



GR Japan

Japan political outlook

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Challenge of Tariffs for the Ishiba Minority Government

Japan now faces a politically unstable environment as it operates under a minority government for the first time in 30 years. Amidst this instability, the tariffs announced by U.S. President Donald Trump present the most significant economic and diplomatic challenge for Prime Minister Shigeru Ishiba's administration.

In response, the Japanese government and ruling coalition partner are considering relief measures such as cash handouts, subsidies, and tax cuts. With the (upper) House of Councilors' elections approaching this summer, these actions are largely viewed not just as economic stimulus, but also as political theater aimed at the electorate. Such expansive fiscal measures, framed against foreign pressure, can serve to temporarily boost approval ratings and project governing capability. However, criticisms from within the ruling coalition and opposition parties, along with possible public backlash, warrant close monitoring of the government's future approval ratings.

Struggling to Secure a Majority; Seeking Policy Alliances with the Opposition

Following the 2024 general election, the ruling Liberal Democratic Party (LDP) and Komeito coalition failed to secure a majority. This left the Ishiba government dependent on cooperation from the opposition to pass the budget. During the 2025 budget deliberations, negotiations occurred with both the opposition Democratic Party for the People (DPFP) and Japan Innovation Party (JIP). Talks with the DPFP, who demanded reform of the "1.03 million yen income ceiling" system (the threshold above which income tax is paid), stalled. Instead, a budget deal was reached with JIP, which supported a more readily agreeable policy: tuition-free high school education.

The largest opposition party, the Constitutional Democratic Party (CDP), has shown little interest in forging strategic alliances with other opposition



parties and has not presented a clear strategy for change in government. Although the Ishiba government remains in a tenuous position, it is not on the verge of collapse.

Ishiba, known for his outspoken criticism during Prime Minister Shinzo Abe's era, has toned down his rhetoric on his more controversial stances—such as revising the U.S.-Japan Status of Forces Agreement—since taking office. He largely follows the policies of the previous Kishida administration, showing his inability to present his own independent brand of leadership. He continues to manage his administration by prioritizing compromise and coordination with the opposition, which is essential under the current power balance of the Diet (parliament).

Fully Fledged U.S. Negotiations Begin, but Concerns Remain Over Lack of Diplomatic Experience

While domestic instability continues, Japan faces intense trade pressure from the U.S. Ishiba has stated that retaliatory tariffs are not in the national interest and has refrained from taking strong countermeasures. Instead, he has appointed Ryosei Akazawa, the Minister in Charge of Economic Revitalization and his close aide, to lead negotiations with the U.S.

Japan is pressing for the permanent removal of tariffs temporarily reduced from 24% to 10%, with particular emphasis on excluding automobiles and steel/aluminum from the additional 25% tariff list. These demands consider consistency with the U.S.-Japan Trade Agreement. However, concerns are growing over Akazawa's lack of diplomatic experience and the fact that it's his first cabinet position, especially given that more seasoned ministers like Toshimitsu Motegi—who led similar negotiations under the Abe administration—were not appointed.

While Japan's export-to-GDP ratio is around 20%, suggesting limited macroeconomic impact from tariffs, key export-heavy sectors like automobiles and semiconductors would still be significantly affected. These industries form the backbone of Japan's economy, and any disruption in their supply chains or profitability could ripple through local economies and employment.

Among them, the automobile industry is a key pillar of the Japanese economy. Due to concerns over its widespread impact on related sectors such as parts manufacturing, this industry cannot be politically overlooked and has become a major point of contention that could determine the outcome of the negotiations.



The U.S. dollar-yen exchange rate is one of the key themes of the negotiations. The U.S. has raised concerns about the yen's depreciation, suggesting it gives Japanese exporters an unfair advantage. This could prompt demands for greater transparency and a revision in Japan's currency policy. There is a growing sense of caution in the market that any outcome that leads to a stronger yen would result in unavoidable harm to exporters and stock prices.

Japan's status as the largest holder of U.S. Treasury securities could become a bargaining chip, although the Japanese government is extremely cautious about mentioning it—recalling the market turmoil in 1997 when then-Prime Minister Ryutaro Hashimoto suggested such a move. While China has recently reduced its holdings, Japan continues to remain silent, prioritizing market stability. The U.S. also appears reluctant to openly weaponizing Treasury negotiations due to their potential impact on global financial stability.

Beyond trade, structural factors such as defense cooperation, resource security, and advanced technology also intersect with trade talks, placing Japan in a highly complex negotiation environment where economic and security policies overlap.

Summer Upper House Elections are Key; Snap Election and Leadership Crisis Loom

The main political turning point ahead is whether the Ishiba government will dissolve the (lower) House of Representatives and call a double election (lower and upper house) this summer, should a no-confidence motion from the opposition be passed. With cabinet approval ratings languishing around 30%, even if a general election is avoided, a significant loss in the Upper House could trigger a party-wide push to replace Ishiba.

For Prime Minister Ishiba, the upcoming election is likely to determine the long-term viability of his administration.

Upcoming political calendar

1 May 2025	Minister Akazawa's revisit to the U.S.
15-17 June 2025	G7 Summit (Canada)
22 June 2025	End* of regular Diet (parliament) session (*if not extended)
22 June 2025	Tokyo Metropolitan Assembly election
Around 20 July 2025	Upper House election (House of Councillors' terms end 28 July 2025)