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The Japanese Government's Growth Strategy 2026:

The 17 Strategic Sectors and its Market Impact

For the Belgium-Japan Association & Chamber of
Commerce and Belgian-Luxembourg Chamber of
Commerce in Japan

By Daniel Ayres, Director-Government Relations
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Introduction



Daniel Ayres
Director-Government
Relations

Daniel is a Director at Kreab Worldwide Tokyo, a Swedish-based public and government relations firm with a large presence in Asia. He works on projects involving lobbying, policy making, and public affairs for private companies as well as providing communications advice to the Japanese government itself. He helps a range of clients, including those in the energy, pharmaceutical, and defense industries.

Prior to joining Kreab Tokyo, he worked for a local government in southern Nagano. He holds a MS (social sciences) from Ritsumeikan Asia-Pacific University and dual BAs (summa cum laude) from the University of Massachusetts Amherst. He is a native of Boston, Massachusetts and holds an N-1 level certification in Japanese.



KREAB Worldwide is a communications consulting firm founded in Sweden in 1970. We now have over 500 consultants and operations in 30 countries. The Tokyo office was established in 1985. We assist clients in their communication activities with a focus on government affairs, public relations, strategic communications and global risk management. We work closely with both the public sector and the private sector from everything to branding to lobbying. Our Government Relations team has helped both domestic and global clients achieve their public policy goals and connect with stakeholders across the policy and political spectrum.

Today's Schedule

Part 1: Key Government Strategies

Understanding all of Japan's various grand schemes

Part 2: Exploring the Growth Strategy

History, contents, and governance structure of the Growth Strategy

Part 3: Potential Impacts

Looking at the impacts from the lens of a public affairs practitioner

Part 1: Key Government Strategies

Strategies, Plans, and Whitepapers Galore

The Japanese policy and political world runs on plans, grand strategies and guidelines. While the various types may seem similar, it is first important to understand the key differences between them.

National Priority: Any policy, plan, or strategy ratified by the Cabinet (閣議決定 *kakugi-ketei*)

This includes Basic Policies for Economic and Fiscal Management and Reform (Basic Policy), Japan's Growth Strategy, Basic Strategic Energy Plan, etc.

- Reserved for **plans of national importance** and/or **key policies** of a particular administration, often reflecting the will of the Prime Minister and by extension the ruling LDP of which he or she is the president
- While not laws in and of themselves, they set directions and priorities from which **ministries and agencies will—in principle—not deviate from**
- Some plans are formalities while others are required by existing law (ex: Basic Strategic Energy Plan)

Party Priority: Any whitepapers, plans, or strategies produced by the LDP itself (党内決定 *tonai-ketei*)

Reflect political commitments by the ruling LDP and often reinforce National Priority plans

- Drafted by a party internal committee (部会 *bu-kai*), research groups (調査会 *chosa-kai*/研究会 *kenkyu-kai*), HQ (本部 *honbu*) or “party team” (PT) headed by influential politicians interested in a particular area like AI, economy, automotive, etc.
- Indicate political commitments in order reinforce, define or supplement the national priority plans

Ministerial: Any whitepapers, guidelines, plans, opinions, working groups etc. produced by ministries

How to implement national, and by extension, party policy

- Drafted by ministries or ministry affiliated groups (expert panels, affiliated institutes, etc.) with details on how to administer current policies and implement new National Priority policies
- Almost always a reflection of the will of the ruling party as politicians and ministers can exercise power over bureaucrats

Key Ratified Plans and Strategies

Basic Policies for Economic and Fiscal Management and Reform (“Basic Policy” or *Honebuto Hoshin*)

First formulated during Junichiro Koizumi’s tenure as PM, this document is one of the most important policy setting tools for the government. The FY2027 plan was released late July and is always carefully scrutinized as it shows the government’s priorities and areas of focus for the next fiscal year. Items mentioned in the Basic Policy will often become law and/or receive budgets in the coming year. As of writing, ministries are submitting budget proposals to be vetted by the Ministry of Finance.

