's attendance at Pope Leo XIV's inaugural mass, enactment of the "active cyber defense" bill, the continuing debate over consumption tax cuts, the GOJ's submitted pension system reform bill, developments over regulations surrounding corporate political donations, GOJ efforts toward establishing a critical technologies research center, the start of utilizing the security clearance system, the GOJ's investment plan for SMEs, news that nominal GDP is expected to exceed ¥600 trillion for the first time, and more.*

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

### **1. Third Round of Tariff Negotiations Could Take Place Next Week**

- NHK [reported](#) Friday that Japan's chief tariff negotiator Akazawa Ryosei is preparing to visit Washington, D.C., late next week for the third round of negotiations with the United States. The GOJ has repeatedly emphasized its desire for complete removal of tariffs and that a deal without automobile tariffs is "[unacceptable](#)."
- On Monday, Prime Minister Ishiba Shigeru [instructed](#) the ruling Liberal Democratic Party (LDP) to accelerate preparations for negotiations with the United States on 1) expanding trade, 2) non-tariff barriers, and 3) economic security cooperation.
- *Mainichi* [reported](#) Wednesday that the GOJ may look to "re-import" Japanese vehicles manufactured in the United States as a way of reducing the trade surplus, as Japanese cars are more likely to sell in Japan than U.S.-branded vehicles. The GOJ also [reportedly proposed](#) shipbuilding cooperation, including in areas such as ship repairing and supply chain resilience.
- Meanwhile, JA-Zenchu Chair Yamano Toru [urged](#) Akazawa on Thursday not to unilaterally make concessions on agricultural products. Akazawa reassured that agriculture would not be sacrificed for a deal. LDP Secretary General Moriyama Hiroshi [told](#) a group of agricultural industry figures that an increase in rice imports is not on the table in negotiations with the United States.
- On Tuesday, Minister of Finance Kato Katsunobu [revealed](#) that he is exploring a meeting with U.S. Secretary of the Treasury Scott Bessent to discuss currency rates on the sidelines of the G7 Canada finance ministers and central bank governors' (FMCBG) meeting in Banff, Alberta, from May 20-22.
- On Friday, Minister of Economy, Trade and Industry (METI) Muto Yoji [met](#) with U.S. Ambassador-Designate to Japan George Glass to discuss the importance of win-win bilateral relations and to convey Japan's position on the tariff measures.

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

- On Sunday, Ambassador on Special Mission Aso Taro [attended](#) the Solemn Ceremony of the Inauguration of the Pontificate of His Holiness Pope Leo XIV in the Vatican on behalf of the GOJ. Aso expressed his congratulations to Pope Leo XIV and met with other attendees, including U.S. Vice President J.D. Vance.
- On Saturday, the Ministry of Foreign Affairs (MOFA) [announced](#) that Vice Minister Funakoshi Takehiro had visited Washington, D.C., from May 15-16 to meet with Deputy Secretary of State Christopher Landa, Deputy National Security Advisor Alex

Wong, and others. They exchanged views on bilateral cooperation and the importance of strengthening coordination among like-minded countries in the Indo-Pacific.

- On Wednesday, MOFA [issued](#) a statement expressing that it is “extremely regrettable” that China has been advancing unilateral development of a new structure on the west side of the geographical equidistance line between Japan and China in the East China Seas, while the exclusive economic zone and continental shelf has not been delimited.
- On Tuesday, Minister for Foreign Affairs Iwaya Takeshi [met](#) with World Trade Organization (WTO) Director-General Ngozi Okonjo-Iweala and welcomed the joint press release issued by both sides, confirming the close cooperation between Japan and the WTO toward strengthening the multilateral trading system and advancement of WTO reform.
- Iwaya [held](#) a meeting with Israeli Foreign Minister Gideon Sa’ar, where he strongly urged all parties, including Israel, to return to negotiations and to work in good faith towards the continuation of the ceasefire argument. He also strongly called for adherence to international law and emphasized that further escalation is by no means in the interest of the entire international community.
- On Sunday, Ishiba [met](#) with President Gabriel Boric Font of Chile, in which he stated that Japan would like to further deepen bilateral cooperation in mining, an area where Chile is the largest supplier of copper and lithium. The two also discussed a wide range of economic issues, including the U.S. tariff measures.

