

The Weekly Observer

December 1-5, 2025

The 201st edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the ongoing Japan-China rift, the postponed Japan-PRC-ROK summit, the pending income tax hike for defense spending, the LDP-Ishin agreement to reduce the number of Diet member seats, the reported contents of the GOJ's new regional revitalization strategy, ongoing GOJ discussions on tax system reform, the GOJ's upcoming AI Basic Plan and cybersecurity strategy, the reported contents of the GOJ's foreign nationals policy, corporate performance in the July-September period, and more.

By Content

I. News of the Week

Foreign Policy/Security

1. Japan-China Rift Continues
2. Foreign Policy Developments
3. Defense/Security Developments

Domestic Politics

4. LDP and Ishin Strike Deal on Bill to Reduce Diet Member Seats
5. Other Political Developments

Economics/Finance

6. GOJ and Ruling Parties Explore Various Tax Reform Measures
7. Economic Security and Tech Developments
8. Key Developments
9. State of the Economy

II. Public Opinion Polls

1. Nihon Keizai Shimbun (11/30)

I. News of the Week

1. Japan-China Rift Continues

- The Japan-China rift over Prime Minister Takaichi Sanae's "Taiwan contingency" remarks continue, with the Japanese Ambassador to the UN Yamazaki Kazuyuki [sending](#) another letter to UN Secretary General António Guterres on Thursday contesting China's "unsubstantiated and categorically unacceptable" claims in a letter [sent](#) on Monday, stating that Japan seeks dialogue to resolve the differences of views.
- *Asahi* [reported](#) Wednesday that the GOJ voiced concerns with the French Government over President Emmanuel Macron potentially inviting President Xi Jinping to next year's G7 Summit hosted by France. Tokyo remains concerned that China may influence G7 states' positions on the ongoing rift.
- The Chinese foreign ministry [stated](#) on Thursday that Takaichi's explanation a day earlier that Japan's position on Taiwan has not changed since the 1972 joint communiqué cannot be accepted and that she must retract her November remarks. The Chinese Embassy in Japan [wrote](#) on X on Tuesday that the San Francisco Peace Treaty, which Takaichi referred to as Japan's official position on Taiwan, is "unlawful and invalid" as the treaty did not include the PRC or the USSR. Meanwhile, as the number of Chinese visitors to Japan [falls](#), Director-General of the Department of Asian Affairs Liu Jinsong [reportedly visited](#) Japanese manufacturer's facilities in Dalian to reassure them that business activities can continue as usual.
- China has ramped up its military activities around Japan too, with aircraft carrier Liaoning [conducting](#) a takeoff and landing exercise for fighter jets and helicopters in the Pacific Ocean on Friday and Saturday. *Reuters* [reported](#) that the number of Chinese vessels in the East Asian seas at one point reached over a hundred vessels. In response, the Ministry of Defense (MOD) will [reportedly consider](#) utilizing drones starting next fiscal year to counter Chinese drone flights around Japanese airspace.
- *Sankei* [reported](#) Tuesday that senior members of the cross-party Japan-China Parliamentary Friendship League, including ex-Liberal Democratic Party (LDP) Diet Affairs Chair Obuchi Yuko, met with Chinese Ambassador to Japan Wu Jianghao on Monday to discuss a possible visit to Beijing by the end of the year. It remains unclear whether Beijing would be willing to meet given the current circumstances.
- While Japan-China relations sour, the Japan-Taiwan Exchange Association and the Taiwan-Japan Relations Association — de facto embassies of the two sides — [signed](#) documents on Thursday on "digital trade arrangements" and a memorandum of cooperation on regional customs." Chairman Su Jia-chyuan of the Taiwanese side [said](#) Taiwan plans to support Japan's agricultural community with tangible actions.

