The Weekly Observer

August 3-7, 2026

The 236th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on Japan's new Defense White Paper, Foreign Minister Motegi's visit to Latin America and the Caribbean, the LDP's intelligence reform proposals, the GOJ adopting the food consumption tax cut, Prime Minister Takaichi's speeches in Hiroshima and Nagasaki, the aftermath of the yen-buying intervention, plans to construct one of the largest AI data centers in Akita Prefecture, public pension revenue in FY 2025, the quarterly economic situation report, and more.

By Content

I. News of the Week

II. Public Opinion Polls

I. News of the Week

1. Japan Releases Defense White Paper 2026

- On Tuesday, the Ministry of Defense (MOD) issued the Defense of Japan 2026, the annual white paper on defense policy. The document came to 598 pages, the longest white paper ever written, sounding the alarm on the deteriorating security environment around Japan ahead of the revision of the strategic national security documents scheduled for the end of the year.

- The white paper dedicates a standalone section to "new ways of warfare," given the reality that "large numbers of inexpensive and diverse unmanned assets" are being deployed on the battlefield in Ukraine and that AI is being used to "accelerate decision making" at the command and control level.

- It characterizes the defense and technology industrial base as the "very essence of defense capabilities." The document notes that the loosened restrictions on exporting lethal defense equipment will improve regional deterrence, while calling for the strengthening of the domestic production base.

- The white paper emphasizes the importance of collaborating with allies and like-minded partners in defense. It states that the GOJ aims to strengthen deterrence with the United States, including via long-range counterstrike capabilities.

- China is referred to as Japan's "single greatest strategic challenge," maintaining the language from the previous year's white paper. It points out that China is deepening strategic cooperation with Russia through frequent joint activities between fighters and naval vessels around Japan and the wider region.

- The white paper also expresses "serious concern" regarding deeper Russia-North Korea relations, especially the possibility that Russia is providing North Korea with nuclear and missile-related technology. It notes that North Korea has been providing Russia with weapons and soldiers as the war in Ukraine rages on.

2. Foreign Policy Developments

- On Friday, the Ministry for Foreign Affairs (MOFA) issued a press release summarizing Foreign Minister Motegi Toshimitsu's recent visit to Latin America and the Caribbean (Mexico, Panama, Ecuador, and Trinidad and Tobago). In particular, Motegi referred to the import of one million barrels of crude oil from Mexico and agreed to continue strengthening two-way cooperation in the energy field.

- The MOFA strongly protested the South Korean survey vessel "Tanhae 3" deploying what appeared to be a wire into the water within Japan's exclusive economic zone

(EEZ) west of the disputed Takeshima/Dokdo Island. Meanwhile, the MOFA also protested the ROK Armed Forces for conducting military exercises near the island the previous day.

- On Thursday, the MOFA announced that Parliamentary Vice Minister for Foreign Affairs Onishi Yohei visited Libya from August 4-6. Libya possesses Africa's largest crude oil reserves — Japan aims to expand future crude oil and natural gas procurement from Libya.

- *Jiji* reported that Heidi Fulton, lead negotiator of the U.S. Department of State's Bureau of Political Military Affairs, visited Tokyo last week to begin negotiations on host nation support funding. Japan currently pays ¥1.06 trillion for the FY 2022-2026 period, and the United States is expected to demand further increases over the next five years. Formal negotiations are expected to begin in the fall.

- On Monday, the GOJ announced that it released the "Advisory to Countries, Companies, and Other Entities Regarding North Korean IT Workers" with ten other countries on July 31. The advisory warns against North Korean IT workers impersonating nationals of other countries to obtain work and income to fund North Korea's unlawful nuclear weapons and ballistic missile programs.

3. Security/Defense Developments

- *Asahi* reported Saturday that the MOD plans to request a record high of around ¥8.9 trillion in FY 2027, with plans to include "item-based requests" without concrete funding amounts reflecting the revision of the three strategic national security documents. Meanwhile, the MOD will provide companies with advance notice regarding the procurement volumes of equipment such as ammunition and drones as early as FY 2027 to make it easier for businesses to build longer-term plans.

