

The Weekly Observer

May 19-23, 2025

The 173rd edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the third round of Japan-U.S. tariff negotiations, the G7 finance ministers and central bank governors meeting in Canada, Japan-ROK bilateral travel facilitation, legislation to improve JSDF officer working conditions, Koizumi's appointment as agriculture minister, the latest party leaders' debate in the Diet, the ruling parties' decision to abandon legislation on corporate political donations, Trump's social media post approving Nippon Steel's buyout of U.S. Steel, the LDP's recommendations on digital policy, the draft of the GOJ's revised Economic Security Action Plan, the Japan-ASEAN economic ministers' meeting, this month's Monthly Economic Report, and more.

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I. News of the Week

1. Japan and U.S. Aim for Provisional Tariff Agreement Next Month

- On Saturday, Japan's chief tariff negotiator Akazawa Ryosei [met](#) with U.S. Trade Representative Jamieson Greer for the third round of tariff negotiations in Washington, D.C.
- The two sides [continued](#) talks from the second round of talks on May 1 on expanding trade, non-tariff measures, and cooperation on economic security. They agreed to continue close consultations, with a view to a possible exchange between Prime Minister Ishiba Shigeru and President Donald Trump at the G7 Summit in June.
- Ishiba [held](#) telephone talks with Trump on Friday, discussing the tariffs and diplomatic and security challenges. The two leaders voiced a mutual desire to meet on the sidelines of the G7 Summit in Canada from June 15-17.
- Though the talks yielded no significant breakthroughs, this was the first time a "timeline" was [mentioned](#) in official readouts, indicating a mutual desire to come to some form of agreement soon. The two sides still disagree on the tariff reductions, despite the Japanese side presenting a package of over fifty items ranging from agricultural products to measures toward increasing U.S. auto imports.
- On Sunday, Ishiba [visited](#) shipbuilding company Japan Marine United and indicated a desire to pursue shipbuilding cooperation with the United States. He pointed out that icebreaker ships could be key in negotiations.
- Meanwhile, Minister of Finance Kato Katsunobu [met](#) with chief tariff negotiator and Secretary of the Treasury Scott Bessent on the sidelines of the G7 Finance Ministers and Central Bank Governors meeting in Canada on Wednesday. The two sides shared the belief that exchange rates should be "market determined," though Kato [told](#) reporters after the meeting that currency rates were not discussed in the tariff context.

2. G7 Finance Ministers and Central Bank Governors Meet in Canada

- Kato and Bank of Japan (BOJ) Governor Ueda Kazuo [attended](#) the G7 Finance Ministers and Central Bank Governors meeting in Banff, Canada, from May 20-22.
- The joint statement issued after the meeting indicated that the countries would take a "coordinated approach to address the harm caused by those who do not abide by the same rules and lack transparency," seemingly calling out China. The statement did not mention any criticism toward the United States for its tariff measures.

- The statement also mentioned the need for a “common understanding of how non-market policies and practices aggravate imbalances, contribute to overcapacity, and impact the economic security of other countries.” This is likely aimed at China, which subsidizes production of electric vehicles and solar panels.
- The G7 also endorsed a “Financial Crime Call to Action” to spur further progress and collective efforts of the Financial Action Task Force, which brings together over two hundred jurisdictions to combat financial crime. The document expresses “serious concerns” that virtual asset thefts and scams, including by North Korea, have reached unprecedented levels.
- BOJ Governor Ueda [indicated](#) that the economic outlook remains “very uncertain” due to the U.S. tariff measures, pointing out that while there was some progress with the U.S.-U.K. deal and talks between the United States and China, the Bank would need to continue observing the data to determine the economic effect of the tariffs.

