20 April 2026

Tokyo on edge

Key takeaways

- Ten days of conversations in Tokyo revealed a Takaichi premiership more fragile than the conventional indicators would suggest.
- Prime Minister Takaichi Sanae, isolated from dissenting voices, is not scaling back her ambitions for an industrial revival and a defense buildup, notwithstanding the challenges facing both programs and the risks of a significant increase in deficit spending that would unsettle markets.
- Meanwhile, Japan's policymakers and experts are deeply uneasy about the Hormuz crisis and the broader relationship with the US, though the government's response to these challenges is mainly reactive, though discussions about ways of hedging against US abandonment continue.

I have concluded ten days of meetings with a range of elected officials, policymakers, diplomats, and other experts in Tokyo. This note summarizes the major findings from my conversations. Please reach out if you would like to schedule a call to discuss further.

Takaichi's brittle government

The single-most-striking finding from my meetings was that Prime Minister Takaichi Sanae, despite continuing to enjoy strong approval ratings and a robust majority in the lower house, is in a strikingly vulnerable position for a prime minister who appears unassailable. The press – and not just sensationalizing tabloids – has been full of reporting depicting the prime minister as isolated in her residence, working punishing hours and forgoing not only the socializing with Liberal Democratic Party (LDP) power brokers and other stakeholders (a tendency that may have endeared her to some portion of the public) but also face-to-face briefings from government officials. There is

also a consensus that her circle of trusted advisers is exceptionally small. Notably, none of my interlocutors suggested that this reporting is overblown or exaggerated.

This is significant for three reasons. First, it shows that she is largely relying on her own judgment in making decisions. She is hearing few if any dissenting opinions; she is not delegating to advisers; and she is keeping the bureaucracy at arm's length instead of using it to advance her agenda. She has not recreated the collective decision-making structure that characterized the second Abe administration. The upshot is that it could lead her to take risky political and policy bets – one interlocutor characterized her as a "gambler" – with unknown risks for her government and Japan. Incidentally, several interlocutors confirmed public reporting about the possible impact of her leadership and working styles on her health, raising questions about the durability of her government. I heard multiple references to Abe Shinzō's sudden resignation in 2007.

Second, it suggests that she may have limited reserves of goodwill to draw on in the event of challenges. LDP backbenchers, already unhappy with her leadership, could be reluctant to support her if her popularity falls and economic conditions worsen. The LDP's factions are gradually regrouping, potentially with an eye towards a contested LDP leadership election in 2027 when Takaichi's term ends. Meanwhile, after her government's handling of the 2026 budget, she still faces fraught relations with the LDP's historically autonomous upper house caucus, which has an indispensable role in managing the upper house given the ruling coalition's lack of a majority. There is little indication, however, that the prime minister has learned that she needs to defer more to the LDP's upper house leaders in working with opposition parties to manage the upper chamber. While the party has no reason or interest in replacing her before her term ends, the party's behavior suggests that many expect her popularity to fade and are not assuming that she will inevitably head a durable government.

Finally, Prime Minister Takaichi's leadership style has implications for her conduct of policy. She took office with a strong set of ideological commitments, particularly regarding the use of fiscal policy in pursuit of "strategic investments." Her distrust of the bureaucracy, her isolation from a wide range of stakeholders (she has barely met with business leaders, for example), and her reliance on a small number of advisers who share her commitments points to the possibility of rigidity in the face of adverse conditions, whether worsening fallout from the Hormuz crisis or a financial shock.

Managing fiscal policy

As suggested above, there was little indication from my interlocutors that she is prepared to moderate her commitment to "responsible fiscal expansion." Indeed, it appears that, as the Takaichi government moves ahead with deliberations on the basic policies for the 2027 budget and the growth strategy, it may be necessary to brace for a more maximalist approach to the budget as the government rolls out its strategic investment plans, prepares to move ahead with cutting the consumption tax on foodstuffs to zero for two years, and prepares to ramp up defense spending. My conversations with more senior political leadership and advisers suggest that they

remain confident that between the ongoing increase in tax revenues and the government's policies keeping the growth rate greater than interest rates, the government can pursue debt sustainability without having to scale back its ambitions, raise taxes, or pursue spending cuts beyond the subsidies targeted by the Takaichi government's own "Department of Government Efficiency." In my conversations I heard it suggested that the prime minister may see herself as the spearhead of a populist shift in Japanese democracy aimed at the power of the finance ministry.

