

The Weekly Observer

August 24-28, 2026

The 239th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on Japanese lawmakers visiting China, Takaichi's attendance in a Ukraine-related online meeting, the inaugural trilateral Japan-Australia-Indonesia defense ministerial meeting, the GOJ's new energy security and inflation relief measures, the GOJ's reported FY 2027 budget and priorities, the disintegration of the opposition parties' merger, the GOJ's "AI Principle-Code" for IP protection and transparency in generative AI development, the yen depreciating to ¥160 to the dollar once again after the intervention, the GOJ's Monthly Economic Report, and more.

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I. News of the Week

1. Japanese Lawmakers Visit China

- On Thursday, a delegation of Japanese Diet members [led](#) by opposition Centrist Reform Alliance (CRA) Public Relations Chairperson Isa Shinichi met Lu Kang, deputy minister of the Chinese Communist Party's (CCP) International Department in Beijing. The delegation included Komeito lawmaker Kawamura Yudai and Liberal Democratic Party (LDP) lawmaker Hashimoto Gaku (did not meet Lu).
- Isa explained that the Japanese side proposed the resumption of cultural and youth exchanges, as well as the release of detained Japanese nationals and requested that China "ensure transparency" regarding its export controls. This is the first time Japanese Diet members visited China since Prime Minister Takaichi Sanae's Taiwan contingency remarks in November 2025.
- Isa told reporters that "there were also many heated exchanges," adding that "there was a consensus that this was about creating an atmosphere conducive to normalization." Lu reportedly said that China will not change its approach to Japan unless Japan's position on Takaichi's remarks change.
- The CCP [issued](#) a press release of its own, which stated that Lu pointed out that, "although China-Japan relations are currently facing serious difficulties, the root cause is clear." Lu added that, "issues involving major principles, such as history and Taiwan, are closely tied to the political foundation and fundamental trust of China-Japan relations."
- Though official government-to-government dialogue has been on the decline, State Minister for Agriculture, Forestry and Fisheries Yamashita Yuhei [briefly exchanged words](#) with Chinese Agriculture Minister Zhang Zhu during the APEC Food Security Ministerial Meeting held in Hangzhou, China, on Tuesday.

2. Foreign Policy Developments

- On Saturday, the Ministry of Foreign Affairs (MOFA) [announced](#) that Vice Minister Funakoshi Takehiro visited Washington, D.C., on Thursday and Friday to meet with U.S. Deputy Secretary of State Christopher Landau. They exchanged views on regional situations in the Indo-Pacific, such as those related to China, ahead of President Xi Jinping's visit to Washington next month.
- On Friday, the MOFA [announced](#) that Minister for Foreign Affairs Motegi Toshimitsu will visit Turkmenistan, Slovakia, Austria and Mongolia from August 29-September

4. He will reaffirm further strategic collaboration towards the maintenance and strengthening of a free and open international order based on the rule of law.
- Minister of Economy, Trade and Industry (METI) Akazawa Ryosei [announced](#) that he will be traveling to the United States from September 1-6 for the G20 Innovation Ministerial in North Carolina and for discussions with U.S. counterparts in Washington on the bilateral Structural Investment Initiative (SII). Meanwhile, Minister of Finance Katayama Satsuki [announced](#) that she will also be visiting the United States from August 31-September 1 to attend the G20 Finance Ministers and Central Bank Governors' meeting in North Carolina.
 - On Wednesday, Motegi [hosted](#) Sheikh Jarrah Jaber Al-Ahmad Al-Sabah, foreign minister of Kuwait for a foreign ministerial meeting. Motegi stated that Japan intends to continue working closely with Kuwait to strengthen oil reserves in Asia through the POWERR Asia framework. He also stated that Japan has been formulating a comprehensive cooperation plan aimed at strengthening the economic and energy resilience of Gulf countries.
 - On Tuesday, the GOJ [announced](#) that Japan will provide ¥500 million in grant aid through the UN World Food Program, citing the deteriorating humanitarian situation in Palestine. The MOFA assesses that more than 30 percent of the population throughout Palestine suffer from food shortages, poverty, and other hardships.
 - On Monday, Takaichi [participated](#) in the "Leaders Meeting of the Coalition of the Willing on Ukraine" held online. She said that Japan will continue to work to support Ukraine and impose sanctions against Russia. The coalition is [scheduled](#) to conduct a joint military exercise in October or November. The leaders agreed to urgently secure alternative supply amid delays in shipments of Patriot air defense system interceptor missiles from the United States.