### 3. Defense/Security Developments

- On Friday, the Diet [enacted](#) legislation introducing “active cyber defense,” centered around 1) utilization of communications information, 2) accessing and neutralizing cyber threats, and 3) public-private cooperation including incident reporting. A “National Cyber Coordination Office” is [expected to be launched](#) in July.
- *Asahi* [published](#) an interview with Vice Admiral Andrew J. Tiongson, commander of the Pacific Area Command of the U.S. Coast Guard, who revealed that the U.S., Japanese, and Filipino coast guards will hold their first joint exercise in waters near Japan next month. He emphasized the importance of an integrated coast guard front in the face of “illegal” Chinese actions in the East and South China Seas.
- On Wednesday, a JASDF T-4 trainer aircraft carrying two passengers [crashed](#) into a lake in Inuyama City, Aichi. Minister of Defense Nakatani Gen [told](#) reporters on Friday that body parts of what appears to be a crew member was found near the crash site. The aircraft did not [have](#) a flight recorder. The T-4, developed in 1989, has [caused](#) three accidents involving deaths in the past.

- On Tuesday, the JGSDF [announced](#) that it will hold joint exercises with the Republic of Korea Marine Corps for the first time in early June in the Philippines. Joined by the United States and the Philippines, the countries will simulate joint disaster relief response. Japan's Amphibious Rapid Deployment Brigade will take part in the drills.
- *Yomiuri* [reported](#) Sunday that the Ministry of Defense (MOD) plans to soon conduct shooting tests at sea of a large-scale prototype of its rail gun, thought to be effective against hypersonic weapons being developed by China and North Korea. The MOD aims to deploy rail guns on Aegis system-equipped vessels.

#### 4. Consumption Tax Cut Fight Continues Ahead of Summer Elections

- *Asahi* [reported](#) Wednesday that the LDP does not plan to include a consumption tax cut as part of its campaign manifesto for the Upper House election. The ruling parties have thus far [agreed](#) on the need for a supplementary budget in the fall but not on what the funding would be used for.
- Ishiba [stated](#) on Monday that “When politicians start saying what the people want to hear, the country is doomed.” LDP Secretary General Moriyama Hiroshi [added](#) that the consequences of populist decisions come back to the voters, [pledging](#) to put his political career on the line to prevent the consumption tax cut.
- On Friday, the LDP Tax Research Commission [held](#) a meeting, in which members pointed out that lowering the consumption tax was unrealistic from a fiscal and administrative point of view. The party remains split, as Takaichi Sanae [said](#) she was “very disappointed” over Ishiba's remarks opposing a consumption tax cut.
- Komeito Chief Representative Saito Tetsuo [said](#) on a TV program over the weekend that one option would be to permanently lower the consumption tax on food items from 8 percent to 5 percent, close to the global average of 5.5 percent.
- Main opposition Constitutional Democratic Party (CDP) leader Noda Yoshihiko [criticized](#) the LDP for having put forth “no policy.” On Friday, he [announced](#) that his party would be pushing for a zero percent consumption tax for one year with a ¥20,000 cash handout in the short-term as inflation relief. Noda said the tax cut effect would be around ¥40,000 per person annually. Cut begins April 2026.
- Meanwhile, Democratic Party for the People (DPFP) leader Tamaki Yuichiro [said](#) Tuesday that his party will advocate for a temporary 5 percent consumption tax across the board, with the time period determined based on the economic situation. He [added](#) that the ¥10 trillion required for the cut would be financed by deficit bonds, special account operating profits, excess balance in government funds, and other means.

- RENGO, the labor union organization backing both parties, [opposed](#) any move toward tax cuts as it would reduce social security funding. President Yoshino Tomoko on Thursday asked for the parties to identify alternative funding sources.

