

The Weekly Observer

June 2-6, 2025

The 175th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the fifth round of Japan-U.S. tariff negotiations, the new defense initiative announced at the Shangri-La Dialogue, the GOJ's response to new ROK President Lee Jae-myung, reports on the next QUAD foreign ministers' meeting, the MOD's new guidelines on safe AI use in developing defense equipment, the GOJ's inaugural session on rice policy, the ruling parties' and Ishin's agreement on social security policy, the GOJ's numerous policy documents in the run-up to the Honebuto release, the JFTC's first report on the domestic generative AI market, METI's assessment of the industrial structure in 2040, real wage statistics in April, and more.

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I. News of the Week

1. Japan and U.S. Hold Fifth Tariff Talks in Two Months

- Japan's chief tariff negotiator Akazawa Ryosei [traveled](#) to Washington, D.C. from June 5-8 for the fifth round of tariff negotiations in two months with the Trump administration.
- On Friday, Akazawa [met](#) with U.S. Secretary of Commerce Howard Lutnick, where the two reaffirmed each other's positions on U.S. tariffs and discussed expanding trade, non-tariff measures, and cooperation on economic security. They concurred to continue coordination with the aim of reaching a mutually beneficial agreement.
- On Saturday, Akazawa [met](#) with Secretary of the Treasury Scott Bessent and Lutnick separately, where the sides concurred to continue to vigorously coordinate to ensure a mutually beneficial agreement, "bearing in mind a possible exchange between the leaders of both countries around the occasion of the G7 Summit."
- Akazawa returned to Japan on Sunday and [indicated](#) that the two sides are yet to form a consensus on what a possible agreement would look like, pointing out that "asking the prime minister to speak with President Trump immediately will not lead to a swift conclusion of an agreement."
- Prime Minister Ishiba Shigeru [said](#) Saturday that the two sides are not at the point of a complete agreement, there are serious discussions taking place with national interest at stake. He indicated that the GOJ is in no rush to sign a deal before the G7 Summit in mid-June, stating that the GOJ will not sacrifice national interest.
- The GOJ [reportedly proposed](#) a proportional lowering of the additional 25 percent auto tariffs tied to the "level of contributions" made to the U.S. automotive industry, as well as a "[China package](#)" including rare earths, LNG imports, and semiconductor procurement, as part of a package to persuade the U.S. side to take a deal.

2. Japan Outlines New Security Initiative at Shangri-La Dialogue

- Minister of Defense Nakatani Gen took part in the [2025 Shangri-La Dialogue](#) held from May 30-June 1 in Singapore.
- On Saturday, Nakatani [proposed](#) a new initiative entitled "One Cooperative Effort Among Nations" (OCEAN) in which countries with shared values and interests can work together cooperatively to revive the rules-based international order. He also indicated a desire to promote cooperation with ASEAN and other partners like the United States and Australia.

- Nakatani [met](#) with U.S. Secretary of Defense Pete Hegseth on the sidelines of the event, where they agreed to coordinate closely to align strategic priorities as the United States formulates a new National Defense Strategy. The two also agreed to further strengthen bilateral cooperation in the cyber domain.
- He also [held](#) a trilateral meeting with Hegseth and Australian Minister for Defence Richard Marles, where the three reiterated a commitment to increase bilateral and trilateral joint capabilities, commended steady progress to build a networked air and missile defense architecture, and affirmed the ambition to further expand cooperation with regional partners like India, the Philippines, and South Korea.
- Nakatani also [took part](#) in a quadrilateral meeting with the United States, Australia, and the Philippines. The joint statement [issued](#) after their meeting covered the following areas: enhancing information sharing, strengthening cybersecurity and resilience, and increasing operational coordination and interoperability.
- Nakatani also held bilateral meetings with the following countries: [Australia](#), [France](#), [Malaysia](#), [New Zealand](#), [Philippines](#), [Singapore](#), and [Thailand](#).