3. Foreign Policy Developments

- On Friday, Ishiba [held](#) a telephone meeting with UN Secretary-General António Manuel de Oliveira Guterres. Ishiba stated the importance of the UN and expressed his desire to work closely with Guterres on UN reform.
- On Wednesday, the Ministry of Foreign Affairs (MOFA) [announced](#) that Japan and South Korea plan to implement measures to ease travel between the two countries in June as part of efforts celebrating the sixtieth anniversary of diplomatic relations. Special lanes will be [created](#) at Gimpo, Gimhae, Haneda, and Fukuoka Airports to facilitate fast-tracked entry. Travel between the countries reached a record-high of over twelve million last year.
- Ishiba [held](#) a summit meeting with President Santiago Peña Palacios of Paraguay, witnessing the signing ceremony for the “Memorandum of Cooperation about Political Consultation Mechanism” and agreeing to promptly launch the Japan-MERCOSUR Strategic Partnership Framework.
- On Tuesday, Ishiba [held](#) a summit telephone meeting with new German Chancellor Friedrich Merz, congratulating him on his inauguration and confirming continued bilateral cooperation. The two sides [reaffirmed](#) the recognition that the security of the Euro-Atlantic and Indo-Pacific is inseparable.
- Ishiba held summit meetings with President Rumen Radev of [Bulgaria](#) and President Edgars Rinkēvičs of [Latvia](#) this week, upgrading both bilateral relationships to a strategic partnership.

- On Monday, the Japan-U.S.-ROK trilateral coordinating secretariat [met](#) in Washington, D.C. for the first time since November 2024, agreeing to work together to further accelerate trilateral cooperation.

4. Defense/Security Developments

- On Saturday, Yokosuka City in Kanagawa Prefecture [announced](#) that the nuclear-powered aircraft carrier USS George Washington will leave Yokosuka Air Base on Sunday for its first patrol deployment. This is the first time the carrier will leave port since it was deployed to Japan for a second time in November 2024.
- On Friday, Minister of Defense Nakatani Gen [met](#) with Kure City (Hiroshima) Mayor Shinhara Yoshiake, informing the mayor that the Ministry of Defense (MOD) plans to closely coordinate with the city as it prepares to develop a multi-function defense complex on the old site of Nippon Steel's Setouchi Works facility, a historic site where the battleship Yamato was [built](#) back in World War II.
- On Thursday, the JGSDF [revealed](#) that South Korean media have been reporting that its military has "no plans" to hold joint exercises with the JGSDF, a "miscommunication" about the multilateral exercise "KAMANDAG 9" to be held in the Philippines from May 26-June 6 with the United States and the Philippines.
- The South Korean Ministry of Defense [announced](#) that North Korea launched multiple cruise missiles toward the Sea of Japan. Pyongyang has been testing out cruise missile launches from multipurpose destroyers since late April.
- On Wednesday, the Diet [enacted](#) the Act for Establishment of the Ministry of Defense and other legislation to improve the working conditions for JSDF officers. Among other things, the legislation raises payouts to reserves active during contingencies and scraps the cadet program to directly hire new recruits as better paid full-time officers.
- *Nikkei* [reported](#) Tuesday that the GOJ plans to finalize implementation guidelines for evacuation shelters during this fiscal year as guidance for local municipalities planning to construct missile resilient shelters. The plan would double shelter capacity across the nation to around ten million, which requires planning on stockpile and shelter quality.

5. Koizumi Replaces Agriculture Minister Who Resigns Over Gaffe

- On Wednesday, Ishiba [appointed](#) former Environment Minister Koizumi Shinjiro as Minister of Agriculture, Forestry and Fisheries (MAFF), following the resignation of Eto Taku over a gaffe.

