

## ***The Weekly Observer***

February 16-20, 2026

*The 212<sup>th</sup> edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on the Japan-U.S. Strategic Investment Initiative, reported updates to the FOIP concept, the LDP's proposed changes to defense export rules, Takaichi's re-election as Japan's prime minister, the start of the 221st Diet session, the first signs of trouble with the "National Conference," the LDP-Ishin leaders' summit, shipbuilding policy developments, the MOF's medium-term fiscal outlook, nominal GDP in 2025, and more.*

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## I. News of the Week

### 1. Japan and the United States Announce First Investment Projects

- On Wednesday, the Japanese and U.S. governments announced the first three projects under the Strategic Investment Initiative agreed upon in the bilateral strategic trade and investment agreement from July 2025.
- The three projects [announced](#) are as follows:
  - A **synthetic diamond manufacturing project** worth approximately \$600 million (¥90 billion) that would help reduce dependence on certain countries for a critical material used to process automobile, aeroplane, and semiconductor parts. Japanese diamond tools makers like Asahi Diamond and Noritake will purchase.
  - A **U.S. crude oil export infrastructure project** worth approximately \$2.1 billion (¥330 billion) in light of increased global energy demand. Mitsui & Co., Nippon Steel, JFE Steel, and Mitsui Ocean Development & Engineering Company (MODEC) are among those interested in supplying equipment.
  - A **natural gas powered facility** worth approximately \$33.3 billion (¥5.2 trillion) to provide electricity for AI data centers and other facilities. Toshiba, Hitachi, Mitsubishi Electric, SoftBank Group are among those interested in supplying equipment.
- The U.S. press release [emphasized](#) the benefits for “American national and economic security,” putting the most emphasis on the gas power facility that will cost significantly more than the other projects and is one of the “largest natural gas generation projects in the world.” Meanwhile, the Japanese press release [stresses](#) the mutually beneficial nature of the deal that enhances economic security and promotes domestic economic growth in both countries.
- The Trump Administration [rushed](#) to get a deal — while Japan focused on profitability — in order to emphasize the benefits of the tariff regime ahead of the November midterm elections. Two of the three projects are in so-called “Rust Belt” swing states of Ohio and Georgia. The administration may also have factored in the pending U.S. Supreme Court decision on the legality of the tariffs.
- The Supreme Court [ruled](#) on Friday that President Donald Trump does not have the authority to levy reciprocal tariffs on other states — a power reserved for Congress. The Japanese Government [plans to continue](#) implementing the investment project as the sectoral tariffs remain in place (Trump plans to announce replacement tariffs for reciprocal tariffs). Still, the lifting of reciprocal tariffs will [reduce](#) approximately ¥2.9 trillion in tariff-related costs annually for Japanese companies.

- *Sankei* [reported](#) Thursday that the second round of projects may be announced on the occasion of Prime Minister Takaichi Sanae’s visit to Washington next month, with the construction of a next-generation nuclear power plant a potential candidate.