Japan’s Growth Strategy

This is PM Takaichi’s signature economic strategy focusing on enhanced public-private investment with the goal of creating “knock-on growth” and **raising the country’s GDP faster than the nation’s net debt accumulation**. There are 17 strategic sectors and 62 areas within these sectors. This initiative replaces PM Kishida’s New Form of Capitalism plan. The first ever draft was approved along with the Basic Policy indicating its top priority as the government’s banner initiative.

Regional Future Strategy

Released with the Basic Policy, this is the Takaichi administration’s vision on how to revitalize localities, especially those beset by population decline and economic distress. Every PM has a slightly different vision for regional revitalization. PM Takaichi emphasizes public-private investment to local industrial clusters. This document also has clearly defined goals, dates, and KPIs to measure success. Almost every recent PM has had their own flavor of “regional revitalization” and this plan ties in closely with the Basic Policy and Growth Strategy.

Various other plans including the AI Basic Policy, Strategic Energy Plan, Basic Plan for a Tourism Oriented Nation, etc.

Keep in mind that all these plans tie into each other in addition to the supplementary materials, reports, and papers etc. It is a good idea to have at least a tertiary understanding of each for a full picture.

Philosophy to Keep in Mind



日本列島を、強く豊かに

nippon retto wo, tsuyoku yutaka ni

Make Japan [the Japanese archipelago] strong and prosperous!

This is PM Takaichi's campaign slogan and overall vision for the nation. It is the very first line of Japan's Growth Strategy reflecting her driving policy philosophy.

To put in context, using the PM's own words:

- A country that does not take on challenges has no future.
- A political system that only focuses on its own defense cannot create hope for the people.
- A bright future will not come by simply waiting for it to happen.
- It is not something that someone else will build for us. It is something that we ourselves must decide, act upon, and create.

Liberal Democratic Party of Japan, [message from the party president](#)

Part 2: Exploring the Growth Strategy

Growth Strategy Evolution



Shinzo Abe



Yoshihide Suga

Abenomics (2013-2020)

One of the most long-lasting and high-profile growth plans in recent memory. The “three arrows”:

- Bold monetary policy (monetary supply, re-inflation)
 - Flexible fiscal policy (pump priming)
- Structural reform (deregulation, corporate governance)



Fumio Kishida



Shigeru Ishiba

New Form of Capitalism (2021-2025)

Mr. Kishida’s signature economic plan and nominally carried on by Mr. Ishiba. It shifted emphasis to:

- A virtuous cycle of wage raises and increased spending
- Regional revitalization to spread wealth more evenly
 - DX, GX and investing in people and skills



Sanae Takaichi

Japan Growth Strategy (“Sanaenomics?”)

Let’s have a look...

The Basic Assumptions

Japan's stagnation is a result of “overwhelming lack of domestic investment,” not lack of innovation or inefficiencies. Using 17 strategic fields as a guide, the government will utilize “responsible and proactive fiscal policies” and “public-private partnership” funds and roadmaps to drive investment which will, in turn, grow the GDP. The target is ¥250 trillion in annual capex by 2024.

Stagnation and Austerity (2021–2025)

Historical Average Real GDP Growth Rate
Only around 0.4%

- **Deflationary Cost-Cutting:** Prolonged deflation entrenched a rigid view of static wages and prices, which dampened corporate expansion and domestic capital formation.
- **Rigid Fiscal Ceilings:** Austerity-driven single-year or supplementary budget spending request ceilings repeatedly constrained long-term public capital investments and deep-tech innovation. Especially acute in the defense sector.
- **Massive Cash Reserves:** Corporate profits nearly doubled from FY2013 to FY2024, pushing cash piles from ¥55T to ¥118T, which were used for share buybacks rather than growth capex. Overly cautious companies feared deploying capital.