- Eto came under fire for a [remark](#) at an event in Saga Prefecture on May 18, where he stated that he has “never had to buy rice” because his constituents give him rice. The remark was taken as an insensitive comment amid surging rice prices and his role as minister in charge of policies to suppress prices.
- Ishiba initially planned to keep Eto on, but [ultimately accepted](#) Eto’s resignation letter on Wednesday after the opposition threatened on Tuesday to submit a no-confidence motion against the minister and stall legislative progress on other issues. Ishiba likely determined that the process had to move forward ahead of the Upper House election.
- Ishiba [stated](#) that he appointed Koizumi given his previous experience as director of the LDP’s Agriculture and Forestry Division. He instructed the new minister to promote measures to stabilize rice prices and to utilize discretionary contracts to sell government stockpiled rice. Koizumi [commented](#) that he will focus his efforts on rice as the “minister in charge of rice.”
- During his inaugural press conference, Koizumi [announced](#) that MAFF would be suspending its bidding process and begin exploring discretionary contracts, whereby the government selects companies to sell the rice to. Koizumi indicated that the government is prepared to continue selling as long as there is demand.
- On Friday, Koizumi [revealed](#) that the discretionary contract program will begin as early as next week in an effort to lower retail rice prices to ¥2,000~ per five kilograms. LDP Secretary General Moriyama Hiroshi — a member of the party’s ag tribe — [commented](#) that just lowering the price is not the answer, indicating concern for rice farmers who rely on somewhat high prices to make a living.

6. Party Leaders Spar in Latest Diet Debate

- On Wednesday, Ishiba, main opposition Constitutional Democratic Party leader Noda Yoshihiko, Democratic Party for the People (DPFP) leader Tamaki Yuichiro, and Japan Innovation Party (*Nippon Ishin no Kai*) co-leader Maehara Seiji [participated](#) in a political party leaders’ debate.
- Ishiba [indicated](#) a desire to work with the CDP on the pension system reform bill, which ultimately resulted in a [reported compromise deal](#) between the two sides to incorporate the basic pension hike that was left out by the LDP. This has prompted rumors of a potential grand coalition, which Noda [denied](#) as “jumping to conclusions.”
- Noda [pressed](#) Ishiba to present concrete measures to combat the U.S. tariffs and soaring prices. Ishiba [said](#) that the CDP’s tax credit and cash handout proposal is “one

option,” though he [criticized](#) the CDP’s tax cut proposal as an “election maneuver” and pointed out that it would cut into social security costs.

- The LDP Tax Research Commission [met](#) Friday to discuss the consumption tax, an unprecedented meeting in May to temper pressure from within the party to introduce a tax cut. Some members voiced concerns over putting pressure on local coffers.
- Following Ishiba’s comments on the consumption tax, LDP Upper House Secretary General Matsuyama Masaji [indicated](#) that the party’s manifesto could include cash handouts or measures to lower the costs of social insurance premiums. This signals a change in positions for the Upper House leadership, which had previously been pushing for a consumption tax cut.
- Ishiba was also [pressed](#) by *Ishin* co-leader Maehara to keep faith with the agreement to move forward on free education and lowering social insurance premiums. He responded that he would instruct his party to move forward on the matter.

7. Other Political Developments

- On Friday, the ruling parties and *Ishin* [held](#) talks over lowering social insurance premium costs, agreeing to come to an agreement as early as possible on reducing the number of hospital beds, though there is no agreement on the exact number (*Ishin* demanded 110,000 beds). The LDP also [finalized](#) its approach to free high school education — another discussion item with *Ishin* — questioning the appropriateness of spending public funds to reduce costs for even the high-income households.
- The Lower House Budget Committee [voted](#) in favor of hearing testimony from ex-Abe faction executive and former lawmaker Shimomura Hakubun. Though the LDP voted against it, Komeito and the opposition parties overruled. Shimomura is expected to testify on the faction’s slush fund scandal on May 27.
- On Thursday, Ishiba [revealed](#) during a government-labor-management conference that the GOJ will provide focused support to prefectures that raise minimum wage over the target set by the government’s council. The GOJ [aims to raise](#) the average minimum wage across the country to ¥1,500 by the end of the decade.
- *Mainichi* [reported](#) that the ruling parties and the DPFP have given up on submitting legislation on corporate political donations, as the latter wanted consensus with other opposition parties. LDP Political Reform HQ Chair Tokai Kisaburo [indicated](#) that the parties can approach the issue again after the Upper House election.
- On Wednesday, the GOJ [announced](#) its draft basic concept for new regional revitalization, which is centered around setting a numerical target for the percentage

of youth moving out to rural areas from the greater Tokyo area within the next decade. Other numerical targets [include](#) the ratio of startups in municipalities, the “associated population” of rural regions, and the volume of rural exports.

