

## ***The Weekly Observer***

December 15-19, 2025

*The 203<sup>rd</sup> edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on Takaichi's reflections on her Taiwan contingency remarks, the first Japan-Central Asian Summit, Takaichi's reported plans to visit the United States in March, a GOJ official's gaffe over nuclear policy, this year's extraordinary Diet session, the ruling parties' outline for FY 2026 tax system reform, the appointment of a new special advisor to the Cabinet, the Bank of Japan's decision to hike rates to a thirty-year high, the GOJ's plans to establish an economic security think tank next year, the virtual G7 finance ministers and central bank governors' meeting, the Monthly Economic Report for December, and more.*

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

### **1. Takaichi Reflects on Taiwan Contingency Remarks**

- On Tuesday, Prime Minister Takaichi Sanae [said](#) about her Taiwan contingency remarks in November that she “recognizes as a point of reflection that my response was perceived as going beyond the government’s conventional position.”
- When asked to withdraw her remarks, Takaichi stated that “the government has clearly stated multiple times in its responses that it comprehensively assesses all information, maintaining its consistent position.” She also refused to comment on hypothetical situations like a Taiwan contingency.
- Takaichi also [stated](#) that the maritime and air liaison mechanism (defense hotline) between the two countries must be steadily utilized for communications. Media reports claimed that the Chinese side refused to answer calls from the Japanese side.
- On Monday, Chinese Ambassador to the UN Fu Cong [demanded](#) that Takaichi withdraw her remarks, stating that it “constitutes a crude interference in China’s internal affairs” and that “Taiwan is an inseparable part of China’s territory.” Japanese Ambassador to the UN Yamazaki Kazuyuki emphasized that the Japanese side wants a calm response through dialogue.
- The Japan National Tourism Organization (JNTO) [announced](#) Wednesday that the number of Chinese tourists in November increased 3 percent from November 2024 to 562,600, down from the 22.8 percent increase in October. The [impact](#) of Beijing urging against travel to Japan is expected to begin showing in December.

### **2. Japan Hosts First Summit with Central Asian Leaders**

- Takaichi [hosted](#) the first “Central Asia plus Japan” Dialogue (CA+JAD) in Tokyo from December 19-20 with the leaders of Uzbekistan, Kyrgyz, Turkmenistan, Tajikistan, and Kazakhstan.
- Takaichi [highlighted](#) the importance and potential of the Central Asian region — a key strategic region with geopolitical implications given China and Russia’s influence — including its geopolitical significance, its importance in economic security due to energy and mineral resources, and its potential with high economic growth and population increase.
- The leaders announced initiatives in newly identified three priority cooperation areas: green and resilience, connectivity, and human resource development. The leaders signed notes related to official development assistance (ODA) and [over](#) 150 investment contracts and memorandums with the private sector.

- The Tokyo Declaration [issued](#) after the summit outlined the initiatives in detail:
  - **Green and Resilience:** Critical mineral supply chains and infrastructure resilience; cooperation in developing technologies toward decarbonization
  - **Connectivity:** Promoting cooperation regarding the “Trans-Caspian International Transport Route” to enhance connectivity; develop and support governance and ecosystem for safe, secure, and trustworthy AI aimed at harnessing its potential to achieve sustainable economic growth and to address social challenges
  - **Human Resource Development:** Expressed hope for further development of existing human resources-related programs for various sectors; making efforts to create business environment conducive to foreign direct investment
- The declaration committed to targeting business projects at a total amount of ¥3 trillion in five years in Central Asia. The GOJ aims to be a trustworthy partner to the Central Asian states compared to rival competitors like China.
- The Caspian Sea route in particular is of [geopolitical importance](#) to Japan, as it bypasses Russia and could serve as an alternative shipping route. However, the route has challenges, such as having to go through multiple customs areas like in Tajikistan and Kazakhstan and the natural issues of trading between a maritime nation (Japan) and landlocked countries.