## 5. GOJ Approves Hollowed Out Pension Reform Bill

- On Friday, the GOJ [approved](#) the pension system reform related legislation two months after the initially planned date. There are no guarantees the bill will pass with less than a month and a half to go until the end of the Diet session on June 22.
- Most importantly, the bill scraps the wage condition of over ¥1.06 million annual salary to take part in the welfare pension system and raises the threshold for receiving full pension from the old-age pension for active employees from “less than ¥500,000” to “less than ¥620,000” to encourage older citizens to continue working.
- The bill also gradually raises employees’ pension insurance fees for high-income earners above ¥7.98 million a year excluding bonuses by ¥9,000 per month and ¥10,000 per month if paying into the system for twenty years.
- Provisions for extending the period of payment of basic pension premiums by five years, from 40 to 45 years, and for the Category 3 insured person system under which spouses of company employees and other dependents receive national pension benefits without paying premiums, will be included as items to review in the future.
- The bill does not include a base raise in pension amounts, as cutting into accumulated welfare pension amounts to offset the likely 30 percent decline in pension amounts was viewed as a misappropriation of funds. DPFP leader Tamaki Yuichiro [criticized](#) the move as an “election maneuver” to avoid raising costs on consumers before a major national election. He said his party will submit its own proposal to the Diet.
- CDP leader Noda [said](#) that his party will submit its revisions on May 20, pointing out that the LDP will have to accept its revisions as there will be no time to come to a consensus with other parties. He [added](#) that a no-confidence motion may be submitted if the LDP refuses to discuss amendments to the GOJ-submitted bill.

## 6. Other Political Developments

- *Sankei* [reported](#) Saturday that the ruling parties are looking to scrap plans to coordinate legislation with the DPFP on tightening regulations around corporate donations, as the DPFP wanted a consensus with other opposition parties. The CDP and other opposition parties are [demanding](#) that Komeito and DPFP submit a bill to tighten regulations around donors and donation amounts.

- On Friday, the Ministry of Agriculture, Forestry and Fisheries (MAFF) [announced](#) that it had revised the bidding process for stockpiled rice, extending the buyback period from “within one year” to “within five years” and giving priority purchasing rights to smaller retailers within the 100,000 tons released monthly between May and July. The buyback extension is designed to encourage the purchase of rice.
- Speaker of the Lower House Nukaga Fukushima and Upper House Speaker Sekiguchi Masakazu [met to discuss](#) the state of discussions surrounding measures to secure Imperial Family succession. The LDP plans to meet internally next week, as it disagrees with the CDP on whether to allow female members who marry out of the Imperial Family to retain Imperial status.
- On Thursday, the opposition [demanded](#) that former Abe faction executive Shimomura Hakubun testify in front of the Lower House Budget Committee on the slush fund scandal, to which the LDP opposed the request. Shimomura himself [wrote](#) on X the previous day that he would be willing to testify.
- On Monday, Ishiba [said](#) in a Lower House Budget Committee session that he has no recollection of the tabloid articles accusing him of underreporting political fundraising party ticket sales. The individual who leaked the scandal to the tabloid held a press conference the same day, [stating](#) that Ishiba was “lying” and that he would be willing to testify in front of the Diet.
- The Upper House Diet Affairs chairs of the LDP and CDP [agreed](#) to hold the next leaders’ debate on May 21. This is the first debate since April 23. The opposition may ask about issues like the partially disclosed so-called Moritomo papers, which shed some light on the deliberately devalued sale of state owned land to a school.

#### 7. GOJ to Establish Council Toward Creating Technology Research Center

- *Yomiuri* [reported](#) Tuesday that the GOJ plans to launch a strategy council in the fall toward establishing a new institution to conduct research on cutting-edge technologies for economic security purposes.
- The “Critical Technology Strategy Council” (provisional name) will be established to design the “Center for Critical Technology Strategy,” which will function as an advisory body to research trends in the development of twenty or so “specified critical technologies” like AI, quantum, and hypersonics.
- The center — expected to be established in 2026 — was originally slated for creation in FY 2023 in the FY 2020 6th Science and Technology Basic Plan, but had been pushed back for some time due to slow progress on discussions within the GOJ.

- The LDP Economic Security Promotion HQ (chaired by former Economic Security Minister Kobayashi Takayuki) [reportedly presented](#) its draft proposals to the GOJ on Friday, urging for risk inspection, strengthening intelligence collection capabilities by creating a “comprehensive economic security think tank,” and adding “healthcare” to the list of essential infrastructure under the Economic Security Promotion Act.
- The HQ looks to reflect the recommendations in June’s Basic Policy on Economic and Fiscal Management and Reform. The Act — enacted in 2022 — is set for a triennial review and included a supplementary provision requiring changes when deemed necessary.
- Kobayashi [said](#) on Tuesday that he would also look to tighten regulations around critical personal information related to security, pointing out that “there is a lack of clear rules around data handling, collection and storage, data centers, and cloud.”