- On Tuesday, the LDP [informed](#) Komeito that it will be challenging to come to a conclusion on separate surnames for married couples during the current Diet session. While opposition parties have submitted bills, the LDP has found it [challenging](#) to come to a consensus between those who support introducing separate surnames and those who would like to expand the use of maiden names as common names.

8. Trump Signals Intent to Approve U.S. Steel Buyout

- On Friday, President Trump [wrote](#) on Truth Social that Nippon Steel and U.S. Steel will enter into a “planned partnership” that will create at least 70,000 jobs and deliver a \$14 billion boost to the U.S. economy.
- Trump added that large parts of investment will be made within the next fourteen months and that Pennsylvania, home to U.S. Steel’s headquarters, will be the greatest beneficiary of the investment.
- The decision comes after the Committee on Foreign Investment in the United States (CFIUS) [determined](#) in its second review of the acquisition that there were no security threats resulting from the deal. Media reports suggest that Trump changed his mind after Nippon Steel increased its commitment to invest, a major boon for the president as he faces criticism over the tariff measures.
- The union between the two steel manufacturers puts them at [third globally](#) in terms of manufacturing capacity (around fifty-nine million tons), competitive with the many Chinese firms that make up the top ten global steel manufacturers.
- Ishiba [said](#) Sunday that the GOJ will “wait on an official announcement,” with many uncertainties over what proposal Trump plans to approve. Nippon Steel has been exploring the idea of making U.S. Steel a wholly-owned subsidiary.

9. LDP Makes Digital Policy Recommendations to Government

- On Tuesday, the LDP Digital Society Promotion HQ [submitted](#) its annual digital policy recommendations entitled “Digital Nippon 2025.” The theme of this year’s policy paper series is “digital policy 2.0” for the next century.
- The document [points out](#) that digital technologies must be harnessed to promote economic growth and improve Japan’s global competitiveness. The LDP views the Digital Agency as the command center for so-called “digital policy 2.0.”

- The set of policy papers covers 1) data strategy, 2) AI, 3) digital talent development, 4) cybersecurity, 5) web3, and 6) disaster prevention DX. The measures are expected to be reflected in this year's Basic Policy on Economic and Fiscal Management and Reform (*Honebuto*) to be finalized in June.
- Under data strategy, the LDP recommends crafting legislation to promote comprehensive data sharing and creating a foundation for data linkage. Under AI, it recommends utilizing unused data, watt-bit integration, and the creation of government AI. Under digital talent development, it recommends improving the working environment for digital talent and re-skilling opportunities.
- Under cybersecurity, it recommends further strengthening public-private information sharing and establishing cybersecurity in the private sector. Under web3, it recommends creating a new asset class for cryptocurrencies. Under disaster prevention DX, it recommends utilizing a digital platform for information collection and sharing.
- The policy recommendations reflect a sense of urgency within the LDP on the need to stay on top of digital technology trends and to maximize use of said technologies as Japan's working age population dwindles and productivity wanes.

10. Economic Security and Tech Developments

- On Friday, the Ministry of Economy, Trade and Industry (METI) [released](#) a draft of its revised Economic Security Action Plan, which included the establishment of an "Economic Security Center" led by METI and the National Security Secretariat (NSS) to strengthen Japan's economic intelligence capabilities.
- METI also [released](#) guidance for companies to prevent technology leaks, categorized as leaks related to the transfer of manufacturing hubs abroad and through people. The guidance [includes](#) a checklist listing measures to prevent leaks, as well as a timeline for measures from when an employee first joins the company to when they leave (including limiting access to sensitive information even before they quit).
- On Thursday, the Netherlands Foreign Investment Agency (NFIA) [announced](#) the signing of a partnership agreement with the National Institute of Advanced Industrial Science and Technology (AIST) and six other Japanese institutions and companies to accelerate cooperation in technology areas like AI, semiconductors, quantum technology, and 6G.
- On Wednesday, the LDP Economic Security Promotion HQ [finalized](#) recommendations toward the *Honebuto* drafting, which includes a proposal to create a

think tank led by the NSS to serve as a platform for public-private intelligence sharing and the revision of the Economic Security Promotion Act (2022).