A New Vision for Growth (2026–2030+)

Target Domestic Private Capex (by FY2040)
¥250 Trillion Per Year
Target Cumulative Domestic Private Pub-Priv Investment (by FY2040)
¥370 Trillion

- **Tripling GDP Growth:** Driven by productivity and structural capacity expansion, the target is exceeding 1% real and 3% nominal GDP growth, tripling the 0.4% baseline.
- **Redirecting Capital Reserves:** 'Guidance for Growth Investment' urges listed companies to deploy cash into high-return domestic capex, employee R&D, and structural reskilling.
- **¥1,100T Nominal GDP:** The medium- to long-term economic and fiscal management plan aims to elevate the nominal scale of the Japanese economy close to ¥1,100 trillion by FY2040.
- **Unleashing Fiscal Constraints:** Long term budgets without fiscal ceilings and moving away from PB (primary balance) as measure of health

Key Changes to be Realized

Responsible and Proactive Public Fiscal Policy

The Takaichi administration explicitly rejects the zero-sum, austerity-oriented view of the national budget that has historically constrained Japan's long-term capital formation. She aims for an **expansive fiscal policy focused on targeted growth areas (17 sectors)**.

Debt- to-GDP as “core anchor”

Shift the goal from achieving a primary balance surplus to reducing debt to GDP ratio through expanding tax base and sustained growth.

PB as secondary metric

Now considered a “confirmation indicator”. Government will now tolerate PB deficits during what it deems phases critical for growth, bold investment, and/or economic adjustments. This is provided the debt-to-GDP ratio remains on a stable downward path over a multi-year horizon.

Strategic Capitalism and Industrial Policy via Public-Private Partnerships

Moving away laissez-faire market reliance toward active, state-led industrial policies featuring large-scale, long-term public-private investments. This also focuses on overcoming perceived underinvestment and unlocking investment potential.

Overcoming under investment

Chronic under investment is seen as the root of Japan’s economic woes. By shifting to a more proactive “investment nation” stance, this can be overcome.

PPP and unlocking savings

The government is shifting Japan’s core mindset from a “saving state” focused on defensive cost-cutting and fiscal consolidation to an “investment-driven economy” focused on building supply capacity and high-added-value structures. Public-private partnerships and structured funds are a core element of this.

Dual-track Investment Model (Autonomy vs. Indispensability)

This government is emphasizing two key pillars:

- **Crisis management/risk management investing** (危機管理投資)
- **Growth investment** (成長投資)

To balance strategic autonomy with strategic indispensability.

Crisis management investing

Focused on strategic autonomy by minimizing vulnerabilities to geoeconomic risks, energy/material choke points, and supply chain risks. The defense industry is now positioned as a driver of growth rather than a national cost.

Growth investment

Focused on strategic indispensability by leveraging Japan’s strengths in important like materials, chemicals, etc. while working to dominate new promising tech like perovskite cells and quantum computing at an early stage.

Wage Raises and Overcoming Short-termism

Rather than treating wage increases purely as a social distribution mechanism, the **strategy frames wage growth as a core supply-side capacity enhancement policy**. At the same time, the plan aims to enhance long-term investing strategies by companies through **multi-year budgetary and policy commitments**.

Wage hike, capital and productivity

Encourage wage hikes through tax mechanisms and behavioral changes made possible by efficiently enhancing tech while abating labor shortages with AI and robotics. Make the labor market more fluid and comparative while encouraging a shift to R&D and personnel while reducing shareholder buy backs and excess saving by firms.

Long budgetary commitments

Moving away from the yearly-supplementary budgets to long term budgets funded with “bridging bonds” and special accounts for continuity.