## 2. Foreign Policy Developments

- On Friday, Minister in charge of Territorial Issues Akama Jiro [announced](#) that the GOJ will dispatch Parliamentary Vice-Minister of Cabinet Office Furukawa Naoki to attend the “Takeshima Day” celebrations hosted by Shimane Prefecture on February 22. Meanwhile, the ruling Liberal Democratic Party (LDP) will send General Council Chair Arimura Haruko — a top executive — to the ceremony.
- Japan’s National Security Advisor Ichikawa Keiichi [met](#) with U.S. Secretary of State Marco Rubio in Washington, D.C., agreeing to closely coordinate so that the Takaichi-Trump summit in March becomes an opportunity for both sides to show the unshakeable state of the alliance.
- On Thursday, the Ministry of Foreign Affairs (MOFA) [announced](#) that Ambassador in charge of Gaza Rebuilding Assistance Okubo Takeshi attended the inaugural meeting of the Board of Peace in Washington, D.C. as an observer. Japan has postponed a formal decision on whether to join President Trump’s initiative, though it [announced](#) on Monday a ¥4.1 billion grant aid for reconstruction efforts in Gaza.
- On Tuesday, Minister for Foreign Affairs Motegi Toshimitsu [held](#) a bilateral meeting in Tokyo with Foreign Minister Þorgerður Katrín Gunnarsdóttir of Iceland. The two shared the view that the security of the Euro-Atlantic and the Indo-Pacific are inseparable, and that any unilateral attempts to change the status quo by force or coercion are unacceptable anywhere in the world.
- *Yomiuri* [reported](#) Monday that the GOJ’s proposed updates to the “Free and Open Indo-Pacific” (FOIP) concept will focus around three pillars: strengthening economic foundations; economic growth through addressing challenges; and collaboration in the security field. Takaichi plans to update FOIP on the occasion of the ten year anniversary since it was first proposed by the late Abe Shinzo.
- On Sunday, MOFA [issued](#) a statement regarding inappropriate remarks made by a Chinese participant at the Munich Security Conference on February 14. The statement noted that Japan made a stern demarche against the Chinese side through diplomatic channels and that Japan opposes the non-transparent military buildup and unilateral attempts to change the status quo by some countries. It also reiterated that Japan’s consistent contributions to international peace and stability are “widely recognized.”

## 3. Defense/Security Developments

- *Jiji* [reported](#) Saturday that the LDP’s Headquarters for Intelligence Strategy will soon submit recommendations to the prime minister, including “designing a system to introduce similar legal measures” like the United States and United Kingdom that require foreign agents to register and report on their activities in the country. The HQ also points out the “extreme importance” of signal intelligence for collecting intel.
- On Friday, the LDP Research Commission on Security [approved](#) an outline of its recommendations to the GOJ toward scrapping the five permitted categories of defense equipment exports — rescue, transport, warning, surveillance, and minesweeping.

LDP Proposal Regarding the Export of Defense Equipment	
Scrapping 5 categories	Permit export of “weapons” with lethal capabilities
Export destination	Limit exports to countries with which Japan has signed a defense equipment and technology transfer agreement  Prohibit export to countries in active combat “except for special circumstances”
Export screening	Screening conducted by the National Security Council; four minister meeting for “weapons,” administrative level for “non-weapons”
Accountability	Some form of reporting requirement to the Diet

- The GOJ is also [exploring the possibility](#) of approving the export of defense equipment co-developed with international partners to third countries. Current guidelines only allow for the export of the Global Combat Air Programme (GCAP) fighter jet produced in collaboration with the United Kingdom and Italy.
- Minister of Defense Koizumi Shinjiro [said](#) in a press conference that there is “no discrepancy” between the GOJ and U.S. Government regarding the relocation of Marine Corps Air Station Futenma to Henoko in Nago City, Okinawa. *Asahi* [reported](#) that the U.S. Department of War indicated that the Futenma Air Field would not be returned to Japan until a longer runway was constructed in the new Henoko area.
- On Thursday, Koizumi [met](#) with Foreign Minister Gunnarsdóttir of Iceland, in which the two welcomed the development of cooperation through the “Demining Coalition” supporting Ukraine. They confirmed to further promote Japan-Iceland defense cooperation and exchanges including cooperation through NATO.

#### 4. Takaichi Re-Elected as Japan's Prime Minister

- On Wednesday, Takaichi was [re-elected](#) as prime minister of Japan. She formed the second Takaichi Cabinet the same day with the same eighteen ministers. The LDP’s Mori Eisuke was [selected](#) as speaker of the Lower House, while the main opposition Centrist Reform Alliance’s (CRA) Ishii Keiichi was selected as vice speaker.
- Takaichi [stated](#) during the press conference the same day that she does not believe she has been given unchecked authority to run her government. She named some top priorities for her administration, including enacting the FY 2026 annual budget before the end of the fiscal year on March 31, proceeding with consumption tax efforts, strengthening intelligence capabilities, and amending the Constitution and the Imperial House Law.
- Takaichi [issued](#) a statement following her re-election, stating that “as someone who never ceases to believe in the resilience of Japan and its people, I will dedicate my entire being to making the Japanese archipelago strong and prosperous.”
- The second Takaichi Cabinet [released](#) its basic policy approach toward creating a safe and prosperous Japan for the next century, a shining beacon in the Indo-Pacific and a dependable nation of freedom and democracy. The three main pillars are: realizing a strong economy; strengthening regional communities and safeguarding livelihoods; and strengthening diplomatic, defense, and intelligence capabilities. The prime minister also [issued](#) directives to all eighteen of her ministers.
- On Friday, Takaichi [delivered](#) her policy speech to the 221st session of the Diet, in which she reiterated that “responsible proactive fiscal policy” will remain the centerpiece of her administration’s policy, though noting that this does not equate to “unrestrained fiscal policy” that could raise concerns for financial markets.