- *Nikkei* [reported](#) Tuesday that the GOJ's amended [Fusion Energy Innovation Strategy](#) to be drafted soon will for the first time commit in writing to operationalize nuclear fusion power generation in the 2030s. Previous editions only mentioned "clarifying [the timing] as early as possible." The GOJ positions nuclear fusion energy as critical to industrial competitiveness and economic security.
- On Sunday, Ishiba [visited](#) AIST's new Global Research and Development Center for Business by Quantum-AI technology ([G-QuAT](#)) in Tsukuba City, Ibaraki Prefecture, which promotes R&D using the latest quantum computers. Ishiba announced that the GOJ's quantum strategy would be fundamentally revised by the end of the month, adding that the GOJ aims to establish joint research partnerships with five countries by the end of the year.

11. Key Economic/Financial Developments

- *Nikkei* [reported](#) Friday that this year's *Honebuto* draft will center around "realizing a growth-oriented economy around wage hikes." The draft heavily features Ishiba's flagship "regional revitalization 2.0" policy as a way to make progress on "Reiwa-era remodeling of the Japanese archipelago."
- On Thursday, the GOJ and BOJ [finalized](#) its second interim report on the system design for a central bank digital currency (CBDC), which [indicates](#) that a CBDC would serve as a bridge between different payment services and not designed to replace existing payment systems.
- The LDP HQ for Fiscal Policy [presented](#) draft recommendations on the GOJ's target for fiscal consolidation, proposing that the "primary balance" surplus target be set between FY 2025-2026. The 2024 *Honebuto* [set](#) the target for FY 2025, but global economic uncertainty has prompted the language to be looser on the target schedule.
- On Tuesday, Minister of Economy, Trade and Industry Muto Yoji [participated](#) in the virtual Japan-ASEAN economic ministers' meeting, where the ministers [reaffirmed](#) their support for the rules-based multilateral trading system, with the WTO at its core, which provides a "predictable, transparent, free, fair, inclusive, sustainable, non-discriminatory and open rules-based trade and investment environment."
- Muto [held](#) a meeting with Minister for Foreign Trade and Development of the Netherlands Reinette Klever, exchanging views on cooperation in semiconductors. *Nikkei* [reported](#) that a memorandum of cooperation signed in 2019 on hydrogen will be revised soon to include hydrogen derivatives like ammonia.

- The GOJ [presented](#) a draft of its implementation guidelines for the new “employment for skill development” visa — replacing the controversial Technical Intern Trainee Program — which proposes expanding the categories in which foreign workers can fill in severe labor shortages from sixteen to nineteen ([adding](#) logistics warehouse management, waste disposal, and supply of linen products).