2. Foreign Policy Developments

- *Asahi* [reported](#) Friday that Takaichi is arranging to meet with Italian Prime Minister Giorgia Meloni in Tokyo around January 16, 2026. The two sides are expected to discuss security cooperation, including the Global Combat Air Programme (GCAP).
- *Yomiuri* [reported](#) Thursday that the Japanese and South Korean governments are arranging for President Lee Jae-myung to visit Japan in mid-January to resume shuttle diplomacy next year. Chief Cabinet Secretary Kihara Minoru [revealed](#) that Lee requested a visit to Nara, Takaichi's home prefecture, during their October summit.
- *Nikkei* [reported](#) that the Japan-PRC-ROK trilateral summit scheduled to take place by the end of the year in Japan will be postponed due to the ongoing rift between Japan and China. The trilateral serves as an important forum for the three countries to seek stable regional cooperation amid geopolitical challenges.
- On Wednesday, the Ministry of Foreign Affairs (MOFA) [announced](#) that the GOJ and Ukrainian Government signed and exchanged notes on Tuesday for the grant aid "The Program for Emergency Response on Humanitarian Mine Action and UXO Clearance" amounting to ¥4 billion. The initiative was announced during the Ukraine Mine Action Conference (UMAC 2025) held in Tokyo in October.
- *Mainichi* [reported](#) Tuesday that the GOJ plans to host a summit with the five Central Asian states in Tokyo as early as December 20. It has become a key geopolitical region given its resource-rich nature and close ties with China and Russia.
- On Monday, Takaichi [held](#) a telephone meeting with NATO Secretary General Mark Rutte, exchanging views on the situations in Ukraine and the Indo-Pacific region. Takaichi highlighted that the security of the Euro-Atlantic and the Indo-Pacific is inseparable and cooperation between Japan-NATO and NATO-IP4 is critical.

3. Defense/Security Developments

- On Friday, the LDP's Tax Research Commission [met to discuss](#) FY 2026 tax system reform, with many members proposing that the income tax hike for defense spending be implemented in January 2027. While the LDP is leaning toward this timeline, the Japan Innovation Party (*Nippon Ishin no Kai*) [remains divided](#), even if another tax would be cut back to offset the income tax hike.
- *Jiji* [reported](#) that Minister of Defense Koizumi Shinjiro plans to visit the United States in January 2026 for the first time since his appointment to meet with U.S. Secretary of War Pete Hegseth. Hegseth visited Japan in late October.

- The GOJ [announced](#) that it would be providing Tonga with ¥300 million worth of unmanned aerial vehicles for surveillance and disaster response (eight) and military uniforms (two thousand) as part of its “official security assistance” (OSA) program. This is the first time Japan is providing OSA to Tonga.
- *Asahi* [reported](#) Wednesday that Koizumi plans to meet with New Zealand Defense Minister Judith Collins when the latter visits Japan from December 18-19, likely to sign an acquisition and cross-servicing agreement (ACSA) to facilitate the exchange of military equipment between the two countries.
- *Yomiuri* [reported](#) Tuesday that the Japanese and Philippine Government plan to export Japanese-made systems for intelligence gathering and military command and control to the Philippine Armed Forces. This would be the first case that a Japanese command and control system is exported abroad.
- *Yomiuri* [reported](#) that the GOJ and ruling parties are working to scrap the five permitted categories of defense equipment exports based on the Three Principles on Transfer of Defense Equipment and Technology as early as next spring, with the goal of expanding the scope of exports and reinforcing the defense industrial base.

4. LDP and Ishin Strike Deal on Bill to Reduce Diet Member Seats

- On Monday, Takaichi and *Ishin* leader Yoshimura Hirofumi [agreed to submit](#) legislation during this Diet session to reduce the number of Lower House Diet members by 10 percent as early as FY 2027 and to automatically trigger the reduction if a conclusion is not reached on the specifics within a year since the bill’s enactment.
- The two parties [agreed](#) to aim for a reduction by forty-five seats, twenty-five in single-member districts and twenty in proportional representation. *Ishin* initially demanded a fifty seat reduction on the proportional side, but the LDP pushed back in order to ensure opposition parties support the initiative.
- Smaller opposition parties [criticized](#) the agreement as undemocratic, with Japan Communist Party Secretary-General Koike Akira pointing out that this is a “reform that drowns out people’s voices.” *Reiwa Shinsengumi* leader Yamamoto Taro argued that reducing representation would fix existing power structures into place.
- The LDP and *Ishin* [co-submitted](#) the bill on Friday, with the goal of enacting it by the end of the Diet session on December 17. The bill establishes a cross-party council under the Speaker of the House to discuss reform. Some LDP members [walked out](#) of a party meeting to approve the bill over opposition to the automatic reduction clause.