3. Security/Defense Developments

- *Nikkei* [reported](#) Saturday that the Ministry of Defense (MOD) will incorporate core technologies from NTT's next-generation optical communications platform, "IOWN," into the communications network that connects JSDF units and bases nationwide. It will be incorporated into the next Defense Buildup Plan, with funding to be requested in FY 2027 for implementation in FY 2028.
- *Nikkei* [reported](#) that prices for major defense equipment have risen by 40 to 70 percent compared to FY 2023 amid the GOJ's push to increase defense spending. A review of the current five-year Defense Buildup Plan revealed that there is a risk that rising prices caused by the weak yen may prevent the GOJ from securing sufficient quantities of the equipment needed to strengthen defense capabilities.

- On Friday, the MOD [announced](#) that a contract was signed with Nippon Steel for the sale of approximately 140 hectares of land on the former site of the Setouchi Works Kure District in Kure City, Hiroshima Prefecture, which will be [used to develop](#) a “multifunctional defense complex” in the near future.
- *Asahi* [reported](#) that the GOJ will expand the application of “official security assistance” (OSA) in FY 2026 to a record high number of approximately twelve countries, aiming to deepen cooperation with like-minded countries amid increasingly Chinese military activities. In FY 2026, Japan will provide OSA to Cambodia for the first time, while also considering new OSA to Kenya, Vietnam, East Timor, and Palau.
- On Wednesday, Minister of Defense Koizumi Shinjiro [held](#) the inaugural trilateral virtual meeting with Australian Deputy Prime Minister and Minister for Defense Richard Marles and Indonesian Minister of Defense Gen. Sjafrie Sjamsoeddin. The three confirmed their commitment to working together among the three countries in order to jointly contribute to regional and global peace and stability.
- On Tuesday, the U.S. Forces Japan [announced](#) that the multi-domain U.S.-ROK-Japan trilateral Exercise “Freedom Edge” will take place from September 7-11. Despite President Trump downsizing the U.S.-ROK Exercise “Ulchi Freedom” in an attempt to engage with North Korean leader Kim Jong Un, the trilateral exercise will be conducted at the same scale and duration as last year’s iteration.

4. GOJ Announces Energy Security and Inflation Relief Measures

- On Wednesday, the GOJ [adopted](#) an energy policy package called “POWERR GX” in light of the turmoil in the Middle East. The GOJ will provide subsidies to cover the increased transportation costs incurred by businesses that procure crude oil and naphtha without passing through the Strait of Hormuz.
- The GOJ [plans to establish](#) a subsidy program for petroleum wholesalers and other entities that secure multiple supply regions and routes, such as the Port of Fujairah in the United Arab Emirates and the Port of Yanbu in Saudi Arabia. Imports from outside the Middle East, like from the United States, Algeria, or Peru could also be covered by the program. The GOJ aims to submit related bills to the Diet this fall.
- METI Minister Akazawa Ryosei [said](#) Tuesday that crude oil procurement in September is expected to reach 80 percent of the average for the same month last year. Tankers are choosing a route that takes more time because it is not possible to ensure the safety of shipping lanes passing through the southern exit of the Red Sea off the western coast of Saudi Arabia.

- Meanwhile, Takaichi [announced](#) that the GOJ will continue measures to keep the retail price of gasoline at around ¥170 per liter. She explained that she instructed Akazawa and Katayama to secure the necessary funds to finance the subsidies.
- The GOJ has been [providing](#) subsidies for gasoline and other items since March. Some within the LDP had been calling for a downsizing of the subsidies, with funding for inflation relief measures in response to the situation in the Middle East decreasing to around ¥210 billion as of the end of July.