PDCA and 5W1H regular checks by government and industry to ensure that funds are being utilizing the most effective manner

17 STRATEGIC FIELDS & 62 RELATED PRODUCTS/TECHNOLOGIES: KEY GROWTH SECTORS

FIELD #	STRATEGIC FIELD NAME	RELATED PRODUCTS & TECHNOLOGIES	FIELD #	STRATEGIC FIELD NAME	RELATED PRODUCTS & TECHNOLOGIES	FIELD #	STRATEGIC FIELD NAME	RELATED PRODUCTS & TECHNOLOGIES
1	Green Transformation (GX)	- Next-generation Solar Cells (e.g., Perovskite) - Carbon Capture & Storage (CCS) - Ammonia Fuel for Power Generation - Hydrogen Production & Supply - Green Steel & Chemicals	7	Semiconductors & Advanced ICT	Chip design and fabrication for specific applications	13	New Materials	- Sustainable composite materials - Recycling technologies
2	Digital Transformation (DX)	- Next-generation Semiconductors (e.g., beyond 2nm, post-5G) - Advanced Communications (6G, 5G/6G convergence) - Artificial Intelligence (AI) Development (safe & reliable) - Advanced Data Centers & Computing - Data-driven Healthcare	8	Bio-manufacturing	- Cell and Gene Therapy - Regenerative Medicine - Bio-materials from living organisms	14	Logistics & Supply Chain	- Smart logistics and automated warehouses - Optimized supply chains
3	Deep Tech & Industry	- Deep Tech startups support - Research & Development Platform for GX/DX	9	Advanced Health & Medical	- Next-gen Drug Discovery and Vaccines - Efficient health system development	15	Urban Development & Smart Cities	- Integrated data utilization in cities - Mobility-as-a-Service (MaaS)
4	Startups & Open Innovation	Specific measures for startup nurture	10	Aerospace	- Small Satellites and Launchers - eVTOL (electric Vertical Take-Off and Landing) - Moon Exploration Technologies	16	People, Regions & Resilience	- Digital skills training and recurrent education - National land resilience measures
5	Clean Energy	- Floating Offshore Wind Power - Geothermal Power Generation - Energy Management System (EMS)	11	Food Tech & Smart Agriculture	- Data-driven farming solutions - Plant-based alternatives & lab-grown food - Precision food - Precision fishing and aquaculture	17	Public Procurement for Innovation	Strategic use of government procurement to support new technologies
6	Clean Mobility & Batteries	- Electric Vehicles (EVs) - Next-generation Batteries - Fuel Cell Vehicles (FCVs)	12	Creative Industries	- Japanese content (anime, manga) global expansion - Cross-border content platforms - Modernization of traditional industries			

EIGHT CROSS-CUTTING CHALLENGES FOR JAPAN'S GROWTH STRATEGY

	CHALLENGE	KEY ACTIONS & FOCUS AREAS		CHALLENGE	KEY ACTIONS & FOCUS AREAS		CHALLENGE	KEY ACTIONS & FOCUS AREAS
1	OVERCOMING LABOR SHORTAGES	- Promote Human Capital Investment - Enhance Workforce Reskilling - Lifelong Learning and Recurrent Education - Attracting Foreign Talent	4	STRENGTHENING SUPPLY CHAIN RESILIENCE	- Securing Critical Materials - Diversifying Global Production Bases - Enhanced Supply Chain Transparency - Robust Regional Logistics	7	ENHANCING SOCIAL RESILIENCE	- Disaster Prevention and Mitigation - Sustainable Social Security Systems - Public Health System Modernization - Comprehensive Healthcare DX
2	ACCELERATING DIGITAL TRANSFORMATION (DX)	- Complete Digitalization of Government Services - Support SME Digital Adoption - Data Usage and Sharing Platforms - Enhancing Cybersecurity	5	PROMOTING INNOVATION & STARTUPS	- Increase R&D Investment - Support Deep-Tech Ventures - Create "Unicorn" Companies - Foster Open Innovation Ecosystems	8	DEVELOPING ADVANCED TECHNOLOGY & INFRASTRUCTURE	- Quantum Computing and AI Development - Next-Generation Semiconductors - Secure Vital Infrastructure - Basic Science and Basic Research Support
3	ACHIEVING GREEN TRANSFORMATION (GX)	- Target 2050 Carbon Neutrality - Invest in Clean Energy Generation - Develop Decarbonization Technologies - Support Circular Economy Models	6	REVITALIZING REGIONAL ECONOMIES	- Implement Smart Agriculture - Prominent Inbound Tourism - Local Infrastructure Development - Regional Services DX			