### 3. Foreign Policy Developments

- *Asahi* [reported](#) Saturday that Takaichi plans to visit the United States in March 2026 to meet U.S. President Donald Trump before his planned visit to China in April. Takaichi is expected to discuss Japan’s China policy amid historic worsening of ties.
- On Thursday, the Ministry of Economy, Trade and Industry (METI) [announced](#) that the GOJ and U.S. Government held a virtual meeting to discuss the \$550 billion investment deal. The joint investment committee will [likely prioritize](#) energy projects as the first project of the deal.
- Minister for Foreign Affairs Motegi Toshimitsu [held](#) a working lunch with Thai Foreign Minister Sihasak Phuanketkeow, in which the two concurred on strengthening cooperation in various fields, including political, economic, and people-to-people exchanges. Motegi emphasized the importance of avoiding excessive dependence on any particular country.
- *Sankei* [reported](#) that ruling Liberal Democratic Party (LDP) Executive Acting Secretary General Hagiuda Koichi plans to visit Taiwan from December 21-23 to

meet with President Lai Ching-te. Multiple LDP delegations are heading to Taiwan as Japan-China relations deteriorate.

- On Wednesday, Motegi [held](#) a meeting with Minister of Industry and Advanced Technology and Special Envoy of the United Arab Emirates to Japan Sultan Al Jaber, in which the two agreed to continue utilizing the Comprehensive Strategic Partnership Initiative (CSPI) framework to further strengthen cooperation in various fields which will serve as the foundation for future cooperation, including the bilateral Economic Partnership Agreement under negotiation.
- On Tuesday, the Ministry of Foreign Affairs (MOFA) [announced](#) that the Quad countries conducted the first-ever Indo-Pacific Logistics Network (IPLN) Field Training Exercise (FTX) in Guam to promote practical cooperation toward the realization of a “Free and Open Indo-Pacific.” The initiative aims to support swift and effective responses to natural disasters through transportation cooperation.

#### 4. Defense/Security Developments

- On Friday, Minister of Defense Koizumi Shinjiro [said](#) Friday that the GOJ will not leave any option off the table when considering the revision of the Three Non-Nuclear Principles. He did, however, state that the general policy will remain the same. This comes after an unnamed GOJ official [told](#) reporters off the record that “Japan should possess nuclear (weapons).”
- Koizumi [met](#) with New Zealand Defense Minister Judith Collins and explained the radar incidents involving Chinese military aircraft. They also welcomed that the Information Security Agreement and the [Acquisition and Cross-Servicing Agreement](#) (ACSA) will be signed. Japan [signed](#) an ACSA with the Netherlands too.
- *Yomiuri* [reported](#) that the Ministry of Defense (MOD) will create a new space division next year to take a cross-cutting approach to reinforcing defense capabilities. It will be housed under the Defense Buildup Planning Bureau and merge the procurement and policy making functions of the bureau and the Defense Policy Bureau.
- On Thursday, Koizumi [held](#) a video teleconference with Philippine Defense Secretary Gilberto Teodoro, reiterating their strong opposition to any unilateral attempts to change the status quo by force or coercion in the East and South China Seas. On Wednesday, Koizumi [held](#) a video teleconference with U.K. Defense Secretary John Healey, in which the two shared serious concerns over the radar incidents and stressed their unwavering commitment to a free, open and prosperous Indo-Pacific.

- *Jiji* [reported](#) that the GOJ and ruling parties agreed to commence the income tax hike to increase defense spending in January 2027. The new one percent income tax hike will be offset by a one percent cut to the reconstruction special income tax.
- *Asahi* [reported](#) that the GOJ's new "Cyber Communications Information Management Committee" overseeing the implementation of "active cyber defense" will be formed by five experts nominated by the prime minister and approximately fifty officials serving in the secretariat. The Committee will be formed on April 1, 2026.

## 5. Takaichi's First Diet Session Comes to a Close

- On Wednesday, this year's extraordinary Diet session came to a close. Takaichi [explained](#) that she was able to fulfill her promise with the people by enacting the FY 2025 supplementary budget. She [stated](#) that she has not thought about dissolving the Lower House as there are "many issues to tackle in front of me."
- The GOJ [successfully enacted](#) eleven of its submitted bills, narrowing down its list to ensure passage as a minority government requiring compromise with other political parties. Diet member-submitted bills like one on setting lawmaker bonuses were also enacted during the shortened session.
- The bill to reduce the number of Diet member seats and to revise corporate political donation rules were [tabled for discussion](#) next year as no conclusion was reached during the fifty-eight day session. Takaichi and Japan Innovation Party (*Nippon Ishin no Kai*) leader Yoshimura Hirofumi [agreed](#) on Tuesday to aim for enactment of the bill to reduce Diet member numbers during next year's ordinary Diet session.
- The FY 2025 supplementary budget was [enacted](#) on Tuesday with support from the ruling parties, the Democratic Party for the People (DPFP), and Komeito. The budget was 31 percent larger than last year's supplementary budget. This is the largest budget in the post-pandemic era.
- *Jiji* [reported](#) that next year's ordinary Diet session is anticipated to begin on January 23, 2026, running for 150 days until June 21. Takaichi will deliver her first policy speech to a full Diet session next year. Her focus will be on enacting the FY 2026 annual budget.