- On Thursday, the MOD announced that North Korea launched at least one ballistic missile that landed on the eastern side of the Korean Peninsula. The GOJ strongly protested the launch as threatening the peace and security of the region and the international community, as well as for violating a range of UN Security Council resolutions.

- *Asahi* reported that Minister of Defense Koizumi Shinjiro plans to visit Australia and India starting August 17. During his visit to India, the JASDF is expected to deploy the F-2 fighter jet for the first time there for bilateral exercises. The two sides held their first bilateral fighter jet exercises in Japan in 2023.

- On Wednesday, the ruling Liberal Democratic Party's (LDP) Headquarters for Intelligence Strategy finalized its policy recommendations toward strengthening "information defense capabilities." It proposes measures to develop the "Foreign Interference Prevention Act," which would establish obligations such as the registration of foreign agents, and measures to strengthen intelligence gathering capabilities, including signals and human intelligence.

- *Nikkei* reported that the GOJ has begun considering the introduction of U.S.-made AI systems for the command and control of JSDF units. It envisions diversifying AI models across several providers for specific purposes like counterstrike capabilities, missile defense, and drone management, and positioning a Japanese company like Sakana AI as the "command tower" for the different AI systems.

- On Tuesday, the expert panel reviewing the three strategic national security documents met for a third time to discuss economic security. The GOJ presented a document outlining the goals to be achieved in the new security documents, including the "readjustment" of the free trade system, strengthening social and industrial structures, strategically strengthening the manufacturing base, promoting dual-use technology research, and developing AI sovereignty.

4. GOJ Adopts Food Consumption Tax Cut Plan

- On Wednesday, the GOJ adopted plans to lower the consumption tax on food and beverages from eight percent to one percent for two years starting April 2027, with benefits equivalent to the one percent tax for low- and middle-income earners in June, effectively bringing the net impact to zero. While a proposal to use pooled funds in the Foreign Exchange Fund Special Account has been floated, no details were revealed as part of the Cabinet decision.

- The consumption tax is estimated to reduce the burden on taxpayers by ¥36,000 per year. It is positioned as a temporary measure to deliver inflation relief to particularly low- and middle-income earners until the "tax credit with benefits" scheme is officially introduced in April 2028. Minister of Finance Katayama Satsuki said that the decision on how to finance the tax cut would likely be made in the "second week of December" alongside the GOJ's tax system reform plan for FY 2027.

- Takaichi explained in a press conference the same day that the GOJ will "take measures to ensure that the consumption tax cut does not adversely affect social security, which relies on it as a vital revenue source." The cut is expected to create a ¥10 trillion revenue shortfall over two years. She also said that the GOJ has no plans to issue deficit bonds to finance the cut in an effort to "gain the market's trust."

- Opposition parties all criticized the plan at once, arguing that the tax cut would effectively be a "tax hike" in two years, advocating a cash handout for speedy and effective inflation relief. Meanwhile, Japan Business Federation (*Keidanren*)

Chairman Tsutsui Yoshinobu said that the GOJ must work to "address the public's concerns" regarding the impact on social security costs.

- The plan was opposed by members of Takaichi's own party, with nine out of twenty-five LDP lawmakers walking out of the General Council meeting the same day where the plan was approved. These lawmakers argue that Takaichi was "too forceful" — abandoning efforts to reach a consensus — and that it would have adverse effects in markets and ultimately threaten the party's success in next spring's unified local elections. Tax Research Commission executive Obuchi Yuko was one such lawmaker, deciding to step down from her role in protest.

- Several local governments have also expressed concern about the plan. Shiga Prefecture Governor Mikazuki Taizo revealed that the tax cut would result in a loss of ¥10.3 billion revenue a year; Tokushima Governor Gotoda Masazumi said it would result in a ¥14.7 billion loss; and Kochi Governor Hamada Seiji said it would result in a ¥11.8 billion loss.

5. Key Political Developments

- On Sunday, Takaichi delivered a speech at the Nagasaki Peace Memorial Ceremony. Under the pledge to "make Nagasaki the last city to suffer a nuclear attack" and thereby alleviate the public's concern, she stated that the GOJ would "promote realistic and practical measures toward the realization of a world without nuclear weapons."