- An internal LDP survey [found](#) that, based on the 2020 Census, twenty prefectures would see a cut back in single-member district seats (e.g., three in Tokyo, two in Osaka), as well as one to three seat reduction in all eleven proportional blocks. The actual reduction would be [based](#) on the new census to be released next year.
- Political parties have also [started to discuss](#) the possibility of reviving a multi-member district system alongside the seat reduction, with the Democratic Party for the People (DPFP) [officially proposing](#) a “multi-member district plurality system” in which voters can choose multiple candidates in a three to five member district.

5. Other Political Developments

- *Yomiuri* [reported](#) Saturday that the GOJ plans to include legalizing the use of maiden names as common names in its next five-year Basic Plan for Gender Equality to be finalized by the end of the year. The GOJ [aims to submit](#) legislation next year to legalize the matter in place of introducing separate surnames for married couples.
- The Lower House Special Committee on Political Reform [held](#) sessions on Wednesday and Thursday to discuss the three bills set forth regarding corporate political donation regulations. While the LDP wants to [prioritize](#) transparency, the main opposition Constitutional Democratic Party (CDP) has backed the DPFP-Komeito bill that limits recipients of donations to political party headquarters and prefectural branches.
- On Thursday, Takaichi [instructed](#) Minister in charge of Regional Revitalization Kikawada Hitoshi to formulate a policy package by next May to support regional growth strategies. She announced a new grant to support the enhancement of added value and the development of new markets for local industries. The GOJ will also [craft](#) policies to create industrial clusters of growth sectors like semiconductors.
- The Lower House Commission on the Constitution [discussed](#) the future direction of deliberations, where the LDP urged other parties to support the creation of a drafting committee to amend the Constitution. While *Ishin* and the DPFP [supported](#) the motion, the CDP and other parties opposed it on grounds that it would only make sense to begin discussing drafting of amendments when there is a consensus.
- On Wednesday, the Lower House Steering Committee [decided](#) to drop discussions of an LDP proposal to amend the Expenses Act that would have increased Diet member allowances by ¥50,000 a month in the future. *Ishin* and opposition parties agreed that it runs counter to “self-defeating reforms” and would not be publicly accepted.
- On Monday, the GOJ [decided](#) to establish the Disaster Management Agency on November 1, 2026, with plans to set up two regional hubs as early as FY 2027 to

cover areas that may be affected by a Nankai trough earthquake and a Japan Trench and Kuril trench earthquake. The Agency will be staffed by more than 220 officials and have the authority to instruct and advise other ministries and agencies.

6. GOJ and Ruling Parties Explore Various Tax Reform Measures

- *Nikkei* [reported](#) Friday that the GOJ and ruling parties plan to introduce a new framework to provide additional tax cuts for corporations conducting R&D in cutting-edge sectors like AI and quantum. The objective is to encourage R&D in areas that have low profitability in the research stage.

	General	Open Innovation	Strategic Domains
Target	Corporate research	Joint research with universities and startups	Research on national strategic technologies like quantum and AI
Deduction Rate	Large firms: 1-14% SMEs: 12-17%	20-30%	A maximum of 30-40% being considered
FY 2023 Tax Cut Amount	¥925.2 billion	¥22.6 billion	N/A

- NHK [reported](#) that the GOJ and ruling parties will consider a framework to redistribute corporate business and property tax revenue from Tokyo to other prefectures as a way to redress the growing disparity in revenue between the nation's capital and other areas. They are also [considering](#) a framework to adjust “interest discounts” on resident tax levied by local governments on interest from deposits and savings as internet banking (institutions mostly based in Tokyo) becomes prevalent.
- The Board of Audit of Japan [found](#) that companies are exploiting a loophole to generate “tax savings” by using the simplified consumption tax scheme to keep a hold of taxes that should be paid to the national treasury. Companies with over ¥50 million in profits have divided businesses or merged to stay below the threshold and qualify for the simplified tax scheme, saving at least ¥2.2 billion in taxes.
- *Nikkei* also [reported](#) Wednesday that the GOJ and ruling parties are considering a two year suspension of the environmental performance tax (0-3 percent based on fuel efficiency, etc.) levied when purchasing a vehicle, a measure designed to support the automotive industry adversely impacted by the U.S. tariffs.
- *Nikkei* [reported](#) that the GOJ plans to extend the home mortgage interest deduction by five years. In light of the increasing number of single-person and two-person

households, the minimum floor area requirement for homes eligible for tax reduction will be relaxed from the previous fifty square meters or more to forty square meters.