5. GOJ's FY 2027 Budget Requests Continue to Reveal Record Spending

- On Wednesday, the Ministry of Finance (MOF) [revealed](#) that it will set the budget for government bond payments in FY 2027, which covers principal and interest payments on bonds, at a record high of ¥36.64 trillion. The assumed interest rate has been raised to 3.8 percent, up from 3 percent in FY 2026, reflecting the recent rise in interest rates.
- Budget requests reported in the media show a huge chunk of funding for AI-related spending. For instance, the Cabinet Office [plans to request](#) ¥100 billion to promote AI use in industry, while the Digital Agency will [double](#) its request to over ¥1 trillion for the first time to identify cybersecurity vulnerabilities using AI. The Ministry of Internal Affairs and Communications (MIC) will [request](#) ¥350 billion to develop infrastructure using AI; the Ministry of Education, Culture, Sports, Science and Technology (MEXT) will [request](#) a sevenfold increase in the budget for “AI for Science” amounting to ¥378.9 billion; and the Japan Financial Services Agency (JFSA) will [request](#) a 60 percent increase in funding amounting to a record high of ¥40 billion to enhance the development of AI-powered cybersecurity tools.
- The Ministry of Health, Labor and Welfare (MHLW) [announced](#) that it will request a record high ¥36.58 trillion, an increase of ¥1.54 trillion from FY 2026, to promote drug development and medical digital transformation (DX) through the new “strong and prosperous Japan” investment frame with no budget ceiling. Meanwhile, the MHLW also [revealed](#) that medical expenses paid to medical institutions nationwide last fiscal year hit a record high of ¥49.2 trillion.
- *Nikkei* [reported](#) that the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) will request ¥8.77 trillion, a 44 percent increase from FY 2026, for policies like supporting cybersecurity measures for water supply facilities. The “strong and prosperous Japan” investment frame will take up around ¥1.55 trillion.
- Meanwhile, the METI will [request](#) ¥1.98 trillion to implement energy policies and promote green transformation (GX). This includes funding to diversify crude oil procurement and proceed with the development of a large-scale power grid. The

Ministry of Environment (MOE) will [request](#) ¥1.15 trillion for expenses related to the expansion of decarbonization investments and climate change mitigation measures. The MOE will also [establish](#) a new financial assistance program toward reinforcing the recycling of critical minerals and plastics.

- The Ministry of Justice (MOJ) will [double](#) its request for immigration-related expenses to ¥80.7 billion, with plans to introduce a Japanese language learning program and DX efforts to improve the infrastructure for accommodating the growing number of foreign residents and visitors to Japan. Meanwhile, the Cabinet Secretariat will almost [triple](#) its budget request to ¥302.6 billion for the establishment of the National Intelligence Secretariat and improving the nation's intelligence functions.

6. Key Political Developments

- On Friday, Takaichi [indicated](#) that the GOJ plans to formulate the “Framework for Realizing the Regional Future Strategy” by the end of the year to promote the creation of industrial clusters across the country. The GOJ [adopted](#) twenty-six new projects under the plan, including creating a pharmaceutical industrial cluster in Toyama Prefecture and an animation production cluster in Niigata Prefecture.
- Constitutional Democratic Party (CDP) leader Mizuoka Shunichi [informed](#) CRA leader Ogawa Junya and Komeito Chief Representative Takeya Toshiko that his party will not merge with the CRA. While he is likely to propose some form of election or Diet affairs cooperation, Komeito remains wary of moving forward with any cooperation without a formal merger.
- On Wednesday, the GOJ [decided to finalize](#) an ordinance setting forth the requirements for designating a “second capital” in late October, setting conditions for the location of national government branch offices, economic and population concentration, and the necessary local administrative structure. The prefectural governments in Osaka and Hokkaido [agreed to sign](#) a cooperative agreement on August 31 toward designation as a second capital, suggesting that multiple prefectures could be selected.
- The LDP's Tax Research Commission [discussed](#) the consumption tax cut for food and beverages, with the GOJ outlining support measures, such as providing grants to farmers and fishermen affected by the tax cut. Commission Chairperson Onodera Itsunori [indicated](#) on Thursday that the funding to cover the ¥5 trillion revenue shortfall can be covered in large part by increases in tax revenue, non-tax revenue sources, and a review of economic stimulus measures. The opposition parties are [proposing](#) an increase in the corporate tax rate, criticizing the GOJ for implementing fiscal policy favoring businesses. Some within the LDP support the idea.

- On Tuesday, the Lower House Council on the Electoral System was [presented](#) with a framework reform proposal drafted by Chairperson Suzuki Keisuke (LDP). It states that “an appropriate reduction in the number of Lower House seats will be implemented.” Opposition parties [criticized](#) the framework proposal as “adjustments based on the current system, not (promised) fundamental reforms.” It [proposes](#) changing the proportional representation system from the “D’Hondt method” allocating seats based on each party’s total vote share to the “Sainte-Laguë method,” which would allocate seats fairly based on vote shares.
- The GOJ [adopted](#) an ordinance setting revised fees for residence permit procedures for foreign nationals set to take effect in October. The fee for changing or renewing a status of residence will be raised to as high as ¥750,000, an increase from the current in-person fee of ¥6,000. The change was adopted despite some public comments [arguing](#) that it runs “contrary to the goal of creating a society where people live in harmony with foreigners.”