## 6. Ruling Parties Finalize FY 2026 Tax System Reform Outline

- On Friday, the LDP and *Ishin* [finalized](#) the FY 2026 tax system reform outline. The tax measures [reflect](#) the Takaichi Administration's strong desire to realize a strong economy by encouraging domestic investment while addressing excessive spending.

- The GOJ will approve the outline by the end of the year and submit related legislation to next year's ordinary Diet session. The outline also reflects a compromise with opposition parties to provide tax cuts to manufacturers and consumers.
- A central pillar of the tax reform proposal is raising the income tax exemption threshold from ¥1.60 million to ¥1.78 million, the product of a compromise with the DPFP. The annual tax cut accrued amounts to ¥650 billion.
- The income tax exemption threshold [consists](#) of a basic deduction and a salary income deduction. In addition, there will be a generous expansion of the income-based deduction amount for middle-income earners up to ¥6.65 million in annual income. The two-year measure will raise the basic deduction amount for income levels up to ¥2 million to the highest threshold ever.
- The [unprecedented compromise](#) with the DPFP was part of Takaichi's strategy to secure the party's support for the FY 2026 annual budget next year. It also creates future opportunities for LDP-DPFP collaboration as the coalition with *Ishin* remains on uncertain grounds.

## 7. Other Political Developments

- On Friday, the LDP and *Ishin* [agreed](#) on the specifics regarding "OTC-like drugs," requiring patients receiving prescriptions to pay an additional one-fourth of the drug costs while maintaining insurance coverage. The bill, to be submitted next year, covers additional costs on seventy-seven ingredients and 1,100 drug products.
- On Thursday, the GOJ and ruling parties [agreed to maintain](#) the dependent deduction for parents with high-school aged children, postponing plans to lower the deduction amount from ¥380,000 to ¥250,000 in next year's tax system reform. *Ishin*, the DPFP, and Komeito all opposed reducing the deduction amount as it would raise the burden on child rearing households.
- The LDP, *Ishin*, and Komeito [agreed](#) that the standard amount to support municipalities will be set at ¥5,200 per month per child attending public elementary schools that provide lunches regardless of parental income. The base is calculated based on average lunch fees; exceeding amounts may be collected from parents.
- NHK [reported](#) that the GOJ's Disaster Management Agency will be staffed by 360 officials, approximately 1.6 times larger than the Cabinet Office's staff in charge of disaster management. The budget is expected to be larger too, likely coming in at around ¥17 billion next fiscal year.

- On Wednesday, the Lower House Election System Council [met](#) for the final time this year to conclude this year's deliberations. All parties presented their ideal electoral system and measures to improve the existing system. The LDP was unable to present a consensus view on the ideal system as there were an equal number of lawmakers who advocated for a single-member and multi-member district system. Discussions are expected to be [concluded](#) in the spring when the provisional census comes out.
- The GOJ [announced](#) that Meisei University Professor Hosokawa Masahiko would be appointed as special advisor to the Cabinet in charge of economic security and industrial policy. Hosokawa previously served as Director-General of the Chubu Bureau of Economy and Trade at the METI.

#### 8. Bank of Japan Hikes Interest Rate to 0.75 Percent

- On Friday, the Bank of Japan (BOJ) [raised](#) policy interest rates from 0.5 percent to 0.75 percent, the first time since 1995 that the rate has hit such levels. The new policy interest rate [takes effect](#) on December 22.
- All nine board members decided that the hike was appropriate. The BOJ determined that the 2 percent inflation target can be achieved with a lower-than-expected impact of U.S. tariffs on the economy and with wage hikes expected to continue in the upcoming spring 2026 wage negotiations.
- BOJ Governor Ueda Kazuo [explained](#) that the underlying inflation rate (excluding temporary factors) is rising gradually, and it is highly likely that the mechanism of both wages and prices rising moderately will continue to be maintained going forward. He added that the sense of uncertainty from U.S. tariffs is gradually fading.
- Ueda also stated that the overall inflation rate is expected to decline significantly in the first half of next year, falling below 2 percent. He further added that it is “entirely possible” that another rate hike could happen at an appropriate time if wages increase as projected and continue to feed through to prices.
- Minister of Finance Katayama Satsuki [said](#) that “we will take appropriate measures against excessive movements, including speculative ones.” The yen depreciated to ¥157 to the dollar after the rate hike.
- In response to the rate hike, the yield on newly issued ten year JGBs [reached](#) 2.02 percent, the first time in twenty-six years that the yield exceeded 2 percent. The interest rate level has continued to rise this year due to concerns over deteriorating fiscal health associated with the Takaichi Cabinet's fiscal spending approach.