These “cross-cutting” or “cross-sector” challenges span multiple fields at once and can be used to fulfill multiple goals.

Fundamentals of the Growth Strategy Organization

The Japan Growth Strategy Headquarters (日本成長戦略本部) was first established on November 4, 2025, supplanting the Kishida-era Headquarters for the Realization of a New Form of Capitalism. It works in two parallel tiers together with the Japan Growth Strategy Council (日本成長戦略会議) as a deliberative body.

The PM is
at the top
of both
tiers



Statutory
approval

Deliberative
body

Formulation

Outcome Scenarios

Total Factor Productivity
Important point



Scenario	Real GDP Growth (mid-to-long-term)	Nominal GDP Growth	Nominal GDP by FY2040	TFP Growth Rate	Potential Growth Rate
Growth Strategy Realization ① (full effect)	1%+ range, rising to approx. 1.8%	Approx. 3.5%	Approaching ¥1,100 trillion	Approx. 1.4% (2030s)	Approx. 1.8% (by 2036–40)
Growth Strategy Realization ② (partial effect)	Approx. 1.5%	Approx. 3%	Lower than ①	Approx. 1.1% (plateaus early 2030s)	Approx. 1.5%
Status Quo Projection (minimal effect)	Near 0% range	Approx. 2%	Significantly lower	Approx. 0.6%	Falls below 0.5%

Total Factor Productivity (TFP) a measure of an economy’s ability to generate income from inputs—to do more with less. The inputs in question are the economy’s factors of production, primarily the labor supplied by its people (“labor” for short) and its land, machinery, and infrastructure (“capital”). If an economy increases its total income without using more inputs, or if the economy maintains its income level while using fewer inputs, it is said to enjoy higher TFP (Definition from [IMF](#))

Part 3:

Potential Impacts

A quick disclaimer

I am a public affairs and government relations consultant, not an economist nor banker. Therefore, I will look at the potential impacts of this Growth Strategy and related materials through the lens of public policy, current trends, and historical knowledge in addition to my own knowledge gained from working with public and private sector clients.

I will focus on several areas of interest, but this is not at all exhaustive and I hope we can dig further during questions or follow-up after this webinar.

Opportunity: AI and Semiconductors (1)