7. Economic Security and Tech Developments

- *Nikkei* [reported](#) Thursday that Japan’s three megabanks are able to use Anthropic’s Claude Mythos after service was suspended for non-U.S. users in June at the request of the Trump Administration. Meanwhile, the JFSA will [reportedly call](#) on financial institutions to expand their monitoring in preparation for cyber attacks from not only external contractors but also businesses that share data via application programming interfaces (APIs) — even those with which no formal contract has been signed.
- *Nikkei* [reported](#) that the MIC aims to secure ¥10 billion in the FY 2027 budget to expand its support for research into network technologies that connect multiple quantum computers and sensors. This will lead to the development of an environment that connects equipment at research facilities to verify whether quantum communication is possible in external environments.
- *Nikkei* [reported](#) that a survey it conducted found that the number of scientific papers co-authored by Japanese researchers with overseas organizations that could pose security risks — such as those listed under METI’s “Foreign User List” or the U.S. Government’s “Entity List” — has doubled to approximately 7,200 in 2025 compared to a decade earlier.
- On Tuesday, the Cabinet Office [issued](#) the “AI Principle-Code,” a set of non-binding guidelines [calling](#) on generative AI developers and service providers to ensure transparency regarding intellectual property protection and data collection methods. The three pillars of the code are: disclosure of general information, such as learning

models and model types; responses to inquiries from rights holders; and responses to inquiries from AI users.

- *Nikkei* [reported](#) Monday that the METI will promote the development of new materials using AI, creating a platform to centrally consolidate corporate data on high-performance fibers and ceramics — areas where Japan has a competitive edge. By enabling cross-company analysis, it aims to develop new materials ten times faster than before.
- *Nikkei* [reported](#) that the Institute for Molecular Science, Hitachi and other partners have successfully begun operating a quantum computer using a new method known as the “neutral atom method.” Fujitsu will use it to develop an operating system (OS) for quantum computers, with the goal of building a system that allows users to access multiple quantum computers with different methods via the cloud.

8. Key Economic/Financial Developments

- *Nikkei* [reported](#) Saturday that the value of new emerging companies listing their shares on the Tokyo Stock Exchange has been rising. From January through August, the average market capitalization at the time of listing reached a record high of ¥30.9 billion. Listed companies find it difficult to continue raising funds from the market unless they reach a certain size. As a result, the number of “small-scale listings” is likely to decline, potentially spurring further growth among emerging companies.
- On Friday, the yen [weakened](#) to the low ¥160 to the dollar in the New York foreign exchange market, the first time since late July when Japan and the United States conducted a coordinated intervention [amounting](#) to ¥15.4 trillion over two months. Markets interpreted remarks by U.S. Federal Reserve Board Chairman Kevin Warsh during a speech as indicating a positive stance toward an early rate hike, causing U.S. interest rates to rise and sparking widespread buying of the dollar. Bank of Japan (BOJ) Deputy Governor Himino Ryoza [indicated](#) Thursday that the Bank would discuss rate hikes thoroughly during every monetary policy meeting going forward.
- METI Minister Akazawa [said](#) that the ministry will “consider the strictest possible measures necessary” regarding Chubu Electric Power, which has been plagued by a series of misconduct incidents related to the Hamaoka Nuclear Power Plant in Shizuoka Prefecture. Meanwhile, The Japan Atomic Power Company [announced](#) that the construction of the seawall at the Tokai No. 2 Nuclear Power Plant in Ibaraki Prefecture is expected to be completed in the second half of FY 2028, delaying the restart of operations by two years.
- *Nikkei* [reported](#) Tuesday that the International Energy Agency (IEA) estimated that the average price in Japan’s wholesale electricity market is expected to rise by 40

percent year-over-year in the second half of 2026 due to the increase in LNG prices resulting from the turmoil in the Middle East. This will affect businesses and households that have entered into market-linked contracts.

- On Monday, Katayama [met](#) with Inter-American Development Bank (IDB) President Ilan Goldfajn and signed an agreement to provide an additional \$10 million to promote cooperation among IDB countries in Latin America and the Caribbean region on critical mineral development, infrastructure reinforcement, and food production technologies. Nippon Export and Investment Insurance (NEXI) [agreed](#) the same day to provide insurance for its infrastructure loans to the state of Espírito Santo in southeastern Brazil.
- The METI's Resources and Fuels Subcommittee under the expert panel on natural resources and energy [approved](#) the creation of a grant program to encourage major oil distributors and other companies to diversify their crude oil supply sources. The new system is expected to require businesses to submit procurement plans aimed at reducing dependence on the Strait of Hormuz, with the Japan Organization for Metals and Energy Security (JOGMEC) providing grants to cover the necessary costs.

