

The Weekly Observer

June 1-5, 2026

The 227th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on Koizumi's speech at the Shangri-la Dialogue, Takaichi's scheduled Europe and India visit, the Japan-Indonesia defense ministerial meeting, the enactment of the FY 2026 supplementary budget, the continued discussions around the consumption tax cut, the legislature's position on stable Imperial Household succession, the GOJ securing access to Anthropic's Claude Mythos frontier AI model, Japan's participation in the U.S. Genesis Mission, Japan's response to the possibility of additional U.S. tariffs, the "quiet contingency" in the form of depopulation, and more.

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I. News of the Week

1. Koizumi Hits Back at Chinese Criticism at Shangri-la Dialogue

- On Sunday, Minister of Defense Koizumi Shinjiro [delivered](#) a speech at the Shangri-la Dialogue in Singapore. Without mentioning China by name, he responded to criticism that Japan is pursuing “new militarism,” asking whether it is “strange” that a country with a huge arsenal of nuclear weapons and strategic bombers is criticizing Japan.
- Koizumi stated that “now is the time to make our cooperation even stronger,” referring to Japan’s deepening cooperation with the United States, Europe, and other like-minded countries. He also explained Japan’s revision of rules concerning the transfer of defense equipment and technology, stating that “what matters now is to ensure the seamless provision of necessary equipment and capabilities to the region as a whole.”
- Koizumi held a series of bilateral meetings during his visit. In his meeting with U.S. Secretary of War Pete Hegseth, he [proposed](#) “Operation Supercharge,” an initiative to further accelerate bilateral efforts including the co-development and co-production of missiles. In his meeting with South Korean Minister of National Defense Ahn Gyu-back, the ministers [agreed](#) to restart the bilateral humanitarian search and rescue exercise (SAREX) in June for the first time in approximately nine years.
- Koizumi [met](#) with Secretary of National Defense Gilberto Teodoro of the Philippines. They reached a broad consensus to proceed with discussions with a view to transferring Abukuma-class destroyers promptly after decommissioning, as well as one TC-90 aircraft within FY 2027. Teodoro [told](#) *Nikkei* that the Philippines plans to acquire “around five destroyers” and commission them within the next year or two.
- Koizumi [met](#) with New Zealand Defense Minister Chris Penk. Koizumi welcomed New Zealand’s announcement that the upgraded Mogami-class frigate is one of the candidates for replacing the ANZAC-class frigates. Koizumi also [held](#) a trilateral meeting including Australian Deputy Prime Minister and Minister of Defense Richard Marles, in which the three ministers confirmed their commitment to further enhancing interoperability and agreed that collaboration is beneficial for regional stability.
- Koizumi [met](#) with Singapore’s Minister for Defense Chan Chun Sing. They agreed to promote bilateral defense equipment and technology cooperation in line with the bilateral agreement. He also [met](#) with U.K. Secretary of State for Defense John Healey, agreeing to continue closely working together to further strengthen bilateral defense cooperation including the Global Combat Air Program (GCAP).

2. Foreign Policy Developments

- *Yomiuri* [reported](#) Thursday that Prime Minister Takaichi Sanae is finalizing arrangements to visit the United Kingdom, Italy, and France for summit meetings and the G7 Summit from June 14-18. Takaichi will [reportedly travel](#) to India in early July to meet with Prime Minister Narendra Modi.
- Minister for Foreign Affairs Motegi Toshimitsu [hosted](#) Egypt's Foreign Minister Badr Abdelatty following the third foreign ministers' strategic dialogue on Wednesday. Motegi stressed the importance of the steady implementation of the Comprehensive Plan for improving the humanitarian situation in Gaza and expressed Japan's hope to work closely with Egypt toward Gaza's reconstruction.
- On Wednesday, Takaichi [attended](#) the Island States Ocean Summit held in Tokyo as a guest of honor. She stated that Japan will continue to support countries and regions suffering from extreme weather events and sea level rise, as well as engage in cooperation toward enhancing Maritime Domain Awareness (MDA) and maritime law enforcement agencies, and expressed her wish to work with other nations to achieve sustainable oceans based on the rule of law.
- On Tuesday, the Ministry of Foreign Affairs (MOFA) [announced](#) that Malaysian Prime Minister Anwar Ibrahim will pay an official working visit to Japan from June 8-10 for a summit meeting with Takaichi and to attend the Nikkei Forum.
- The ruling Liberal Democratic Party (LDP) Research Commission on Foreign Affairs and Research Commission on International Cooperation [finalized](#) a resolution on strengthening diplomatic capabilities, stating that, "With diplomacy and defense serving as the two pillars, there is no time to lose in establishing strong diplomacy and security."
- On Monday, Takaichi [held](#) a summit telephone call with Iranian President Masoud Pezeshkian, strongly requesting that the free and safe passage through the Strait of Hormuz be realized as soon as possible for vessels of all countries. Iranian media [reported](#) that Pezeshkian stated that, "We will strive to ensure that Japanese vessels can navigate smoothly and easily" through the Strait.