- *Jiji* [reported](#) that the GOJ and ruling parties are considering publicly disclosing the names of companies receiving special tax measures for policy purposes like promoting R&D and wage hikes as a way to assess the efficiency of tax measures. Meanwhile, the GOJ will also [begin](#) a public comment period by the end of the year to revise tax cut measures and subsidies.

7. Economic Security and Tech Developments

- *Nikkei* [reported](#) Saturday that the GOJ will create guidelines by the end of FY 2025 for IT vendors and users that outline responsibilities to respond to cybersecurity vulnerabilities. The guidelines will include a checklist for IT vendors including software supply chain management and responding to lingering vulnerabilities, as well as for users including risk management by the C-suite.
- *Jiji* [reported](#) Friday that the GOJ's AI Basic Plan will target raising the use of AI in Japan to "50 percent first and 80 percent in the future," with plans to draw in ¥1 trillion in private sector investment for R&D. Meanwhile, the amended Personal Information Protection Act will [lift](#) the consent requirement for personal information utilized solely for AI model development or generating statistical data.
- *Jiji* [reported](#) that the GOJ plans to establish a "National Intelligence Secretariat" as early as July 2026 to serve as the intelligence counterpart to the National Security Secretariat. A bill will be [submitted](#) next year to 1) elevate the Cabinet Intelligence and Research Office (CIRO), 2) establish a secretary general role, and 3) establish a National Intelligence Council led by the prime minister.
- *Nikkei* [reported](#) Monday that the GOJ and ruling parties plan to levy a blanket 20 percent tax on income generated from cryptocurrency transactions — equivalent to financial products like stocks and mutual funds — as a way to reduce the tax burden currently levied by income amount to vitalize the domestic crypto market.
- Nippon Yusen, Mitsui O.S.K. Lines, and Kawasaki Kisen [announced](#) that they would be joining the next-generation ship design joint venture MILES started by Mitsubishi Heavy Industries and Imabari Shipbuilding. Japan Marine United and Japan Shipyard are also on board, creating a new seven company coalition to revive Japan's shipbuilding.
- *Jiji* [reported](#) over the weekend that the GOJ's new Cybersecurity Strategy will point out that "state-sponsored cyber threats are on the rise" and that the government will serve as the central pillar to defend and deter such cyber threats. The strategy also

notes the possibility that election interference by foreign entities through things like disinformation campaigns could affect the foundations of a healthy democracy.

8. Key Economic/Financial Developments

- On Friday, the yield ratio on newly issued ten year JGBs, an indicator of long-term interest rates, [rose](#) to 1.95 percent, the first time yields have reached a similar level in eighteen years. Bond selling is spreading as investors expect the Bank of Japan (BOJ) will continue its rate hike approach, as well as concerns about JGB issuance persist given the Takaichi Cabinet's pro-fiscal expenditure policy direction.
- Minister of Agriculture, Forestry and Fisheries (MAFF) Suzuki Norikazu [revealed](#) that the GOJ's rice vouchers encouraging purchase of food items as part of the stimulus package will have expiration dates attached to them. It's likely that the expiry date will be set for the end of September 2026.
- *Mainichi* [reported](#) Thursday that the GOJ plans to raise the residency condition for foreign nationals to acquire Japanese citizenship from "over five years" to "over ten years" as part of its basic policy on foreign nationals to be compiled in January 2026. *Sankei* [reported](#) that the GOJ will consider lowering the threshold at which visa screening is tightened upon the next arrival from "over ¥200,000" in unpaid medical fees to "over ¥10,000" starting FY 2026. *Yomiuri* [reported](#) that the GOJ will also create a comprehensive database to centrally manage real estate ownership status, as well as introducing nationality registration for mansion/apartment registration.
- On Tuesday, the Ministry of Finance's (MOF) Fiscal System Council working group [handed over](#) its opinion paper (recommendations) toward the formulation of the FY 2026 budget to Minister of Finance Katayama Satsuki, which stated that "it is important to approach each fiscal year's financial management while confirming and verifying the situation as a flow factor."
- On Monday, the GOJ [announced](#) the appointment of former Special Advisor to the Minister of Internal Affairs and Communications Ota Naoki and urban economics commentator Kato Koko as special advisors to the Cabinet. Ota will be in charge of digital transformation, while Kato will advise on trade and commercial policy.
- BOJ Governor Ueda Kazuo [indicated](#) that the Bank wishes to "make an appropriate judgment on whether to raise interest rates" at its next monetary policy meeting on December 18-19, raising speculation that rates will be hiked by the end of the year. This has raised the long term interest rate as investors sell JGBs.