Key Points from Takaichi’s Policy Speech	
Social security	<ul style="list-style-type: none"> <li>● Set up a national conference for social security reform</li> <li>● Swiftly submit bill for consumption tax cut</li> <li>● Design refundable tax credit scheme</li> </ul>
Fiscal policy/budget	<ul style="list-style-type: none"> <li>● Centerpiece is “responsible proactive fiscal policy”</li> <li>● Separate, multi-year funding for crisis management and growth investments</li> <li>● Present action plan for growth strategy starting in March</li> </ul>
Workstyle	<ul style="list-style-type: none"> <li>● Revise discretionary labor system</li> </ul>
Foreign policy/security	<ul style="list-style-type: none"> <li>● Responsible Japanese diplomacy</li> <li>● Strengthening intelligence functions</li> </ul>

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|  | <ul style="list-style-type: none"><li>● Hope to swiftly trigger process to amend Constitution</li></ul> |
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- Opposition parties were [quick to criticize](#) Takaichi’s speech, with CRA leader Ogawa Junya stating that the speech was catering to industry and the supply side and not a “warm speech that seemed to reach into every corner of people’s lives.” Democratic Party for the People leader (DPFP) Tamaki Yuichiro also stated that there were no specifics on how the GOJ would address inflation. *Sanseitō* leader Kamiya Sohei said that the national conference — excluding parties against the consumption tax cut — was simply an “alibi” for the LDP to pretend like it was listening to other parties.

## 5. The Diet Convenes for the 221st Session

- The special Diet session [convened](#) on Friday will run for 150-days until July 17. The GOJ [plans to submit](#) sixty-one bills during this time period, including one to set up a “National Intelligence Secretariat” and one that enables the GOJ to issue so-called deficit bonds for the next five fiscal years.
- Following the February 8 Lower House election, the ruling LDP and Japan Innovation Party (*Nippon Ishin no Kai*) will [collectively control](#) the chairmanship role of twenty-five of the twenty-seven committees, special committees, and commissions. Of these, the LDP took back control of the all-important Budget Committee (Sakamoto Tetsushi), Steering Committee (Yamaguchi Shunichi), and the Commission on the Constitution (Furuya Keiji).
- The session began with the GOJ [submitting](#) the FY 2026 annual budget, which amounted to a record high of ¥122.31 trillion, a ¥7.11 trillion increase from the initial budget in FY 2025. The ruling parties have [proposed](#) passing the budget by March 13 to ensure enactment by March 31, even [mulling](#) shorter deliberation times. The opposition is demanding “sufficient deliberation,” though they may not want to be [perceived](#) as holding up a budget that includes funding for critical inflation relief.
- Foreign Minister Motegi [delivered](#) his foreign policy speech, in which he pointed out that “expectations for Japan are growing” amidst the shifts in the balance of power and the intensification of conflict and confrontation in the world. He emphasized that the GOJ will promote “responsible Japan diplomacy creating peace and prosperity” rooted firmly in the Japan-U.S. alliance and FOIP.
- Minister of Finance Katayama Satsuki [delivered](#) her finance policy speech, in which she pointed out that the new fiscal year budget proposal “takes into consideration the need for fiscal restraint,” such as by reducing dependence on government bonds while increasing the budget for critical policy areas by reflecting inflation-related costs.

- Minister of State for Economic and Fiscal Policy Kiuchi Minoru [delivered](#) his economic policy speech, in which he stated that the GOJ will strengthen the supply structure by strategically implementing fiscal stimulus — including to boost domestic investment — while giving full consideration to fiscal sustainability under the concept of “responsible proactive fiscal policy.”