3. Security/Defense Developments

- On Friday, Koizumi [held](#) a meeting with Indonesian Minister of Defense Sjafrie Sjamsoeddin in Tokyo. They welcomed the progress of discussions within the working group under the revised defense equipment and technology transfer system.

- Sjafrie expressed his intention to materialize defense equipment and technology cooperation, including the transfer of Asagiri-class destroyers and other equipment. The two ministers reached a consensus to start discussions within the working group, including those on education and training, maintenance and sustainment, and operational aspects.
- The Acquisition, Technology & Logistics Agency (ATLA) [announced](#) that procurement will begin in July to conduct demonstration tests to assess the effectiveness of interceptor drone systems in enhancing the defensive capabilities of garrisons, bases, and naval vessels..
- *Asahi* [reported](#) Wednesday that the Ministry of Defense's (MOD) Defense White Paper 2026 has determined that the Chinese military's increasingly active operations in the vicinity of Japan "should be addressed through a combination of comprehensive national power and cooperation and coordination with allies and like-minded nations." The white paper also commits to utilizing drones and AI to prepare for "new modes of warfare."
- On Monday, Chief Cabinet Secretary Kihara Minoru [said](#) that, "what matters is the substance of our defense capabilities, not just the budget," in response to Hegseth's speech at the Shangri-la Dialogue [stating](#) that the United States demands 3.5 percent of GDP spending on defense by allies.

4. Diet Enacts FY 2026 Supplementary Budget

- On Friday, the Upper House [passed/enacted](#) the FY 2026 supplementary budget with votes from the LDP, Japan Innovation Party (*Nippon Ishin no Kai*), the Democratic Party for the People (DPFP), the Japan Conservative Party, and Team Mirai.
- The budget amounted to ¥3.11 trillion, [including](#) ¥2.5 trillion for the reserve fund to respond to the situation in the Middle East, ¥513.5 billion to cover for expenses accrued from the FY 2026 reserve fund in relation to summer utility subsidies, and ¥100 billion for local grants that can be used at the discretion of local governments, including to address surging LP gas prices.
- On Wednesday, Minister of Finance Katayama Satsuki [delivered](#) a fiscal policy speech regarding the supplementary budget, explaining that the GOJ formulated the budget to prevent disruptions to the public's daily lives and economic activities while minimizing fiscal risks.
- With the budget, the primary balance for FY 2026 is [now projected](#) to be in deficit, a reversal from the previous forecast of a surplus. The GOJ does not care about

single-year deficits, as it transitions from a primary balance surplus target to stably reducing the debt-to-GDP ratio over multiple years.

- The budget was enacted at [breakneck speed](#), taking only an unprecedented three days from submission. The GOJ refused to revise the budget as requested by opposition parties. It only allowed for a day of deliberation in each House. The opposition parties [criticized](#) the “blank check” nature of the reserve fund, which requires no Diet approval to determine the purpose of spending.
- Takaichi responded to growing calls from both sides of the aisle to reduce GOJ subsidies for gasoline, [stating](#) that, “we will flexibly consider the nature of our support, including unit costs, as needed.” While the GOJ resumed subsidies in March to suppress gasoline prices to around ¥170 — the [lowest price](#) among G7 nations — this comes at the expense of tremendous public spending. The remaining balance of funds without the supplementary budget would have run out in July.