Thus, over the coming months, the full scale of the fiscal shift will become more apparent. While the details of the growth strategy are still unfolding – the working groups focused on the seventeen priority sectors will finalize their recommendations in the coming weeks, which will be rolled into the overall strategy – the government is likely to devote particular attention to the defense and physical AI sectors in the strategy. The government's policies on the defense sector are already taking shape, with a recent decision to loosen arms export rules and the likelihood of larger defense budgets (and defense R&D spending), but the growth strategy will likely outline a more comprehensive approach to strengthening Japan's defense industrial base, with considerable interest in "government-owned, contractor-operated" (GOCO) arrangements with defense firms. While officials acknowledge that the growth strategy will not include identical policies for each sector, there is nevertheless a pronounced interest in replicating the Japanese government's efforts in promoting Japan's semiconductor industry through public investments in Rapidus and supporting TSMC. While the government intends to support sectors and projects that it believes will raise tax revenue over the longer term, I encountered some skepticism about whether the Takaichi government's industrial policies would succeed where past strategies failed, particularly in light of corporate Japan's appetite for overseas investment and the potential headwinds for corporate Japan stemming from the Hormuz crisis.

While the government prepares to roll out new industrial policies, the prime minister may also be preparing to push for zeroing out the consumption tax on foodstuffs, despite skepticism from the business community (particularly small businesses), some resistance from opposition parties included in the national conference on social security, and the strenuous opposition of the Ministry of Finance (MOF). To be sure, some of the public messaging from the government and LDP about the tax cut has been mixed – and there has been more focus in the national conference on introducing a refundable tax credit either instead of or after the consumption tax cut expires – but I consistently heard in my conversations that the prime minister is sincerely committed to her "cherished wish" of cutting the tax.

Finally, on defense spending, the government is still not talking in specifics about how much it intends to increase defense spending over the next five years, but there is a robust consensus that it will spend more, part of the work of managing the relationship with the US and exploring possible hedges against US abandonment. A recent estimate that defense spending will fall short of 2% of GDP in FY2026 when indexed to current GDP and not to FY2022, when the last defense plan was drafted, could mean greater urgency to reach this target sooner, which could mean at least an additional JPY 3.5tn

(or more) in the near term to reach this milestone. I heard substantial questions about the Japanese defense establishment's ability to absorb significantly more spending and in general the government may prefer to focus less on high-profile, photogenic platforms (fighters, warships, etc.) and more on systems (AI, cyber, space, communications), unmanned vehicles, R&D, personnel and facilities, and the defense industrial base. The implication is that the Japanese government may not be aiming for the more extravagant targets set by the Trump administration for US allies and is instead interesting in the quality of defense spending as much as the quantity. Relatedly, as the government considers its defense spending plans, it will have to navigate tensions between building out its defense industrial base and pressure from the US government and US companies to purchase from US suppliers. Finally, the LDP has not begun formally debating how to fund larger defense budgets, though there will be a contingent of "double hawks" (fiscal and defense hawks) who will be fighting an uphill battle on behalf of the argument that the only way for Japan to meet its requirements is to raise taxes, preferably on corporations.

Managing Trump

Of course, many of my conversations addressed the state of the US-Japan relationship following Prime Minister Takaichi's visit to Washington in March and the ongoing Hormuz crisis. In my conversations I heard what can be distilled into a fairly straightforward consensus.

First, Japanese elites are under no illusions about US President Donald Trump; I heard few expressions of confidence that he would commit to Japan's or Taiwan's defense in a crisis, concerns that have only deepened as a result of the Hormuz crisis. To be sure, there is some confidence in the strength of ties between the US forces in Japan and the Self-Defense Forces, and the presence of US forces in Japan continues to play a critical deterrent role in the region, functioning as a form of tripwire in a conflict with China. For the same reason, there is a widespread sense that while the optics of Takaichi's summit with Trump were good, there was little belief that the summit had made substantive progress on some of Japan's concerns about US strategy in Asia and Asia's place in its US administration's overall strategy.

However, despite these concerns, the belief that Japan has no "plan B" to the alliance with the United States for the foreseeable future is widespread. If anything, corporate Japan is becoming even more entangled with the United States as businesses reduce their investments in China and ramp up their activities in the US. As a result, the Japanese government will continue to do whatever it takes to make the relationship work, whether that means deploying "flattery diplomacy"; working on the implementation of the USD 550bn investment framework despite continuing uncertainty about how the framework will function and its material benefits for Japan; and cultivating relationships from the ministerial level downward to strengthen bilateral cooperation in different areas. To be sure, confidence is mixed about the efficacy of this approach, though the Takaichi government has wide latitude to manage the partnership. While opposition lawmakers have raised questions about the summit and the prime minister's reluctance

to judge the US-led war against Iran, there appears to be a broad consensus that it is better not to ask too many questions about the relationship.