#### 6. LDP “Excludes” Certain Political Parties from the National Conference

- On Friday, Takaichi [mentioned](#) in her policy speech to the Diet that she hopes to convene the “national conference” to discuss social security reform. She aims to compile an interim report on the two-year suspension of consumption tax on food and beverages by the summer and submit relevant legislation as soon as possible.
- Deputy Chief Cabinet Secretary Ozaki Masanao said the same day that the government and ruling parties will invite opposition parties that “recognize the consumption tax as a critical source of funding for social security and support the realization of a refundable tax credit.”
- These conditions have [garnered](#) criticism from the opposition, with *Sanseitō* leader Kamiya claiming that his party cannot support a refundable tax credit without knowing what it would look like. Japan Communist Party Chairperson Tamura Tomoko said that the “national conference” is in name only if those who have different views are excluded.
- Meanwhile, the CRA and the DPF have [refused](#) to commit to joining the conference. CRA policy chief Okamoto Mitsunari said that his party is unsure whether the conference is the right forum for such discussions. The DPF supports a refundable tax credit but believes the tax cut would be ineffective. Only Team Mirai has announced its participation in the national conference.
- In response, LDP policy chief Kobayashi Takayuki [posted](#) on X on Saturday that there is “no intention of excluding any specific parties” from the conference. He reiterated the two conditions and said that he hopes many parties will agree and deepen discussions with the government and ruling parties.

#### 7. Key Political Developments

- *Nikkei* [reported](#) Saturday that the GOJ’s proposed amendments to the Immigration Control Act will include establishing the Japanese version of Electronic System for Travel Authorization (ESTA) in FY 2028, which will require airlines to deny entry into aircraft if foreign travelers are not certified under the system.

- On Friday, the GOJ [adopted](#) proposed amendments to the Local Tax Act, which sets the ceiling for residential tax deductions on donations made through the hometown tax (*furusato nozei*) at ¥1.93 million starting 2027. For single-member households, the special deduction cuts off at ¥100 million in income.
- *Nikkei* [reported](#) Thursday that the ruling parties are exploring the idea of reducing the number of Lower House members by 10 percent exclusively in proportional representation, which would affect smaller opposition parties more than the ruling parties. A 30 percent reduction in PR would result in a 10 percent reduction overall.
- On Wednesday, Takaichi [met](#) with *Ishin* co-leaders Yoshimura Hirofumi and Fujita Fumitake, agreeing to continue working on the policies set out in the coalition agreement signed back in October 2025. The party, which [effectively re-elected](#) Yoshimura on February 15, also approved plans to formally join the coalition by taking a ministerial role in the next Cabinet reshuffle.
- *Asahi* [reported](#) Tuesday that the GOJ will set up an expert panel as early as the summer to discuss the proposed anti-espionage law, which would come after a bill to establish the National Intelligence Secretariat is enacted. The LDP attempted to pass a similar bill in the 1980s, but failed due to concerns over infringing upon individual freedom of thought and religion.
- On Monday, CRA leader Ogawa [announced](#) the appointment of Yamamoto Kanae (Komeito) as deputy leader, Shina Takeshi (CDP) as secretary general, Okamoto Mitsunari (Komeito) as policy chief, and Shigetoku Kazuhiko (CDP) as Diet Affairs chair. The CRA, Constitutional Democratic Party (CDP), and Komeito have [postponed](#) a decision to merge in the Upper House.