3. Japan Cautiously Observes as Lee Elected President in Korea

- On Wednesday, Ishiba [issued](#) a congratulatory message to Lee Jae-myung, the newly elected president of the Republic of Korea. In it, he emphasized the continued importance of bilateral relations and a desire to further develop ties on the occasion of the sixtieth anniversary of diplomatic relations.
- Ishiba [told](#) reporters that the importance of shuttle diplomacy remains unchanged regardless of the administration in power in South Korea, indicating a desire for a summit as soon as possible. Special Advisor to the Prime Minister Nagashima Akihisa [indicated](#) that the earliest possible timing would be in Canada on the occasion of the G7 Summit in mid-June.
- In his inaugural address at the National Assembly on Wednesday, Lee [said](#) that he will pursue “pragmatic diplomacy” with neighboring countries and boost trilateral cooperation with Japan and the United States. Experts [believe](#) that the Lee administration will take a “dual track” approach to relations with Japan, pursuing economic cooperation while voicing concern over issues like history.
- There are serious concerns that Lee will reverse course from the amicable and steadily improving relations found under former President Yoon Suk-seol and former Prime Minister Kishida Fumio. However, industry [remains optimistic](#) that the economic relationship will remain strong under a liberal government.

- On Thursday, the cross-party Japan-ROK Parliamentarians' Federation [decided](#) that it would send a delegation to South Korea around August to meet with Lee. Chairman and former Prime Minister Suga Yoshihide [stated](#) that the fact remains that the two countries are important partners and that bilateral and trilateral cooperation with the United States is important.

4. Foreign Policy Developments

- *Asahi* [reported](#) Thursday that the next QUAD foreign ministerial meeting may take place in Washington, D.C. in early July (*Jiji* [says](#) as early as the end of June). Japan and the United States look to hold a “2+2” on the sidelines of the QUAD meeting.
- Director-General of the Asian and Oceanian Affairs Bureau Kanai Masaaki at the Ministry of Foreign Affairs (MOFA) [met](#) with Director-General of the Department of Asian Affairs Liu Jinsong at the Chinese Foreign Ministry in Nagoya, where the two exchanged views on bilateral issues in a “holistic, deeply constructive” manner ([according](#) to the Chinese press release).
- On Wednesday, the GOJ and the government of the United Arab Emirates [concluded](#) the third round of negotiations for an economic partnership agreement (EPA). The two sides held active discussions on the modality of negotiations as well as on Trade in Goods, Rules of Origin, Trade in Services, Digital Trade, and other areas.
- *Jiji* [reported](#) Tuesday that Ishiba may travel to The Hague, Netherlands, from June 24-25 to attend the NATO Summit. In addition to discussing Ukraine, Ishiba aims to deepen strategic cooperation for stability in the Indo-Pacific region in light of China's hegemonic actions, among other factors.
- On Monday, Minister for Foreign Affairs Iwaya Takeshi [met](#) with Mohammed Al-Amour, minister of national economy of Palestine. The two exchanged views on the current situation in the West Bank and Gaza Strip. Iwaya underscored the importance of the agreement on the release of hostages and ceasefire in Gaza.
- *Nikkei* [reported](#) Sunday that the G7 nations may forgo a leaders' declaration when they meet in Canada from June 15-17. Though the G7 is expected to issue seven topic-specific documents ranging from AI to critical minerals, a comprehensive communiqué is looking unlikely as the member states look to avoid a clash of views with President Donald J. Trump, especially on shared values like free trade.

5. Defense/Security Developments

- On Friday, the Ministry of Defense (MOD) [released](#) guidelines to secure safety of defense equipment utilizing generative AI. The MOD will internally screen for safety before the development of defense equipment.
- Officials will [regularly screen](#) for safety when it comes to low risk equipment. For high risk equipment in possible violation of international or domestic law or deemed a lethal weapon, an external panel will be asked to provide a technical review.
- *Yomiuri* [reported](#) Thursday that the MOD plans to establish a “Defense Science and Technology Board,” a fifteen member panel of experts ranging in fields from AI to space, to advise the MOD on dual-use cutting edge technologies. The board will be modeled after the U.S. Defense Science Board.
- The JMSDF frigate JS Yahagi [made a port call](#) at a naval base in Darwin, Australia, one of the Mogami class frigates that have been selected as a final candidate in the Australian Royal Navy’s plans to develop a new generation of frigates.
- On Wednesday, MOFA [announced](#) that the GOJ and U.S. Government will hold a bilateral Extended Deterrence Dialogue (EDD) in the United States from June 5-6. This marks the first iteration of the EDD since Trump returned to the White House.