#### 9. Economic Security and Tech Developments



- On Friday, the LDP Economic Security Promotion HQ [submitted](#) recommendations to Takaichi ahead of the revision of the three strategic documents next year. The proposal points out the growing concerns of “economic weaponization,” proposing measures to reinforce supply chains, add medical institutions to the list of core infrastructure, and supporting projects to strengthen collaboration with the so-called Global South. The HQ also [urges](#) the creation of rules around data protection.
- The GOJ’s AI Strategy HQ [discussed](#) the draft of the AI Basic Plan and guidelines related to appropriate R&D. Takaichi [announced](#) that the GOJ plans to host the AI Summit in 2028 to lead global discussions on trustworthy AI and governance. The AI Summit has been hosted by the United Kingdom, South Korea, and France. India plans to host an AI Impact Summit in 2026.
- *Nikkei* [reported](#) Thursday that a senior METI official revealed at SEMICON Japan 2025 that the GOJ will provide a debt guarantee of up to 80 percent for private sector investment to support chip foundry Rapidus’s efforts to mass manufacture next-generation semiconductors in the second half of 2027.
- *Nikkei* [reported](#) Tuesday that METI plans to enhance support for universities and companies conducting joint research in cutting-edge fields such as AI and quantum technology. It will provide subsidies to research hubs conducting research on national strategic technologies and tax benefits to corporations.
- On Monday, Minister in charge of Economic Security Onoda Kimi [announced](#) that the GOJ’s economic security think tank will be established during the next fiscal year to maximize public-private cooperation and provide recommendations to the GOJ. It will be called the “Research Center on Economy and Industry.”
- *Nikkei* [reported](#) Sunday that the GOJ plans to establish a new public-private council on economic security as early as next fiscal year to reflect information on things like supply chains for specified critical materials and related challenges from key stakeholders in national strategy. The civilian members of the council will be required to sign confidentiality agreements to secure critical information.

#### 10. Key Economic/Financial Developments

- On Friday, Katayama [virtually participated](#) in the G7 finance ministers and central bank governors’ meeting to discuss support for Ukraine amid the ongoing war and trade imbalances in the global economy. Katayama stated that Japan will communicate its policies supporting Ukraine in the first half of 2026.
- *Nikkei* [reported](#) that the GOJ’s FY 2026 medical fee revision will be finalized at a 3.09 percent hike in the core portion allocated to personnel costs for healthcare

workers and other items. This is the highest hike in thirty years and will fund medical institutions' inflation response and wage increases.

- On Wednesday, the U.S. Department of the Treasury [announced](#) that it will extend the license for transactions with the Sakhalin-2 natural gas development project in Russia for six months. This gives Mitsui & Co. and Mitsubishi Corporation — with 12.5 percent and 10 percent stakes in the project — an extension until June 18, 2026.
- *Nikkei* [reported](#) Tuesday that the GOJ will establish a ministerial council as early as next week to discuss the abolition of the subsidy supplement for electricity sales prices for new ground-mounted commercial solar power generation projects. The GOJ will consider expanding the scope of environmental impact assessments and revising regulations to protect rare plants and animals.
- Minister of Land, Infrastructure, Transport and Tourism (MLIT) Kaneko Yasushi [revealed](#) that foreign corporations purchasing large tracts of land will be required starting April 2026 to report the nationality of representatives (individuals already required since July 2025). Current rules only require companies to disclose the country of registration. Real estate purchases will also require similar disclosure.
- *Nikkei* [reported](#) Monday that the GOJ aims to raise the growth rate in rural areas higher than the greater Tokyo area by 2029 to redress overconcentration in the capital. The target will be included in a comprehensive regional revitalization strategy to be adopted by the end of the year. In FY 2022, the growth rate in the greater Tokyo area exceeded that of the other prefectures (3.5 percent versus 2.6 percent).