5. GOJ Aims to Implement Food Consumption Tax Cut in April 2027

- On Wednesday, the Ministry of Economy, Trade and Industry (METI) [informed](#) the working-level council under the National Conference on Social Security that cash register updates to lower the consumption tax on food and beverages to one percent would take three to six months. The GOJ aims to start the tax cut in April 2027.
- [Jiji reported](#) that the ruling parties are warming to the idea of the one percent tax instead of the pledge during the Lower House election in February to temporarily lower the tax to zero percent for two years. This is because keeping the promise would delay implementation, which may lead voters to vote against the ruling parties during next spring’s unified local elections.
- [Nikkei reported](#) Tuesday that the GOJ is discussing covering the ¥4-5 trillion annual cost of the consumption tax cut without increasing the issuance of new government bonds compared to the previous fiscal year. This assumes that economic growth will result in an increase in tax revenue. The GOJ aims to move away from its reliance on supplementary budgets, with reportedly no plans to form one in the fall.
- Meanwhile, the LDP [discussed](#) the refundable tax credit on Tuesday, where multiple lawmakers called on the GOJ to minimize the burden on local governments. Tax Research Commission Chair Onodera Itsunori told reporters after the meeting that the lawmakers “generally understood” the basic direction of the scheme.
- If local governments take on the main responsibility of implementation, it could [result](#) in cumbersome administrative burdens like selecting eligible recipients, building the necessary systems, identifying recipient accounts, issuing transfer instructions, and

handling transfer errors. The GOJ is still discussing whether to take on the responsibility itself, perhaps through a new “Revenue Agency,” or to subcontract the task to local governments with prior experience implementing cash handouts.

- *Ishin* Secretary General Nakatsuka Hiroshi [voiced](#) concern about the GOJ and LDP leaning toward a standalone cash handout without the tax credit (later implementation) for the refundable tax credit scheme, stating that, “Consolidating benefits leads to pork-barrel spending. There are concerns about whether this is appropriate.”

6. Key Political Developments

- On Friday, the speakers and vice speakers of both Houses [agreed](#) on the “legislature’s position” on securing stable Imperial Household succession. The document will be presented to all parties on June 8, with [plans to finalize](#) it on June 10. The plan — generally approving a proposal to allow female members of the Imperial Household to retain their status after marriage, and a proposal to welcome male-line descendants of former imperial families into the Imperial Household as adopted sons — is [supported](#) by the DFPF, Komeito, and Sanseito.
- The LDP [discussed](#) the bill to set up a “second capital” to serve as a backup for the capital’s functions in the event of a major disaster, which received strong opposition due to suspicions that *Ishin* is attempting to use the “backup function” as justification to pursue its own Osaka Metropolis Plan. Nakatsuka [met](#) with LDP counterpart Suzuki Shunichi on Monday to urge the LDP to expedite the internal process on approving key legislation including the second capital bill.
- The LDP, *Ishin*, DFPF, and Sanseito [co-sponsored](#) a bill to amend the national referendum law, which dictates the process for amending the Constitution. The bill, which was killed upon the dissolution of the Lower House in 2024, comprises three provisions including the relaxation of requirements for the appointment of election observers. It is expected to be enacted by the end of the Diet session on July 17.
- On Thursday, Suzuki [revealed](#) during a meeting of the Headquarters for Political System Reform that Takaichi instructed him to coordinate within the party toward reducing the number of seats in the Lower House by 10 percent exclusively in the proportional representation block. While this is something *Ishin* is proposing, the opposition parties are expected to oppose it on grounds that it suppresses voters supporting minority parties.
- The LDP Headquarters for Foreign Nationals Policy [finalized](#) recommendations to the GOJ, proposing legislation regarding the identification and registration of beneficial owners of corporations to improve transparency surrounding the

acquisition of land. The GOJ will [reportedly amend](#) the Act on the Review and Regulation of the Use of Real Estate Surrounding Important Facilities and on Remote Territorial Islands in the fall to tighten restrictions around acquisition of land close to facilities important to national security regardless of nationality.

- On Monday, the LDP [approved](#) draft provisions of the bill that would criminalize desecration of the national flag. The LDP argues that the bill aims to “protect the public sentiment that cherishes the national flag.” It criminalizes “acts of openly damaging, removing, or defacing property in a manner or under circumstances that cause significant discomfort or disgust to others,” including social media posts and live broadcasting. It excludes things like animations or generative AI content.

7. GOJ Secures Claude Mythos Access

- On Wednesday, Minister for Digital Transformation Matsumoto Hisashi [welcomed](#) Anthropic’s decision to grant access to frontier AI model Claude Mythos, stating that, “the fact that the door opened is a major step forward.”
- Anthropic [announced](#) on Tuesday that it has granted access to 150 companies and organizations in over fifteen countries, including Japan. Access so far had only been granted to approximately fifty companies and organizations and the U.S. Government. Trend Micro became the first Japanese company to [announce](#) that it had been granted access to Claude Mythos on Thursday.
- LDP Headquarters for National Cybersecurity Strategy Chairperson Taira Masaaki [met](#) with Anthropic executives following the announcement, pointing out that “there is no doubt that Japan is considered important.”
- Katayama [said](#) Tuesday that the GOJ, Japan’s three megabanks, and other organizations considered critical infrastructure providers outside the financial sector had been granted access to Claude Mythos. U.S. Secretary of the Treasury Scott Bessent had informed her on May 12 that access would be granted within two weeks.
- Minister for Economic Security Onoda Kimi [revealed](#) that the GOJ requested access to OpenAI’s frontier AI model “GPT-5.5-Cyber” for the government and Japanese companies. The GOJ’s AI Safety Institute and OpenAI [signed](#) a memorandum of cooperation on May 29 for cooperation on AI safety evaluation, benchmarking and cybersecurity.