9. State of the Economy

- On Friday, the Cabinet Office (CAO) [announced](#) that the coincident index of business conditions reflecting the current economic situation in October rose 0.5 points from September to 115.4, the second consecutive month on the rise as automobile exports affected by U.S. tariff measures have recovered. The CAO [maintained](#) the assessment that the situation is “halting to fall.”
- The Ministry of Internal Affairs and Communications (MIC) [announced](#) that real consumption expenditure for households with two or more persons in October fell three percent to ¥306,872. This was the [first time](#) in six months that consumption decreased and at a rate last experienced in January 2024.
- *Nikkei* [reported](#) Thursday that a recent analysis by the Japan Research Institute based on population data found that the number of Japanese children born in 2025 is expected to fall three percent from 2024 to approximately 665,000, a new low and the second year in a row that number of births fell below 700,000. Meanwhile, the number of marriages remained the same at around 485,000.
- On Tuesday, the CAO [announced](#) that the consumer confidence index in November rose 1.7 points from October to 37.5, the fourth consecutive month the index has improved. The CAO [maintained](#) the assessment that confidence is recovering.
- On Monday, the MOF [announced](#) that general account tax revenue in October rose 6.3 percent from October 2024 to ¥5.23 trillion, [led](#) by a 10.2 percent increase in income tax, a 6.6 percent increase in corporate tax, and a 4.3 percent increase in consumption tax revenue. Cumulative tax revenue as of the end of October increased 20.1 percent from the previous year to ¥26.42 trillion.
- The MOF [announced](#) that ordinary profit across all industries in the July-September period rose 19.7 percent from the same period last year to ¥27.54 trillion, a fourth consecutive quarter that profit has [hit](#) positive margins and a record high in this period. Meanwhile, capital investment across all industries excluding the financial and insurance industries [rose](#) 2.9 percent, a third consecutive quarter on the rise though the growth rate has fallen.

II. Public Opinion Poll

- A *Nikkei* poll [released](#) on Sunday found that the Takaichi Cabinet’s approval rating was 75 percent, up one point from October, while disapproval was 18 percent, down one point from last month.
 - 55 percent of respondents said that they want the prime minister to prioritize inflation relief measures; 32 percent said economic growth; and 31 percent said foreign policy and security.

- 69 percent of respondents said that they approved of the Takaichi-Trump summit in October, while 18 percent said they disapproved.
 - 55 percent of respondents said that they believe Takaichi's remarks on a Taiwan contingency was "appropriate," while 30 percent said they do not believe it was appropriate.
 - 46 percent of respondents said that they believe the Three Non-Nuclear Principles should be maintained, while 39 percent said they believe the "not introduce (to Japan)" principle should be revised.
 - 40 percent of respondents said that they do not believe the GOJ's stimulus package will be effective in suppressing the impact of rising prices, while 35 percent said they believe it will be effective.
 - 69 percent of respondents said that they believe Takaichi's "proactive responsible fiscal spending" approach will have a good impact on the Japanese economy, while 15 percent said they do not believe it will have a good impact.
 - 58 percent of respondents said that they believe nuclear power plants should be restarted across the country, while 31 percent said they do not believe they should be restarted.
 - 53 percent of respondents said that they do not believe the next Lower House election should be rushed; 18 percent said it should be held by next spring; 7 percent said by the end of the year; and 6 percent each said by the beginning of next year or by the end of next year.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	41 (+5)
Constitutional Democratic Party	6 (-1)
Japan Innovation Party	5 (-4)
Komeito	3 (-1)
Democratic Party for the People	6 (±0)
Japan Communist Party	2 (±0)
Reiwa Shinsengumi	3 (+1)
Do It Yourself Party (Sanseitō)	7 (+1)
Japan Conservative Party	1 (±0)
Social Democratic Party	1 (+1)

The Weekly Observer (12/1-12/5)

Team Future (Mirai)	1 (± 0)
Independent (No Party)	22 (± 0)