## 11. State of the Economy

- On Friday, the GOJ [released](#) its Monthly Economic Report for December, which [maintained](#) the same assessment for a fourth consecutive month that the economy is “recovering at a moderate pace, while the effects caused from the U.S. trade policies are seen mainly in the automotive industry.”
- The Ministry of Internal Affairs and Communications (MIC) [announced](#) that the consumer price index excluding volatile fresh food items in November rose 3 percent from the same month last year to 112.5, the [second consecutive month](#) that the growth rate was 3 percent. Though inflation is slowing down, it continues to push prices up.
- On Wednesday, the Ministry of Finance (MOF) [announced](#) that Japan's automotive exports to the United States in November increased 1.5 percent from the same month last year to ¥499.6 billion, the first time in eight months that export volume exceeded that of the same month in the previous year. Export volume has returned since the U.S. tariffs were lifted in September.

- The Cabinet Office (CAO) [announced](#) that seasonally adjusted machinery orders, a leading indicator of capital investment, rose 7 percent in October from the previous month to ¥992.9 billion. This was the [second consecutive month](#) that orders increased, mainly led by the non-manufacturing sector.
- The BOJ [announced](#) that household financial assets in the July-September period exceeded the record high for a second consecutive quarter at ¥2,286 trillion, up 4.9 percent from the same period last year. The growth rate [expanded](#) from 1.1 percent in the April-June period. The increase was led by a 19.3 percent increase in the balance of stocks and other financial assets.
- On Monday, the BOJ [released](#) the TANKAN (Short-Term Economic Survey of Enterprises in Japan) for December, which [found](#) that the diffusion index for large manufacturing companies improved one point from the previous survey in September to fifteen, the third consecutive quarter that the index has improved and hit a four-year high. The index for large non-manufacturers remained consistent at thirty-four. Meanwhile, the employment index [found](#) that there was a negative thirty-eight “extreme labor shortage” across all sizes and industries, the first time in thirty-four years that such an extreme shortage has presented itself.

## **II. Public Opinion Poll**

- An ANN poll [released](#) on Sunday found that the Takaichi Cabinet’s approval rating was 63 percent, down five points from November, while disapproval was 19 percent, up four points from last month.
  - 33 percent of respondents said that they support the Cabinet because they have high expectations for its policies; 25 percent said because they trust the prime minister; and 23 percent said because it seems better than the alternatives.
  - 25 percent of respondents said that they do not support the Cabinet for other reasons; 19 percent said because they have no expectations for its policies; and 17 percent said because it does not include a political party of their choice.
  - 37 percent of respondents said that they approve of the GOJ’s supplementary budget proposal, while 37 percent said they do not approve.
  - 59 percent of respondents said that they oppose the GOJ’s rice vouchers, while 27 percent said they support it.
  - 66 percent of respondents said that they believe there should be restrictions on donations by corporate/political organizations, while 21 percent said they do not believe there is a need.
  - 69 percent of respondents said that they believe the Lower House should reduce the number of lawmakers, while 17 percent said they do not believe it should.
  - 50 percent of respondents said that they support the automatic trigger clause in the bill to reduce the number of Diet members, while 30 percent said they oppose it.

- 57 percent of respondents said that they approve of the GOJ's response to China's opposition to Takaichi's Taiwan contingency remarks, while 29 percent said they disapprove.
- 42 percent of respondents said that they are somewhat concerned about future relations with China; 24 percent said they are very concerned; 21 percent said they are not so concerned; and 10 percent said they are not concerned at all.
- 43 percent of respondents said that they believe the next Lower House election can wait until the current term expires in 2028; 21 percent said the first half of 2026; 19 percent said the second half of 2026; and 9 percent said 2027.
- The survey also collected data on the latest approval ratings of political parties.

<b>Political Party</b>	<b>Approval Rating (%)</b>
Liberal Democratic Party	36.7 (-5.3)
Constitutional Democratic Party	9.9 (+2.8)
Japan Innovation Party	6.6 (+1.8)
Komeito	3.9 (-0.2)
Democratic Party for the People	6.5 (+1.4)
Japan Communist Party	3 (-0.3)
Reiwa Shinsengumi	2.5 (+0.2)
Do It Yourself Party (Sanseitō)	3.3 (-0.8)
Japan Conservative Party	0.9 (-0.2)
Social Democratic Party	0.6 (+0.1)
Team Future (Mirai)	0.3 (-0.1)
Independent (No Party)	22.3 (-0.3)