8. Economic Security and Tech Developments

- On Thursday, the Japanese and U.S. governments [signed](#) a strategic partnership toward cooperation under the U.S. Genesis Mission aiming to transform scientific

- research. The two governments will pitch in \$500 million over the next five years to promote joint research in eleven sectors such as quantum and biotechnology. The project includes an element of countering China in the AI development space.
- Minister of Economy, Trade and Industry Akazawa Ryosei [announced](#) that the GOJ has finalized an additional ¥150 billion investment into domestic chip foundry Rapidus. The GOJ has committed a total of ¥2.9 trillion by FY 2027.
 - *Nikkei* [reported](#) that the Japan Agency for Marine-Earth Science and Technology (JAMSTEC) will develop an autonomous underwater vehicle (AUV) capable of surveying seabed resources such as rare earth elements by FY 2028. The AUV will be used to extract mud containing large quantities of rare earth elements on the seafloor off Minamitorishima (Tokyo) in the Ogasawara Islands.
 - On Tuesday, the Ministry of Economy, Trade and Industry (METI) [presented](#) its revised “Strategy for the Battery and Power Supply Industry” to an expert panel, which targets increasing Japanese companies’ domestic and international sales related to storage batteries to approximately ¥5 trillion by 2035, three times 2025 levels.
 - The Ministry of Internal Affairs and Communications (MIC) [finalized](#) a draft report on the appropriate use of social media by minors, which [calls](#) on social media companies to implement stricter age verification procedures at the time of account creation, among other measures. It concluded that blanket age restrictions are undesirable given concerns about restricting freedom of expression.
 - On Monday, Katayama [revealed](#) that the GOJ will pitch in \$20 million to a newly created World Bank investment framework designed to support the development of supply chains for critical minerals in developing countries. It will help promote the wider adoption of renewable energy sources such as solar and wind power.

9. Key Economic/Financial Developments

- On Friday, the METI [presented](#) plans at a meeting of the Advisory Committee for Natural Resources and Energy to target replacing up to five nuclear power plants by the 2040s. Capacity is up to 5.5 million kilowatts, which is equivalent to about 20 percent of the capacity of existing nuclear power plants.
- On Thursday, the METI [announced](#) that State Minister Ino Toshio attended the meeting of the OECD Council at Ministerial Level and the Informal Gathering of WTO ministers. The two-day meeting in Paris [concluded](#) without a joint statement for the second consecutive year. The ministers discussed addressing China’s excessive industrial subsidies and export restrictions on critical minerals.

- On Wednesday, Bank of Japan (BOJ) Governor Ueda Kazuo [said](#) that, “even if the situation in the Middle East remains uncertain, there is a possibility that interest rates will be raised” if the risk of inflation rising is higher than downside risks to the economy. Meanwhile, the BOJ [released](#) meeting minutes from the bond market group meeting from May 21-22, which showed that participants [argued](#) for both suspension and continuation of the pace of reduction in government bond purchases.
- Akazawa [posted](#) on X that he had a meeting with U.S. Secretary of Commerce Howard Lutnick on Tuesday, writing that, “We have confirmed with the U.S. side that no additional tariffs exceeding last year’s agreement will be imposed.” This comes after the Office of the U.S. Trade Representative announced a proposal to impose new additional tariffs of up to 12.5 percent on sixty countries and regions, including Japan. U.S. Trade Representative Jamieson Greer [indicated](#) that there may be exceptions for countries and regions like Japan and the EU that already have trade agreements.
- The Nikkei Stock Average [hit](#) the ¥68,000 mark at one point, increasing ¥1,667.89 from the previous day to ¥68,402.13 against the backdrop of expanded AI investment. Meanwhile, SoftBank [overtook](#) Toyota as the company with the highest market capitalization on Monday, the first time this has happened in twenty-two years. Kioxia Holdings [took](#) the number two spot from Toyota at one point on Wednesday.
- On Monday, the Cabinet Office (CAO) [indicated](#) its intention to conduct a study on the barriers and competitive advantages related to expanding foreign direct investment in Japan. The GOJ believes barriers may include the shortage of digital talent and multilingual staff. It has targeted ¥120 trillion in foreign direct investment by 2030; the FY 2025 investment amount was ¥58.6 trillion.