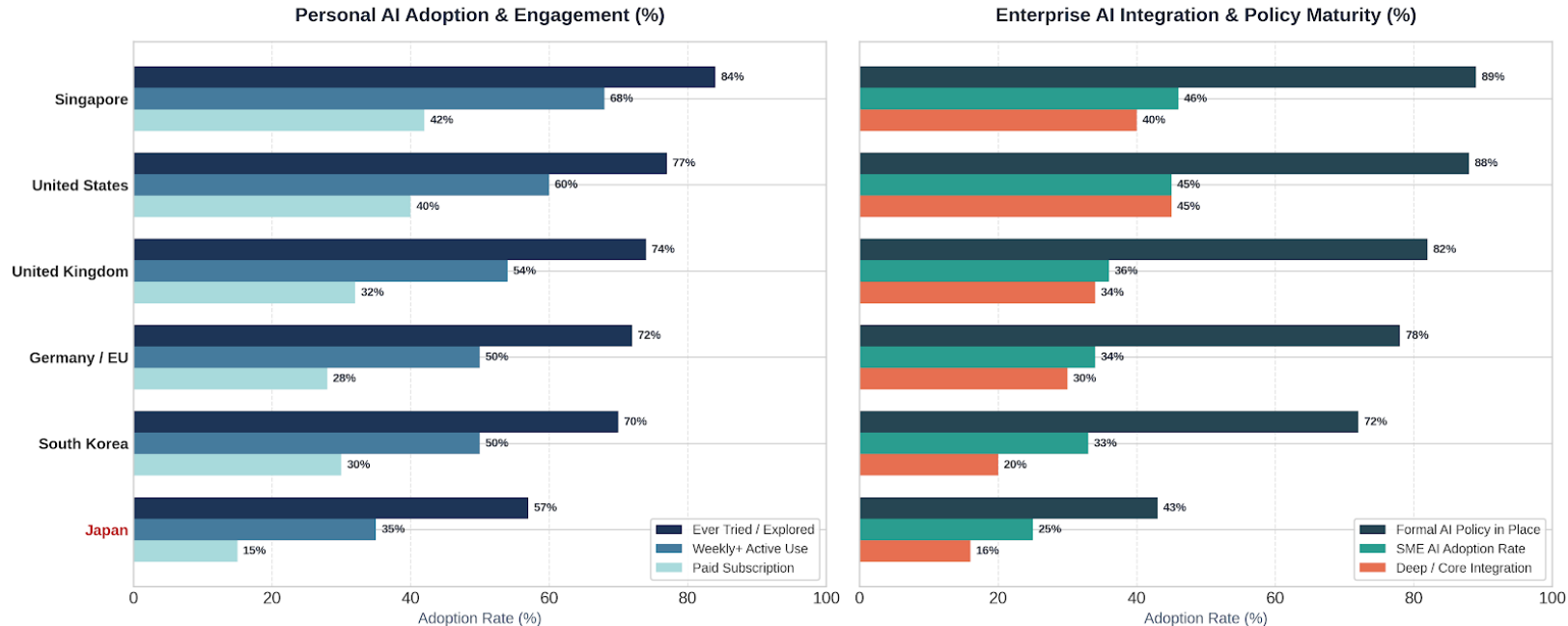
AI Transformation (AX) as Multiplier

The JGS envisions AI (physical, software, are related components) being implemented at all levels of society across all 17 fields which could act as a stimulus multiplier.

A More Open AI Field

Japan has been lagging in both personal and business AI adoption, meaning that there is much more room to grow locally in all areas of AI development. This also provides openings for new entrants or innovative partners outside of the big players in the US (and increasingly China) to innovate and capture market share.

Global AI Adoption Benchmark: Personal Engagement vs. Enterprise Integration



Opportunity: AI and Semiconductors (2)

Leveraging Existing Indispensability

Japan already enjoys a commanding presence when comes to supplying core components, wafers, precision equipment that makes semiconductors work. This is in addition to excellence in traditional factory automation. Japan can further strengthen this competitive area while looking to proceed up the value chain to more advanced and novel semiconductor fabrication, AI robotics, etc.

Demand Side VS Supply Side According to JCER

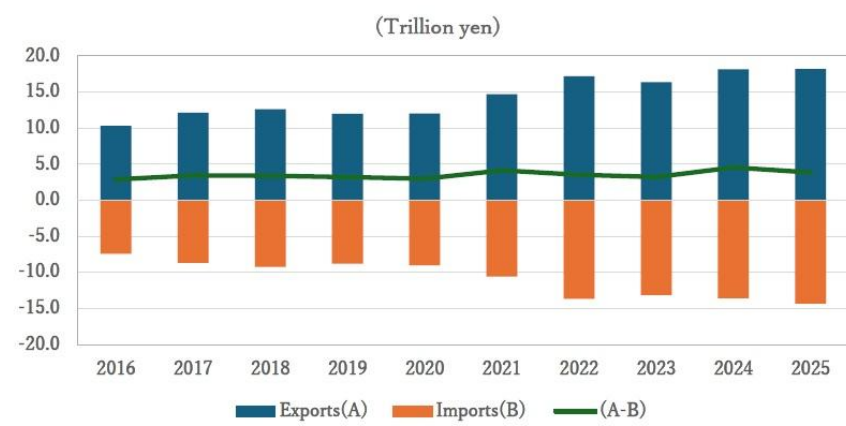
Figure 2: World Demand for Semi-Conductors



(Note) “F” stands for forecast.