- On Friday, the expert panel discussing the acceptance of foreign nationals into Japan met for the first time, agreeing to study future projections (up until 2040) on the number of foreign residents and analyze the impact on society as the GOJ considers whether to set numerical targets for the number of foreign residents to be accepted. The GOJ plans to finalize its basic policy next March.

- The Ministry of Land, Infrastructure, Transport and Tourism (MLIT) issued recommendations from an expert panel on large-scale land transactions and land use, which called for lowering the threshold for the area subject to reporting requirements — from over two thousand square meters in an urban development zone, over five thousand square meters for areas outside urbanized zones (like farmland), and over ten thousand square meters for areas outside urban planning zones (like forested areas) — to improve oversight of information regarding such transactions.

- On Thursday, Takaichi delivered a speech at the Hiroshima Peace Memorial Ceremony. She stated that Japan adheres to the Three Non-Nuclear Principles, and as the "only nation to have suffered atomic bombings in war," the nation bears the mission of continuing efforts toward realizing a "world without nuclear weapons."

She said in a press conference after the ceremony that the GOJ "remains committed" to the non-nuclear principles, though subtly changing the language and removing the expression that the GOJ remains committed in the future. The nuclear question is part of the review of the three strategic national security documents.

- On Tuesday, the GOJ decided to allocate ¥24.2 billion from the FY 2026 reserve fund to respond to the earthquake that hit Kumamoto Prefecture. Takaichi stated on Monday that the GOJ is prepared to provide proactive supply assistance, support for rescue operations conducted by prefectural governments, and disaster recovery, including emergency restoration efforts. Opposition parties led by the Centrist Reform Alliance have requested that a supplementary budget be formed to allocate more funding to respond to the earthquake.

- The Immigration Services Agency announced that it would revise the guidelines for permanent residence permits for foreign nationals as early as in October. The current guidelines are not specific, setting the conditions for permanent residence around good moral character, possession of assets or skills sufficient to support oneself independently, and alignment with Japan's national interests. The proposed changes would require applicants to demonstrate that they consistently earn an annual income above the average for Japanese households, as well as that their projected pension benefits will be above the average to prevent them from becoming recipients of public assistance in the future.

6. Yen Intervention Estimated at Around ¥5 Trillion

- *Nikkei* reported Monday that the yen-buying foreign exchange intervention carried out by the GOJ and Bank of Japan (BOJ) on July 31 is estimated to have been a total of ¥5 trillion based on the BOJ's checking account balance. The intervention on July 30 is estimated to have been anywhere between ¥6-7 trillion.

- Katayama said at a press conference on Tuesday that, "as has been the case in the past, I cannot provide a specific answer regarding the effectiveness of the intervention." The GOJ and U.S. Government announced the first coordinated intervention since 1998 on Monday.

- Both Katayama and U.S. Secretary of the Treasury Scott Bessent issued statements on Monday morning. Bessent posted on X, writing, "We will not hesitate to participate in further coordinated interventions." The yen appreciated to ¥155.20 to the dollar at one point on Monday, the first appreciation to that level since early May.

- While the U.S. side characterized the coordinated move as an "act of friendship," there was a level of realism that came with the move, as the U.S. authorities sold the euro and bought the yen at the same time the Japanese side sold the dollar and bought the yen. The U.S. stance is that it will under no circumstances allow anything to undermine the confidence in the U.S. Treasury market or the dollar. *Nikkei* reported that Bessent had started thinking about the intervention in January, around the time that Takaichi announced the dissolution of the Lower House for a snap election.

- The yen appreciated further to ¥156.60 to the dollar on Friday, after the U.S. employment report for July was released the same day, showing that the number of new jobs fell contrary to market expectations. The yen had depreciated after it briefly appreciated on Monday following the announcement of the coordinated intervention.

- Meanwhile, the Ministry of Finance's (MOF) statistics found that the GOJ and BOJ conducted a total of three interventions to buy yen and sell dollars during the Golden Week holiday in April/May. The intervention on April 30 was the single largest intervention on record. The effect of changing the exchange rate level was short-lived, ultimately laying the groundwork for the coordinated intervention.