Finally, while the consensus is that there is no “plan B,” elite interest in what is sometimes called a “plan A-plus” has continued to grow. This generally refers to Japan’s deepening security relationships with third countries, most notably Australia, the United Kingdom, the Philippines, India, and other partners in the region and in Europe. Japan is particularly keen on deepening these ties, particularly with a nuclear-armed partner like the UK. This extends to trade and investment partnerships as well, as Japanese officials look to balance Japan’s positions in the US (and China) with a robust commitment to work with its partnership in the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and the G7 to advance pursue high standards for trade and investment rules bilaterally, plurilaterally, and multilaterally. Naturally, the Takaichi government is particularly focused on Asia – it is continuing to push the Abe government’s “Free and Open Indo-Pacific” concept, with or without the cooperation of the US – and is realistic about the challenges of working in the World Trade Organization (WTO) and in cooperation with the European Union (EU). It is, of course, also willing to work with the US in plurilateral settings when Washington is willing, as in the recently launched initiative to strengthen critical mineral supply chains.

The problem, however, with “plan A-plus” thinking is that there are limits in both Tokyo and in partner capitals that could prevent these partnerships from becoming full-blown hedges against abandonment by the United States. For Japan’s part, the constitution still prevents it from concluding a full-spectrum mutual defense treaty with a partner like Australia, to the point that some interlocutors suggested that Takaichi’s call for an accelerated timetable for revision could be an opportunity to clarify Japan’s right of self-defense, including collective self-defense. Even if this kind of amendment were possible (see below), it is unclear whether any of Japan’s quasi-alliance partners is prepared to join a collective security arrangement with Japan given Japan’s “front line” status.

Managing the Hormuz crisis

While the Hormuz crisis is the single greatest issue in Tokyo at present, both for its potential impact on Japan’s economy and Japan’s relationship with the US, the mood is mainly fatalistic and reactive. Tokyo is following every development in the crisis closely, monitoring the outlook for ceasefire negotiations and the prospect for a more durable settlement, but its policy options are limited. There is no discussion of Japanese ships deploying to the Persian Gulf. Takaichi herself appears to be betting on the conflict resolving soon and is relying on releases from Japan’s strategic reserves and a gasoline price cap (funded by emergency funds) to cushion the impact on consumers until the crisis dissipates. She has ruled out both measures to curb energy usage and an early supplemental budget to address the crisis. The government has extended funding to regional partners coping with supply shortages – and helping Southeast Asian countries diversify their sources of supply will likely be a priority for the Japan Bank for International Cooperation (JBIC) and other public financial institutions going forward – but the overall thrust of Japan’s response has been defensive.

Perhaps a result, there is extraordinary attention on how the Bank of Japan (BOJ) will respond to the crisis at its April policy board meeting. While in recent weeks BOJ officials have at times seemed ready to continue normalizing interest rates, the bank – and Governor Ueda Kazuo especially – appear to be conflicted given the deep uncertainty about the course of the Hormuz crisis and the potential for simultaneous supply and demand shocks that unless there is a significant breakthrough in talks between the US and Iran in the coming days, the BOJ may continue to wait instead of hiking again.

Managing constitution revision

Finally, the single biggest domestic political story while I was in Tokyo was Prime Minister Takaichi's address at the LDP convention on 12 April in which she called for the LDP to be ready to move forward with proposals for constitutional revision by the LDP's convention next year.

It was conceivable that, having won an outright supermajority for the LDP and broken the power of the anti-revision opposition parties in the process, Takaichi would turn her attention to revision sooner rather than later. Now, in pledging to the party her determination to move aggressively to achieve it, she has signaled that she is prepared to spend political capital on it now.

Nevertheless, I encountered considerable skepticism regarding her ability to achieve the LDP's long-held ambition to revise the constitution. First, the LDP itself will have to figure out what amendments it wants to pursue, a process that could take considerable time. Then, as the prime minister learned during the process of passing the budget, her lack of a majority in the upper house means that the chamber cannot be easily dominated by Takaichi. To assemble a supermajority in the upper house, the LDP and Ishin no Kai would have to secure the cooperation of the Democratic Party for the People (DPFP), Sanseitō, and the Conservative Party of Japan, and even then would still need to more votes from independents or defectors from other parties. These parties may be nominally committed to revision but there could still be substantial differences in their preferred amendments and approaches to the process. Managing a pro-revision coalition in the upper house will require considerable delicacy.

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