## 8. Economic Security and Tech Developments

- On Friday, the GOJ [presented](#) proposed amendments to the Economic Security Promotion Act to the LDP, which includes the creation of a new support scheme via the Japan Bank of International Cooperation for Japanese companies expanding business abroad in critical sectors, as well as a framework to support the supply of critical commodities like laying undersea cables for communications.
- The GOJ [convened](#) an expert panel session related to cybersecurity to discuss strengthening cybersecurity for government ministries and agencies and critical infrastructure. The group, placed under the Japan Growth Strategy Council, plans to finalize its basic policy approach by the summer.
- The Ministry of Land, Infrastructure, Transport and Tourism (MLIT) and Cabinet Office (CAO) [convened](#) a working group meeting toward strengthening domestic

- shipbuilding capacity, which discussed two types of collaboration with the private sector — horizontal collaboration among shipbuilders and vertical collaboration between shipbuilders and shipping companies. Meanwhile, the GOJ and U.S. Government [convened](#) the first bilateral shipbuilding working group session in Washington, D.C. on Thursday to discuss manufacturing and talent development.
- On Thursday, Takaichi [delivered](#) a video message at the Leaders’ Session of the AI Impact Summit hosted by India, in which she stated that it is essential to establish a “safe, secure, and trustworthy AI” ecosystem to promote AI innovation. She also stated that Japan will convene a “Friends Group” meeting next month in relation to the “Hiroshima AI Process.”
  - On Tuesday, the Japan Fair Trade Commission (JFTC) [released](#) reports submitted by Apple and Google in relation to the Act on Promotion of Competition for Specified Smartphone Software, which stated that the two companies introduced a framework allowing app developers to choose payment methods and charge fees. The JFTC will assess whether the fees are high enough to prevent fair competition.
  - *Nikkei* [reported](#) Sunday that the GOJ will release AI guidelines dealing with AI agents and physical AI (robots). The revised “AI developer guidelines” — first created by the Ministry of Internal Affairs and Communications (MIC) and the Ministry of Economy, Trade and Industry (METI) — will request that developers and other companies create systems that require human judgment, bearing in mind the risks of malfunction and privacy violations.

## 9. Key Economic/Financial Developments

- On Saturday, the City of Goto in Nagasaki Prefecture [disclosed](#) to reporters the commercial operations started at Japan’s first large-scale wind power generation facility. This is the first “floating” style wind turbine, as opposed to the “fixed” style that has been common in Japan due to costs. Floating turbines can be installed in the deep sea, extending the potential area for installation by around forty times.
- On Friday, the Nikkei Stock Average [fell](#) for the first time in three business days to ¥56,825.70, a near ¥700 fall as geopolitical risks in the Middle East spread from the U.S. financial markets to Japan. The average [exceeded](#) the record high of ¥57,650 at one point during the week.
- On Wednesday, the Japan National Tourism Organization (JNTO) [announced](#) that the number of foreign travelers to Japan fell 4.9 percent in January to 3.59 million, the [first time](#) since January 2022 that numbers decreased from the same month last year. The number of Chinese tourists fell by 60.7 percent to 385,300.

- The Ministry of Finance (MOF) [presented](#) the medium-term fiscal outlook (FY 2026-FY 2029) to the LDP, which [found](#) that the bond expenditure used for principal and interest payments on JGBs will hit ¥40 trillion in FY 2029 and overtake social security costs as the single most expensive budget item. Interest rate hikes will increase interest payments on JGBs.
- *Nikkei* [reported](#) that the tax cut amount related to the R&D taxation system in FY 2024 exceeded ¥1 trillion for the first time, amounting to ¥1.007 trillion. Meanwhile, the corporate tax deduction amount increased 16 percent to ¥2.02 trillion. Companies undertaking R&D projects received more tax cuts than before.
- On Monday, Takaichi [met](#) with Bank of Japan (BOJ) Governor Ueda Kazuo to discuss economic and monetary policy. No details were revealed regarding the conversation between the two. Takaichi has met Ueda twice now since taking office.