#### 8. Economic Security and Tech Developments

- On Friday, the GOJ [began operating](#) its security clearance system, a screening mechanism that enables GOJ and private sector individuals to access information critical to economic security (nineteen areas, four categories). Leaking information could result in up to five years of confinement or a fine of up to ¥5 million.
- The University of Tokyo and IBM [announced](#) that it will begin operating an improved IBM quantum computer starting around September. The number of qubits increased by more than 20 percent. The precision of calculations will also be improved by linking it with a supercomputer operated by the university.
- On Wednesday, METI [released](#) its final report on promoting cybersecurity talent development, which sets the target for national certification holders to 50,000 by 2030. The goal is to enhance Japan’s homegrown talent, [especially](#) as 70 percent of small- and medium-sized enterprises do not have dedicated cybersecurity teams.
- *Nikkei* [reported](#) that the Japan Financial Services Agency (JFSA) will require major and regional banks to introduce next-generation cryptographic communications (post-quantum cryptography) technology in response to an uptick in cyber-attacks. Existing systems are at risk of being deciphered by quantum computers.
- On Tuesday, METI, the Ministry of Internal Affairs and Communications (MIC), and the Digital Agency [participated](#) in the Third Japan-EU Digital Partnership Ministerial in Tokyo. The two sides discussed cooperation in a range of areas like semiconductors, 5G/6G, AI, and data governance. The two sides welcomed the launch of targeted research call for collaborative projects on quantum computing too.

- On Monday, SHARP [announced](#) that it will sell the No. 2 plant at its Kameyama LCD factory to parent company Foxconn. SHARP has been forced to downsize its LCD panel business as it gets outcompeted by cheaper Chinese companies.

## 9. Key Economic/Financial Developments

- State Minister of Economy, Trade and Industry Ogushi Masaki [attended](#) the APEC trade ministers' meeting in Jeju, South Korea, from Thursday to Friday. The joint statement [issued](#) after the meetings noted concern with “fundamental challenges faced by the global trading system.”
- On Thursday, the Japan Fair Trade Commission (JFTC) [issued](#) implementation guidelines for its Act on Promotion of Competition for Specified Smartphone Software, which [identifies](#) over one hundred examples of how Apple, iTunes, and Google have created unfair competition resulting in dominance in the smartphone market, including preferential treatment of its own apps.
- The GOJ [presented](#) draft plans to add logistics warehousing, resource recycling like waste disposal, and supply of linen products to its list of sixteen categories in which foreign workers can receive “specified skilled worker” visas. The visa is designed to address acute labor shortages in key sectors.
- On Wednesday, the GOJ [finalized](#) a five-year plan to invest ¥60 trillion over five years into small- and medium-sized enterprises in an effort to improve productivity and facilitate an environment to increase wages. In areas of labor shortages like restaurants and lodging, the GOJ will [identify](#) case-specific challenges and promote investment toward labor-saving measures.
- On Tuesday, the Bank of Japan (BOJ) [released](#) a summary of opinions from its monetary policy meeting held from April 30-May 1, which included statements recognizing the uncertainty surrounding economic growth and inflation due to the U.S. tariff measures. Members also [noted](#) that the basic approach of hiking rates will continue as real interest rates remain significantly low.
- *Nikkei* [reported](#) that the Ministry of Finance (MOF) requested during the Japan-PRC High-level Economic Dialogue in March that Beijing loosen its capital controls and raise the cap on qualified domestic institutional investors (QDII). The MOF is keen to take advantage of the situation in which Chinese investors want to move capital out of China as the domestic economy faces stagnation and its real estate market falters.