12. State of the Economy

- On Friday, the Ministry of Internal Affairs and Communications (MIC) [announced](#) that the comprehensive consumer price index excluding volatile fresh food items in April rose 3.5 percent from last year to 110.9, the second consecutive month the rate has increased. Rice prices [rose](#) a record-high 98.4 percent in the same period.
- On Thursday, the Cabinet Office (CAO) [released](#) its Monthly Economic Report for May, which [maintained](#) the assessment that the economy is “recovering at a moderate pace, while the uncertainty arising from the U.S. trade policies and so on exists.” The report notes the need to continue monitoring the impact of U.S. trade policies.
- The Ministry of Health, Labor and Welfare (MHLW) [announced](#) that real wages in FY 2024 fell 0.5 percent, the [third consecutive year](#) that wages have declined. Inflation continues to outpace wage hikes, though the latest Japan Business Federation (*Keidanren*) survey [found](#) that large corporations plan to raise wages by 5.38 percent, [exceeding](#) the 5 percent threshold for the second consecutive year.
- The CAO [announced](#) that seasonally adjusted machinery orders between January-March — a leading indicator of capital investment — rose 3.9 percent to ¥2.76 trillion, the [first increase](#) in two quarters. The outlook for orders in April-June fell 2.1 percent from the previous quarter.
- On Wednesday, the Ministry of Finance (MOF) [announced](#) that Japan ran a ¥115.8 billion trade deficit in April, the first deficit in three months as exports grew 2 percent and imports fell 2.2 percent. Exports to the United States [fell](#) 1.8 percent to ¥1.77 trillion, the first decline in four months likely due to the U.S. tariffs. Auto exports in particular suffered a setback, falling 4.8 percent.
- The Japan National Tourism Organization (JNTO) [announced](#) that the number of tourists in April was 3.9 million, the highest number in a single month. Travel [increased](#) 28.5 percent from the same month last year as the number of Chinese tourists recovered and as travelers utilized the Easter holiday to travel to Japan.

II. Public Opinion Poll

- A Kyodo poll [released](#) on Sunday found that the Ishiba Cabinet's approval rating was 32 percent, up four points from April, while disapproval was 53 percent, down three points.
 - 42 percent of respondents said that Ishiba's decision to remove Agriculture Minister Eto came too late; 32 percent said it was appropriate timing; 16 percent said there was no need to remove him; and 3 percent said it was too early.
 - 60 percent of respondents said that they believe new Agriculture Minister Koizumi will successfully lower rice prices, while 35 percent said they do not believe he can lower prices.
 - 45 percent of respondents said that they believe the ¥3,000~ target for rice prices, down from the latest average of ¥4,268, is an appropriate target; another 45 percent said it should be lower; and 8 percent said it should be higher.
 - 49 percent of respondents said that the pension system reform bill should include measures to prevent lower pension amounts by utilizing welfare pensions, while 38 percent said that it should not include the measure.
 - 31 percent of respondents said that Ishiba should continue as prime minister until the Upper House election in the summer; 26 percent said he should resign as soon as possible; 22 percent said at least another year; and 17 percent said as long as possible.
 - 22 percent of respondents said that they want Takaichi Sanae as the next prime minister; 16 percent said Koizumi Shinjiro; 9 percent said Tamaki Yuichiro; 7 percent said Ishiba; 5 percent each said Noda Yoshihiko, Kono Taro, and Kamikawa Yoko; 3 percent each said Kobayashi Takayuki and Hayashi Yoshimasa; and 1 percent each said Kato Katsunobu, Motegi Toshimitsu, and Maehara Seiji.
 - 49 percent of respondents said that the opposition should not submit a no-confidence motion, while 39 percent said they should.
 - 29 percent of respondents said that they would vote for the LDP in the PR portion of the Upper House election; 19 percent said they do not know; 14 percent each said the DPFP and CDP; 6 percent said the Japan Innovation Party (*Nippon Ishin no Kai*); 5 percent said *Reiwa Shinsengumi*; 4 percent said Komeito; 3 percent said *Sanseitō*; 2 percent each said the JCP and the Japan Conservative Party; and 1 percent said the SDP.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	28.4 (+3.4)
Constitutional Democratic Party	12.1 (±0)
Japan Innovation Party	6.5 (+1.6)

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Komeito	4.5 (-0.2)
Democratic Party for the People	14.1 (+0.7)
Japan Communist Party	2.6 (-1.3)
Reiwa Shinsengumi	4.7 (-1.8)
Suffrage Party (Sanseitō)	2.4 (-0.2)
Japan Conservative Party	0.9 (-0.6)
Social Democratic Party	0.5 (-0.6)
NHK Party	0.9% (+0.5)
Independent (No Party)	19.4 (-1.8)