7. Economic Security and Tech Developments

- On Friday, the Ministry of Education, Culture, Sports, Science and Technology (MEXT) released the "Japanese Science and Technology Indicators 2026," which found that China's R&D spending in 2024 rose 13.1 percent year-over-year to ¥97.1 trillion, surpassing that of the United States (+6.7 percent to ¥95.3 trillion). Japan ranked third, with spending up 8.4 percent to ¥22.1 trillion.

- The Ministry of Agriculture, Forestry and Fisheries (MAFF) announced that the calorie-based food self-sufficiency rate for FY 2025 fell by one percentage point from the previous fiscal year to 37 percent. This was the first decline in five years, impacted by the "Reiwa rice crisis" causing rice prices to rise, leading to a decline in domestic rice consumption.

- *Nikkei* reported Thursday that Japanese IT firm S2 and U.S. AI startup BITGRIT plans to invest around ¥2 trillion to construct one of the largest AI data centers in Akita City, Akita Prefecture, with operations planned for the early 2030s. Mubadala Investment, a UAE government-backed fund, has revealed that it is in discussions regarding an investment, which could range from several hundred billion to one trillion yen. Akita Prefecture Governor Suzuki Kenta said Thursday that he hopes to realize the project with the companies and interested partners.

- On Tuesday, Minister of Internal Affairs and Communications (MIC) Hayashi Yoshimasa issued the first letter from the MIC minister to local governments nationwide urging them to strengthen cybersecurity measures in light of advancements in AI and other factors. He wrote that "it is essential that (mayors) demonstrate strong leadership and drive further initiatives."

- On Monday, the Cabinet Office (CAO) released guidelines designed to encourage companies to invest in and utilize intangible assets such as intellectual property, patents, and proprietary technology. The CAO urges companies to disclose information on their investment activities, among other measures, to make the profits generated by intangible assets over the medium- to long-term more transparent.

- The Ministry of Economy, Trade and Industry (METI) discussed the stockpiling of petroleum products such as naphtha. Issues raised included reflecting naphtha demand in oil reserve levels and exploring alternative routes that bypass the Strait of Hormuz. This reflects a desire on the GOJ's part to address the supply chain disruptions that occurred in the face of the situation in the Middle East.

8. Key Economic/Financial Developments

- On Friday, the Ministry of Health, Labor and Welfare (MHLW) announced its FY 2025 public pension revenue and expenditure statement, which found that the total market value of the reserve funds for the Employees' Pension Insurance — which covers company employees — and the National Pension System — which covers self-employed individuals — stood at ¥302.59 trillion. This represents an increase of ¥42.51 trillion from FY 2024, reaching a record high. Investment performance was strong due to rising stock prices and a weak yen.

- The Government Pension Investment Fund (GPIF), which manages public pension funds, announced that its investment returns for April-June 2026 totaled ¥24.09 trillion. Rising stock prices driven by growth expectations surrounding AI boosted earnings, resulting in a record-high quarterly investment income.

- On Tuesday, the METI held a meeting of its Industrial Structural Council to discuss key policies for FY 2027. The ministry is exploring ways to diversify procurement channels for crude oil and naphtha to strengthen the supply chain for petroleum products, which were disrupted by tensions in the Middle East. They also discussed productivity gains through the use of AI under the banner of a "growth strategy centered on wage increases."

- The METI published a list of customer companies that have been reluctant to pass on price increases in transactions with small- and medium-sized enterprises. Out of the approximately 300,000 companies investigated, the homebuilder Hajime Construction received the lowest rating on a four-point scale. No other companies received the lowest rating concerning negotiations over transaction prices, marking a decrease from the three companies that did so in the previous survey.

- *Nikkei* reported that the GOJ announced a public-private investment plan to support the creation of growth industry clusters across the nation. Shikoku's Setouchi region was selected for the "shipbuilding" cluster, along with Tokushima Prefecture for "storage batteries." Shipbuilding was designated as one of the "strategic industrial cluster plan" categories.

- The METI and MOF announced that the Cabinet enacted a Cabinet Order relating to a provisional anti-dumping duty on hot-dipped galvanized steel coil, sheet, and strip originating in South Korea and China. The duty will be imposed on such products from August 8 to December 7.