#### 10. State of the Economy

- On Friday, the MIC [announced](#) that the composite consumer price index (CPI) excluding volatile fresh food items in January rose 2 percent from the same month last year to 112, the [first low growth rate](#) since January 2024 largely due to the gasoline tax cut and policies to achieve free high school education. Growth investments will be critical to maintain the BOJ's target level of inflation.
- *Nikkei* [reported](#) that the 1,055 companies listed on the Tokyo Stock Exchange's prime market recorded a collective ¥44.17 trillion net profit between April and December 2025, a 6 percent increase from the same period last year and the third consecutive year breaking the record high. Non-manufacturing profit brought on by rising interest rates and robust domestic demand offset the slump in industries like automobiles affected by the U.S. tariffs.
- On Thursday, the CAO [announced](#) that seasonally adjusted machinery orders — a leading indicator of capital investment — increased 7.9 percent in October-December 2025 from the previous quarter to ¥2.93 trillion, the [first positive growth rate](#) in two quarters led by a 12.8 percent increase in the non-manufacturing sectors.
- Meanwhile, machinery orders in 2025 [hit](#) a nineteen year high of ¥11.21 trillion, [owing](#) to large-scale projects in electrical machinery and nuclear fusion equipment derived from AI demand. The order backlog also hit a record high as supply could not keep up with demand.
- On Wednesday, the MOF [announced](#) that Japan ran a ¥1.15 trillion trade deficit in January, a 58 percent decrease in the deficit amount compared to the same month last year. This was the first deficit [recorded](#) in three months, though the deficit was

smaller due to a 16.8 percent increase in exports, especially of electrical parts like semiconductors and nonferrous metals to the Asian market.

- On Monday, the CAO [announced](#) that nominal GDP in 2025 grew 4.5 percent from 2024 to ¥662.79 trillion, the fifth consecutive month on the rise. Real GDP [grew](#) by 1.1 percent to ¥590.68 trillion, the first time in two years that Japan's economy grew in real terms as inflation pushed up individual consumption and capital investment. Real consumption increased by 1.4 percent to ¥308 trillion. Meanwhile, real GDP in the October-December quarter [increased](#) 0.1 percent, or 0.2 percent annually.

## II. Public Opinion Poll

- A FNN/*Sankei* poll [released](#) on Monday found that the Takaichi Cabinet's approval rating was 72 percent, up one point from January, while disapproval remained at 23 percent.
  - 56 percent of respondents said that they thought the results of the Lower House election were good, while 32 percent said it was not good.
  - 35 percent of respondents said that they believe the LDP-Ishin coalition is a good government framework; 27 percent said the LDP-Ishin with the DPFP; 24 percent said some other framework; and 9 percent said the LDP on its own.
  - 41 percent of respondents said that they want the GOJ to focus on inflation relief measures and consumption tax cut; 23 percent said pensions and health care; and 11 percent said foreign policy and security.
  - 53 percent of respondents said that the ruling parties should move forward with a two-year suspension on the food consumption tax, while 40 percent said they should not move forward with it.
  - 76 percent of respondents said that the consumption tax cut should be implemented this year; 19 percent said next year; and 5 percent said it can be over two years after 2026.
  - 57 percent of respondents said that the GOJ should not implement the tax cut if it requires issuing deficit bonds, while 33 percent said it should implement even by issuing deficit bonds.
  - 67 percent of respondents said that they support the Takaichi Administration preparing to amend the Constitution, while 25 percent said they oppose it.
  - 81 percent of respondents said that their impressions of the CRA did not change following the election of a new leader, while 13 percent said it did change.
  - 52 percent of respondents said that they think the CRA should be split between the CDP and Komeito again; 22 percent said the Upper House and local assembly members should also join; and 16 percent said it should remain as is.
  - 47 percent of respondents said that they used newspapers, magazines, radio and television the most during the Lower House election; 38 percent said online

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information such as blogs and social media; and 7 percent said official election promotion material, posters, and flyers.

- The survey also collected data on the latest approval ratings of political parties.

<b>Political Party</b>	<b>Approval Rating (%)</b>
Liberal Democratic Party	39.4 (+8.8)
Centrist Reform Alliance	7.6 (+1)
Japan Innovation Party	3 (-0.8)
Democratic Party for the People	5.3 (+1.8)
Japan Communist Party	2.2 (-0.1)
Reiwa Shinsengumi	0.9 (-0.7)
Suffrage Party (Sanseitō)	4.3 (+1)
Japan Conservative Party	1.4 (+0.7)
Socialist Democratic Party	0.9 (+0.3)
Team Mirai	4.9 (+4.5)
Constitutional Democratic Party	0.8 (-0.3)
Komeito	0.6 (-0.1)
Independent (No Party)	24.7 (-5.1)