10. State of the Economy

- On Friday, the CAO [announced](#) that the coincident index of business conditions in April rose 1.1 points from the previous month to 117.9, the [second consecutive month](#) that the index improved. The CAO maintained the assessment that the index performance is “signaling a possible turning point.”
- The Ministry of Health, Labor and Welfare (MHLW) [announced](#) that real wages in April increased 1.9 percent from the same month last year, the fourth consecutive month of positive real wage growth. GOJ subsidies for gasoline costs and other measures [helped](#) keep inflation in check.
- On Wednesday, the MHLW [announced](#) that the number of Japanese children born in Japan in 2025 was 671,236, marking the tenth consecutive year that the figure has set a [new record low](#) since records became available in 1899. The total fertility rate also hit a new low of 1.14, which is [estimated](#) to raise social security benefit costs per

worker by about 20 percent to ¥2.48 million in 2050. Takaichi [called](#) the situation a “quiet contingency” and an “extremely tough situation” on Thursday.

- On Tuesday, the CAO [announced](#) an estimate that the GDP gap (demand-supply gap) in the January-March quarter was 0.5 percent, or a ¥3 trillion demand surplus. This is the sixth consecutive quarter that the GDP gap [remained](#) positive.
- On Monday, the Ministry of Finance (MOF) [announced](#) that recurring profit for all industries excluding finance and insurance in the January-March quarter increased 14.6 percent from the same quarter last year to ¥32.63 trillion, the sixth consecutive quarter that profits [remained](#) positive. Corporate revenue grew, driven primarily by AI and data center-related businesses.
- The MOF [announced](#) that general account tax revenue in April increased 5.5 percent from the same month last year to ¥7.92 trillion, with corporate tax revenue [increasing](#) 17.4 percent to ¥827.5 billion against the backdrop of growth in corporate earnings. Meanwhile, consumption tax revenue increased 4.8 percent to ¥2.64 trillion, while income tax revenue increased 3.6 percent to ¥3.68 trillion.

II. Public Opinion Poll

- A *Nikkei* poll [released](#) on Monday found that the Takaichi Cabinet’s approval rating was 66 percent, down three points from April, while disapproval was at 28 percent, up two points.
 - 49 percent of respondents said that they would like the prime minister to prioritize inflation relief measures; 35 percent said pensions, healthcare, and elderly care; and 32 percent said foreign policy and security.
 - 63 percent of respondents said that they believe the GOJ should call on the public to save electricity and gasoline as procurement becomes challenging due to the situation in the Middle East, while 32 percent said there is no need.
 - 58 percent of respondents said that they believe it is appropriate for the GOJ to formulate a supplementary budget without issuing deficit bonds; 26 percent said they do not believe it is appropriate.
 - 36 percent of respondents said that they believe the consumption tax on food and beverages should be one percent; 32 percent said there is no need to cut taxes; and 28 percent said it should be zero percent.
 - 52 percent of respondents said that they support the standalone cash handout to start with concerning the refundable tax credit scheme, while 32 percent said they oppose it.
 - 69 percent of respondents said that they support the proposal to allow female members of the Imperial Household to retain their status after marriage, while 18 percent said they oppose it.

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- 45 percent of respondents said that they support the proposal to welcome male-line descendants of former imperial families into the Imperial Household as adopted sons, while 37 percent said they oppose it.
- 56 percent of respondents said that they believe the proposal to reduce the number of Lower House seats should be considered alongside electoral system reform discussions; 25 percent said Lower House seats should be cut back; and 11 percent said there is no need to reduce the number of seats.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	39 (-3)
Centrist Reform Alliance	3 (+1)
Japan Innovation Party	4 (± 0)
Democratic Party for the People	7 (+1)
Suffrage Party (Sanseitō)	5 (± 0)
Team Mirai	3 (± 0)
Japan Communist Party	3 (± 0)
Reiwa Shinsengumi	1 (-1)
Japan Conservative Party	2 (+1)
Socialist Democratic Party	0 (-1)
Constitutional Democratic Party	4 (± 0)
Komeito	2 (+1)
Independent (No Party)	25 (+3)