## 10. State of the Economy

- On Friday, the Cabinet Office (CAO) [announced](#) that real GDP in FY 2024 rose 0.8 percent from FY 2023, the fourth consecutive year on the rise as individual consumption and capital investment grew. Nominal GDP [exceeded](#) ¥600 trillion for the first time. Meanwhile, real GDP in January-March [fell](#) 0.2 percent from the previous quarter, a 0.7 percent decrease on an annual basis.
- *Nikkei* [reported](#) Thursday that the average wage hike rate in 2025 according to its own survey was 5.49 percent, remaining flat from the previous year due to a lull in the manufacturing sector. *Nikkei* also [reported](#) that the GOJ aims to raise real wages by one percent in the five years leading up to FY 2029, in an effort to stabilize wage hikes alongside meeting the 2 percent inflation threshold.
- *Nikkei* [reported](#) that Japan's total fertility rate is expected to hit a record-low, as one estimate shows the rate declining from 1.20 in 2023 to 1.15 in 2024. This will be the ninth consecutive year on the decline, with the number of births set to fall below 700,000 for the first time as well.
- On Wednesday, the BOJ [announced](#) that the corporate goods price index (CGPI) in April rose 4 percent to 126.3, lower than March (4.3 percent) but consistent with average economist projections (4 percent). Agricultural goods prices, led by rice, have [contributed](#) to the fifth consecutive month the index has reached 4 percent.
- On Monday, CAO's Economy Watchers Survey for April [found](#) that the diffusion index fell 2.5 points from March to 42.6, the fourth consecutive month in decline as survey respondents voiced concern about U.S. tariff measures. CAO [lowered](#) its assessment to "rebound is weak," as the index fell to a three year low. Meanwhile, Tokyo Shoko Research [announced](#) that bankruptcies in April rose 5.7 percent — a [record high](#) for the month of April — to 828 companies.
- The MOF [announced](#) that Japan ran a ¥30.38 trillion current account surplus in 2024, a 16.1 percent increase in the surplus from 2023 and the largest surplus [since](#) comparable statistics became available in 1985. For instance, the travel account balance [increased](#) 58 percent and hit a surplus, exceeding the balance concerning patent royalties for the first time.

## II. Public Opinion Poll

- An NHK poll [released](#) on Monday found that the Ishiba Cabinet's approval rating was 33 percent, down two points from April, while disapproval was 48 percent, up three points.
  - 42 percent of respondents [said](#) that they support the Ishiba Cabinet because there are no better alternatives; 30 percent said because they trust the prime minister; and 18 percent said because it includes a party they support.

- 40 percent of respondents said that they do not support the Cabinet because they have no hope for its policies; 25 percent said because it lacks executive ability; and 13 percent said because they do not trust the prime minister.
  - 43 percent of respondents said that they are very concerned about the impact of U.S. tariffs on the Japanese economy; 36 percent said they are somewhat concerned; 11 percent said they are somewhat unconcerned; and 5 percent said they are not concerned at all.
  - 36 percent of respondents said that they are somewhat hopeful that the GOJ can negotiate a tariff deal with the United States; 32 percent said they are somewhat unhopeful; 15 percent said they are not hopeful at all; and 11 percent said they are very hopeful.
  - 38 percent of respondents said that they believe the consumption tax rate should be lowered; 36 percent said the current rate should be maintained; and 18 percent said the consumption tax should be scrapped.
  - 46 percent of respondents said that they somewhat approve of the GOJ's decision to extend utility and gas subsidies; 26 percent said they somewhat disapprove; 13 percent said they strongly disapprove; and 10 percent said they strongly approve.
  - 80 percent of respondents said that they do not believe the GOJ's policies will result in lower rice prices, while 9 percent said they believe it will go down.
  - 43 percent of respondents said that there is some impact of higher food, daily necessities, and utility costs on household budgets; 40 percent said there is a great impact; 10 percent said there is not a great impact; and 1 percent said there is no impact at all.
  - 36 percent of respondents said that they will not use social media or video sharing platforms to learn more about the Upper House election; 28 percent said they will not really use it; 23 percent said they will somewhat use it; and 6 percent said they will use it a lot.
  - 34 percent of respondents said that they are not really interested in the Osaka EXPO; 28 percent said they are somewhat interested; 23 percent said they are not interested at all; and 10 percent said they are very interested.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	26.4 (-3.3)
Constitutional Democratic Party	7.6 (+1.8)
Japan Innovation Party	2.6 (+0.2)
Komeito	3.7 (-0.1)

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Democratic Party for the People	7.2 (-0.7)
Japan Communist Party	2.6 (+0.5)
Reiwa Shinsengumi	2.5 (-0.1)
Suffrage Party (Sanseitō)	1.5 (+0.5)
Japan Conservative Party	0.8 (+0.2)
Social Democratic Party	0.3 (-0.1)
Independent (No Party)	38.2 (+1.3)