9. State of the Economy

- On Thursday, Keidanren announced that summer bonuses for major companies in 2026 were on average at ¥1.04 million, exceeding ¥1 million for the first time. By industry, the construction sector exceeded ¥2 million. These results reflected companies' growing concern over labor shortages.

- On Wednesday, the MOF finalized the economic situation report for July, which maintained the assessment for the twelfth consecutive quarter that the "economy is recovering gradually, but it is necessary to closely monitor the impact of the situation in the Middle East." By region, the assessment was raised for the Kanto and Tokai regions out of the eleven regions nationwide; all other regions stayed the same.

- The MHLW announced that real wages in June adjusted for price fluctuations rose 1.6 percent year-on-year, the sixth consecutive month on the rise. In addition to wage hikes, summer bonuses also rose. Nominal wages rose 3.4 percent to ¥531,677, the first time in thirty-four years and three months that the increase exceeded 3 percent for five consecutive months. Meanwhile, Keidanren announced that the wage increase rate for large companies exceeded 5 percent for the third consecutive year, hitting 5.37 percent as a result of the 2026 spring wage negotiations.

- On Monday, the BOJ released the full Outlook for Economic Activity and Prices quarterly report for July, which indicated that even amid falling crude oil prices, rising demand for AI-related products and the continued weakening of the yen will "continue to exert persistent upward pressure on domestic goods prices, such as those of electrical appliances, for the time being."

- The MOF announced that the national general account tax revenue for June was ¥3.15 trillion, a 39.3 percent increase from the same month last year. Income tax revenue rose 41.3 percent to ¥1.89 trillion, driven by an increase in dividend revenue. Meanwhile, corporate tax revenue rose 18.8 percent to ¥358.7 billion, while inheritance tax revenue rose 20.1 percent to ¥286.5 billion.

II. Public Opinion Poll

- A JNN poll released on Monday found that the Takaichi Cabinet's approval rating was 59 percent, down seven points from July, while disapproval was at 38 percent, up seven points.
  - 40 percent of respondents said that they somewhat approve of the Takaichi Administration's management of Diet affairs; 33 percent said they somewhat disapprove; 15 percent said they strongly disapprove; and 7 percent said they strongly approve.
  - 65 percent of respondents said that they believe the GOJ's explanation on the amendment to the Imperial Household Law was insufficient, while 21 percent said they believe it was sufficient.
  - 50 percent of respondents said that they approve of the enacted "second capital" law, while 35 percent said they disapprove of it.
  - 52 percent of respondents said that they support the consumption tax cut from 8 percent to 1 percent, while 39 percent said they oppose it.
  - 44 percent of respondents said that they are somewhat concerned about the quality of social security falling due to the consumption tax cut; 26 percent said they are not so concerned; 18 percent said they are very concerned; and 10 percent said they are not concerned at all.
  - 36 percent of respondents said that they somewhat disapprove of the Takaichi Cabinet's inflation relief measures so far; 32 percent said they somewhat approve; 23 percent said they strongly disapprove; and 7 percent said they strongly approve.
  - 29 percent of respondents said that they believe a new party should be added to the LDP-*Ishin* coalition framework; 27 percent said they believe the LDP-*Ishin* coalition should remain as is; 18 percent said they believe the opposition should take control of government; and 13 percent said they believe the LDP should dissolve the coalition with *Ishin* and form a new coalition with a different party.

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

Political Party	**Approval Rating (%)**
Liberal Democratic Party	30.9 (-1.4)
Centrist Reform Alliance	1.9 (-2.6)
Japan Innovation Party	2.9 (-0.3)
Democratic Party for the People	3 (+0.3)
Suffrage Party (Sanseitō)	2.7 (-1.2)
Team Mirai	1.4 (±0)

Japan Communist Party	2.3 (+0.1)
Reiwa Shinsengumi	0.9 (+0.4)
Japan Conservative Party	0.4 (-0.6)
Socialist Democratic Party	0.2 (±0)
Constitutional Democratic Party	2.4 (+1)
Komeito	1.4 (+0.5)
Independent (No Party)	46.4 (+4.6)