6. GOJ Holds First Cabinet Meeting on Rice Policy

- On Thursday, Ishiba [convened](#) the first ministerial council meeting on rice policy, stating a stable supply of rice must be realized by providing rice in a sustainable manner and improved productivity through sustainable agricultural practices.
- The GOJ plans to [relax](#) its acreage reduction policy — an effective control on production that has voluntarily remained in place despite ending in 2018 — to encourage farmers to produce more. It will [explore measures](#) to compensate farmers by the end of the month as an increase in production is expected to lower rice prices.
- On Tuesday, Minister of Agriculture, Forestry and Fisheries (MAFF) Koizumi Shinjiro [revealed](#) that there had been over 1,500 applications from retail rice shops and small- and medium-sized supermarkets to procure stockpiled rice via discretionary contracts. As of Friday morning, 101 applications were [approved](#), though the date of arrival in the hands of the distributors remains undetermined.
- Koizumi also [indicated](#) that MAFF may consider buying back stockpiled rice procured at a higher price through the bidding process, a method in which rice may be released to the market in a cheaper and faster way. The GOJ released 310,000 tons through the bidding process between March and April.

- The GOJ's rice policies have come under fire from the "agriculture tribe" in the LDP, with [Ishiba](#) and [Koizumi](#) indicating this week that the GOJ could import foreign rice as an emergency measures to offset potential shortages, while LDP Secretary General Moriyama Hiroshi [reiterated](#) that Japan draw from domestic rice capacity.
- Moriyama also opposed Koizumi's [desire](#) to lower rice prices from the current ¥4,200~, [pointing out](#) that going any lower than ¥3,000-3,200 would disincentive farmers from producing rice.

7. Other Political Developments

- On Friday, the GOJ [presented](#) a draft of its Medium-Term Plan Toward National Resilience, which indicated a five-year plan starting next year toward repairing aging infrastructure in preparation for disasters like earthquakes. It [included](#) plans such as updating sewage infrastructure within five years. Project value is set at ¥20 trillion.
- The GOJ [revised](#) its near-term policies on accepting foreign talent to Japan, adding a provision that allows the government to deny re-entry to medium- to long-term stayers in Japan who fail to pay medical bills. The plan also [included](#) measures to combat unpaid social insurance and taxes, as well as the introduction of streamlined entry into the country through things like the Japanese version of ESTA.
- The LDP [opposed](#) a vote on opposition-submitted legislation to introduce separate surnames for married couples, arguing that there are concerns about parents and children taking on separate surnames. The party is [mulling](#) whether to force lawmakers to toe the party line, while the opposition [looks to align](#) three different versions of the bill together to pass it through the Lower House.
- The ruling parties and the Japan Innovation Party (*Nippon Ishin no Kai*) [formally agreed](#) to reduce hospital beds across the country by around 110,000 to reduce social insurance costs. The parties look to achieve this by the next regional medical vision to be crafted in two years. Reducing beds will cut the budget by ¥1 trillion a year.
- On Thursday, the Lower House Committee on Judicial Affairs [held](#) free discussions on "the discrepancy between reality and the Constitution." While the LDP, *Ishin*, and the Democratic Party for the People (DPFP) agreed on the need to insert the JSDF into the Constitution, the CDP advocated for legislation to legally acknowledge court rulings on sex changes and the family register.
- On Wednesday, the ruling parties and *Ishin* [agreed in principle](#) to design the system for free high school education with the idea of scrapping any income conditions. The parties look to include this in the Basic Policy on Economic and Fiscal Management and Reform (*Honebuto*) to be released in mid-June. Meanwhile, talks over scrapping

the provisional gas tax rate ended between the three parties, with *Ishin* looking to work with the CDP and DPFP to get legislation passed.

8. GOJ Releases Policy Documents Ahead of Honebuto

- On Friday, the GOJ [presented](#) a draft of this year's *Honebuto*, which is expected to be approved by the Cabinet in mid-June. The draft [mainly reflects](#) past policy positions, targeting a real 1 percent or so increase in wages adjusted for inflation.

Draft <i>Honebuto</i> Contents	
Wage Hikes	<ul style="list-style-type: none">Promote amongst small- and medium-sized business operators; support cost transfers and productivity improvements, business succession and M&AsImproving working conditions in the medical and nursing fields
Fiscal Consolidation	<ul style="list-style-type: none">Realize a primary balance surplus as early as possible between FY 2025-2026
Agriculture, Forestry and Fisheries	<ul style="list-style-type: none">Control rice prices and secure stable supplySpecify measures to revise rice paddy policies
Disaster Prevention/Reduction	<ul style="list-style-type: none">Establish a “Disaster Prevention Agency” with authority to instruct other ministries/agencies by the end of FY 2026; appoint a minister
Employment Ice Age Generation	<ul style="list-style-type: none">Support reskilling and improvement of household finances
Coexistence with Foreigners	<ul style="list-style-type: none">Introduce JESTA (Japanese ESTA) in FY 2028Tighten rules around switching from foreign driver's license to Japanese license

- The GOJ [presented](#) a draft of the revised grand design toward a new form of capitalism and the 2025 action plan, which aims to sustain real wage hikes around 1 percent over the next five years. It [notes](#) public-led and private-led efforts such as raising the public pricing of medical and nursing care and targeting ¥135 trillion in domestic investment by FY 2030 and ¥200 trillion by FY 2040.
- On Wednesday, the GOJ [presented](#) a draft of this year's Integrated Innovation Strategy, which sets the path for policies for the next five years (2026-2030) in three areas: strengthening coordination with economic security; strengthening research capability, developing and securing talent; and improving innovation capacity.