9. State of the Economy

- On Friday, the MHLW [announced](#) that the seasonally adjusted jobs-to-applicants ratio in July remained the same from June at 1.18 times, with a [decline](#) in job openings associated with DX despite the increase in openings in sectors like manufacturing and temporary staffing due to AI and semiconductor demand. The unemployment rate [fell](#) 0.1 percentage points to 2.4 percent.
- The MHLW [announced](#) that the number of births in the first half of 2026 increased 0.8 percent (2,788) from the same period last year to 342,068, the [first time](#) in eleven years that first half of year results exceeded those of the previous year. This is due to the recovery in the number of marriages, which had declined during the COVID-19 pandemic. The sharp decline may have bottomed out for now.
- On Thursday, the GOJ [released](#) the Monthly Economic Report for August, which maintained the assessment that the economy is “recovering at a moderate pace, while attention should be given to the effects caused from the situation in the Middle East and natural disasters.” While the core assessment remained unchanged, the expression “natural disasters” was included, the first change in the assessment in five months.
- The assessment for housing construction was [changed](#) from “showing signs of weakness” to “generally flat” for the first time in a year, reflecting increased demand for rental housing. The assessment for corporate earnings was revised upward for the first time in six months to “improving,” based on the solid performance of listed

companies. The assessment for domestic corporate prices was also revised for the first time in three months to “pace of increase has recently slowed.”

- The Japan Machine Tool Builders’ Association [announced](#) that machine tool orders in July increased 50 percent from the same month last year to ¥193 billion, the thirteenth consecutive month in the positive range. The single month value was the [third highest](#) in history. Strong demand for semiconductors and data centers continues in Asia and in Japan.

II. Public Opinion Poll

- A *Mainichi* poll [released](#) on Monday found that the Takaichi Cabinet’s approval rating remained at 41 percent, while disapproval also remained at 44 percent.
 - 44 percent of respondents said that they support the Takaichi Cabinet because they have high hopes for Takaichi’s leadership; 25 percent said because there are no better alternatives; and 19 percent said because they have high hopes for its policies.
 - 51 percent of respondents said that they do not support the Cabinet because they have no hopes for its policies; 23 percent said because they have no hopes for Takaichi’s leadership, and 16 percent said because it is centered around the LDP.
 - 36 percent of respondents said that they approve of the GOJ’s response to the Kumamoto earthquake, while 27 percent said they disapprove.
 - 36 percent of respondents said that they disapprove of Takaichi’s inspection of the situation in Kumamoto, while 34 percent said they approve.
 - 47 percent of respondents said that they disapprove of the GOJ’s consumption tax cut proposal, while 33 percent said they approve.
 - 66 percent of respondents said that they believe the GOJ should present alternative funding sources to cover for the revenue shortfall resulting from the tax cut, while 21 percent said they believe the GOJ does not need to.
 - 35 percent of respondents said that they oppose Takaichi’s plan to hike the consumption tax back to 8 percent in two years, while 25 percent said they support it.
 - 56 percent of respondents said that they disapprove of the GOJ’s inflation relief measures, while 18 percent said they approve.
 - 58 percent of respondents said that they believe the current depreciation of the yen is undesirable, while 6 percent said they believe it is desirable.
 - 63 percent of respondents said that they do not believe the explanations for amending the Imperial Household Law has been understood by the public, while 13 percent said they believe it has been understood.
 - 33 percent of respondents said that they approve of Takaichi’s decision not to visit Yasukuni Shrine, while 29 percent said they disapprove.

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

Political Party	Approval Rating (%)
Liberal Democratic Party	24 (+1)
Centrist Reform Alliance	4 (± 0)
Japan Innovation Party	4 (± 0)
Democratic Party for the People	5 (± 0)
Suffrage Party (Sanseitō)	4 (± 0)
Team Mirai	4 (-1)
Japan Communist Party	3 (± 0)
Reiwa Shinsengumi	0 (-1)
Japan Conservative Party	2 (± 0)
Socialist Democratic Party	1 (+1)
Constitutional Democratic Party	4 (± 0)
Komeito	1 (± 0)
Independent (No Party)	45 (+1)