- The GOJ also [revised](#) the Fusion Energy Innovation Strategy, setting forth a plan to create a fusion industry ecosystem by demonstrating world-leading power generation capacity in the 2030s.
- On Tuesday, the GOJ [presented](#) a draft of its Basic Vision for Regional Revitalization 2.0, Ishiba's flagship initiative that aims to create a virtuous cycle of diversity supported by a "strong" economy and a "rich" living environment toward a "new, enjoyable Japan." It sets key performance indicators such as creating a "related population" of ten million and one hundred million total people around localities.
- The GOJ [released](#) its Intellectual Property Promotion Plan and New International Standardization Strategy, which centers around reinforcing competitiveness as an innovation hub, utilizing cutting-edge digital technologies like AI, and gaining a foothold in the global market. The KPI here is to elevate Japan's global innovation index ranking from 13th in 2024 to 4th.
- The GOJ [decided](#) on its three-year policy program for the employment ice age generation, which [positions](#) support for asset creation and securing housing as key pillars. The GOJ will finalize measures by the end of the fiscal year.

9. Economic Security and Tech Developments

- On Friday, the Japan Fair Trade Commission (JFTC) [released](#) its first report on the state of the generative AI market in Japan, which [identified](#) bundled sales of existing services and generative AI, as well as limiting access to competitors as potential fair competition risks. The JFTC does not see any major issues at this point in time.
- *Bloomberg* [reported](#) Thursday that the discussions between the Trump administration and Nippon Steel/U.S. Steel over the acquisition of the latter will be concluded by June 18, with U.S. Secretary of Commerce Howard Lutnick stating in a Congressional hearing that the administration believes a good deal is now possible.
- The Ministry of Economy, Trade and Industry (METI) and Ministry of Internal Affairs and Communications (MIC) [plans to determine](#) candidates for regionally distributed data centers based on criteria like stable ground/soil and proximity to landing stations for undersea cables. *Nikkei* [reported](#) on Sunday that METI will require energy conservation measures for any new data centers created after FY 2029.
- *Nikkei* [reported](#) Wednesday that MIC will explore the possibility of supporting tests to see whether optical communications technology can be utilized to integrate operations of multiple data centers across the country. Such an effort would distribute energy use and prevent the concentration of demand (and shortage) in metro areas.

- *Nikkei* [reported](#) Tuesday that this year's *Honebuto* will advocate for the strengthened role of the National Security Secretariat as a command center for economic intelligence, proposing an economic security think tank to fuse diplomacy, intelligence, military, economy, and technology (DIMET) expertise under one house. The think tank would assess risks such as a Taiwan contingency and trade wars.
- On Monday, the GOJ's AI Strategy Council [presented](#) the direction of AI policy, centered around creating an AI Strategy HQ within three months of the AI law's promulgation and establishing a Basic Plan on AI Policy to flesh out the law.

10. Key Economic/Financial Developments

- On Friday, the GX Decarbonization Electricity Act [took effect](#), enabling nuclear power stations to operate beyond the sixty year limit. The Act on Promoting the Utilization of Sea Areas for the Development of Marine Renewable Energy Power Generation Facilities [passed](#) the Lower House on Tuesday too. The bill expands the area of setting up offshore wind farms from the territorial sea to the exclusive economic zone (EEZ), which is two hundred nautical miles from the shoreline.
- Digital Minister Taira Masaaki, State Minister for Foreign Affairs Hisayuki, State Minister of the Cabinet Setouchi Takakazu, and State Minister of Economy, Trade and Industry Ogushi Masaki [took part](#) in the OECD Ministerial Council meeting and the G7 Trade Ministerial meeting held from June 3-4. The meetings heavily featured the importance of free and fair trade and competition, as well as a need to strengthen supply chain resilience as part of economic security.
- On Wednesday, the Ministry of Health, Labor and Welfare (MHLW) [announced](#) that the number of Japanese children born in 2024 fell 5.7 percent from the previous year to 686,061, the first time [since](#) statistics became available in 1899 that the number of births fell below 700,000. This is fifteen years earlier than the GOJ's estimates.
- On Tuesday, METI [released](#) an interim report on industrial structure in 2040 led by growth investments, which indicates estimates on macroeconomic conditions and industrial structure based on scenarios reflecting government policies. It projects nominal GDP will exceed ¥1 quadrillion in 2040 if wage hikes are sustained at 5 percent and domestic investment reaches ¥200 trillion.
- On Monday, the GOJ [convened](#) the FDI Promotion Council and approved plans to increase the FDI balance from ¥100 trillion to ¥120 trillion by 2030. As of the end of 2024, Japan had a ¥53.3 trillion FDI surplus, more than doubling over the last decade.
- METI [announced](#) that the Cross-Border Privacy Rules (CBPR) scheme took effect, enabling smoother cross-border data transfers for approximately two thousand

companies in thirteen member countries and regions with certification of appropriate data protection during transfers. [Only four](#) Japanese companies have certification.

11. State of the Economy

- On Friday, MIC [announced](#) that consumption expenditure for households with more than two persons in April fell 0.1 percent from April 2024 to ¥325,717, the [first decrease](#) in two months. Nominal consumption grew 4 percent.
- The Cabinet Office (CAO) [announced](#) that the composite index of business conditions in April fell 0.3 point to 115.5 from March, the [second consecutive month](#) in decline. CAO maintained its assessment that the economy is “halting to fall.” CAO [announced](#) Tuesday that the demand-supply (GDP) gap for January-March was negative 0.3 percent, the [first negative quarter](#) in two quarters (¥2 trillion deficit).
- On Thursday, the MHLW [announced](#) that real wages in April fell 1.8 percent from April 2024, the [fourth consecutive month](#) that prices have exceeded wage hikes. Nominal wages increased 2.3 percent to ¥302,453, with base salaries rising 2.2 percent, recovering to the 2 percent mark for the first time in three months.
- On Wednesday, the Japan Chamber of Commerce and Industry (JCCI) [announced](#) that the wage hike rate among small- and medium-sized enterprises as of April 2025 was 4.03 percent, 0.41 points [higher](#) than the previous year. Businesses seem to be taking a “defensive wage hike” approach to secure talent despite industries not doing well.
- On Monday, the Ministry of Finance (MOF) [announced](#) that capital investment across all industries rose 6.4 percent in the January-March quarter to ¥18.8 trillion, the [first positive growth](#) in two quarters and the highest amount in a given quarter. The food and automotive steel plates sectors significantly increased production capacity.

II. Public Opinion Poll

- A JNN poll [released](#) on Monday found that the Ishiba Cabinet’s approval rating was 35 percent, up one point from May, while disapproval remained at 62 percent.
 - 41 percent of respondents said that they do not believe a basic pension hike should be included in the pension system reform bill, while 40 percent believe it should be included.
 - 31 percent of respondents said that, if anything, they would like to buy GOJ stockpiled rice; 26 percent said that they would somewhat refrain from buying it; 22 percent said they do not want to buy at all; and 17 percent said they would like to buy it.
 - 56 percent of respondents said that they do not believe the GOJ’s rice policies will lower brand rice prices, while 35 percent said they believe prices will go down.

- 88 percent of respondents said that they support increases in rice production, while 5 percent said they oppose it.
 - 43 percent of respondents said that they want the LDP and Komeito to continue leading the government, while 41 percent said they want a change in government.
 - 16 percent each said that they would want the CDP or DPFP to join the current ruling coalition, while 14 percent said they want the Japan Innovation Party; 30 percent said that they want a minority government if another party joins the ruling coalition.
 - 45 percent of respondents said that they do not believe the opposition should submit a no-confidence motion, while 40 percent said they believe the opposition should submit a no-confidence motion.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	24.3 (+0.8)
Constitutional Democratic Party	8.2 (+2.6)
Japan Innovation Party	2.3 (-2)
Komeito	2.9 (-1.1)
Democratic Party for the People	6.8 (-3.4)
Japan Communist Party	2.2 (-0.2)
Reiwa Shinsengumi	3.1 (-0.4)
Suffrage Party (Sanseitō)	2.1 (+0.5)
Japan Conservative Party	0.7 (+0.1)
Social Democratic Party	0.1 (± 0)
Independent (No Party)	42.2 (+5.5)