(Data Source) Japan Electronics and Information Technology Industries Association (original data is from World Semiconductor Trade Statistics)

Figure 3: Exports and Imports of AI-related goods



- (Notes)
1. AI-related goods in this figure refers to the “AI-enabling products” as defined by the World Trade Organization (WTO, 2025).
 2. Original data is in US dollar terms. They have been converted to Japanese yen terms by multiplying them by annual average US dollar/Japanese yen exchange rate.

(Data Source) World Trade Organization and Bank of Japan

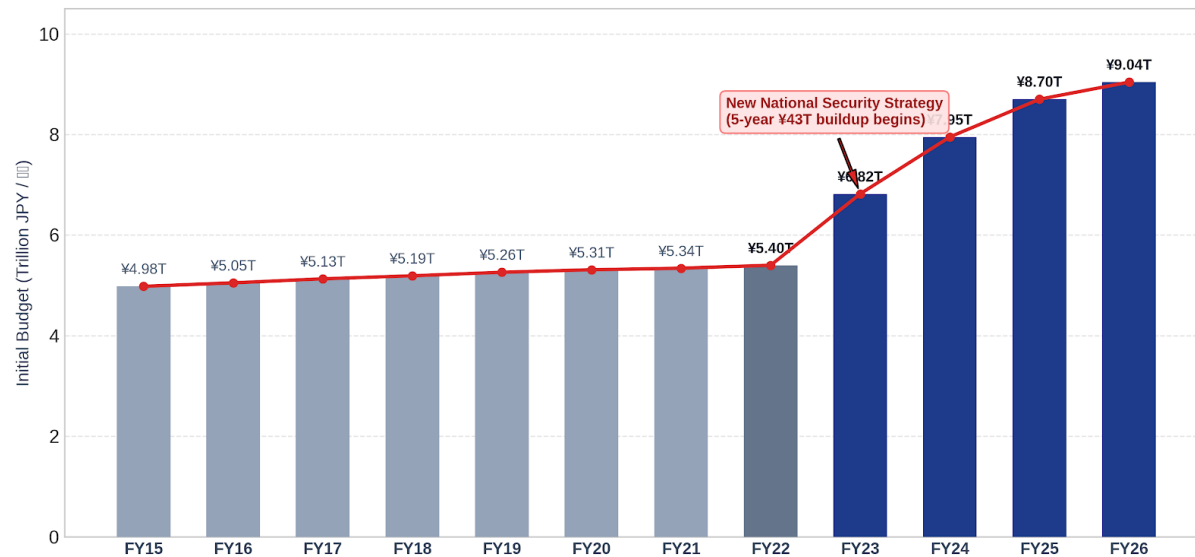
Opportunity: Defense Sector (1)

Fundamental Change in Defense Logic

Defense spending has been treated as a national cost rather than an economic asset. Although Japan does still have a pacifist constitution, the government has loosened export restrictions greatly. The JGS and related documents have taken this a step further by:

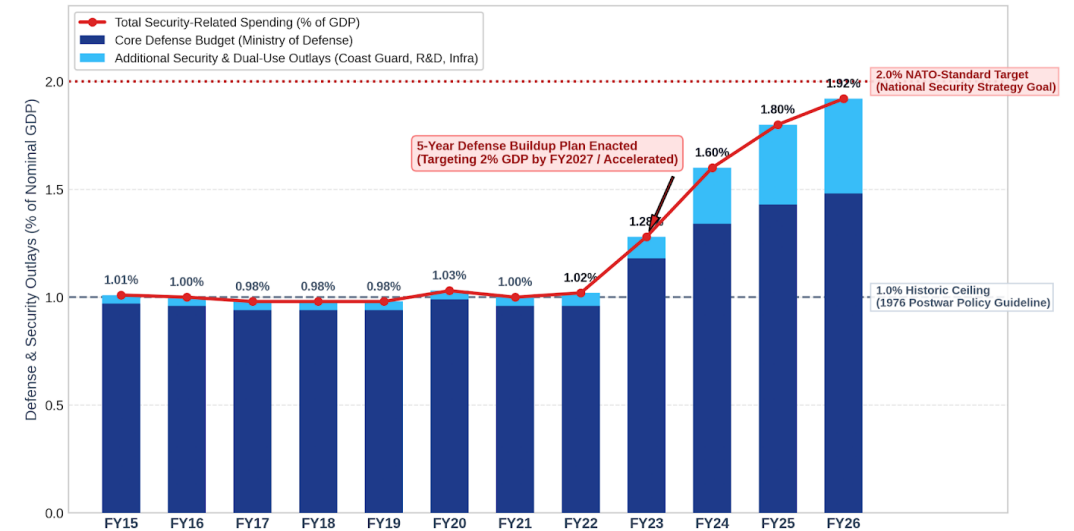
- ✓ Pledging long, multi-year budgets necessary for stable procurement and long-term planning and abandoning the yearly-supplementary budget framework that has stunted the industry
- ✓ An Integrated Innovation Strategy which aims for three-way cooperation between industry, academia and government
- ✓ Strengthening the defense base, supply chains, and building out production surge capacity
- ✓ Government will use defense procurement to create guaranteed "leading demand" for startups and contractors, allowing companies to generate immediate commercial revenues while refining their hardware

Japan's Defense Spending Trajectory (FY2015 – FY2026)



Sources: Ministry of Defense (MOD) & Ministry of Finance (MOF) Japan. Values reflect initial General Account defense-related budgets.

Japan's Defense Spending as Percentage of GDP (FY2015 – FY2026)



Sources: Ministry of Defense (MOD), Ministry of Finance (MOF), and Cabinet Office of Japan. *Total Security Outlays* follows NATO-standard accounting including Coast Guard and dual-use public R&D/infrastructure.

Opportunity: Defense Sector (2)

Unmanned Vehicles

The conflict in Ukraine as well as Iran has shown how vital drones, UAVs, and other unmanned systems are in this new age of warfare. Additionally with the population shrinking and a serious shortage of JSDF personnel in all branches, drones and unmanned offensive technologies could see a sizable growth in demand. Demand can also be boosted in the private sector in parallel with dual-use development.

Domain	Projected Market / Allocation	Primary Hardware & Systems	Key Drivers & Missions
Defense (SHIELD & other MoD programs)	~¥1.0 Trillion (FY2023–2027 aggregate); ¥100.1 Billion in FY2026 budget alone	Low-cost UAVs, loitering munitions, interceptor/counter-UAS drones, maritime USVs/UUVs, and high-end CCAs	Island/coastal defense, radar installation shielding, maritime surveillance, countering mass drone incursions, etc.
Commercial (Growth Strategy)	¥550.1 Billion in FY2026, expanding to ¥954.4 Billion by FY2030 (13.9% CAGR)	Industrial inspection multirotors, automated drone ports, BVLOS logistics UAVs, heavy-payload delivery platforms	Infrastructure aging, demographic collapse/labor shortages, Level 4 regulatory rollout, automated utility inspection



Mixed: Overcoming Short Term-ism

The JGS and related documents emphasize long term budgeting, planning, investing, and allocation of capital resources. In short, it looks to make long-term budgetary commitments while at the same time incentivizing companies to focus not on share buybacks and activist proposals, but rather R&D, wage-raising, and productivity enhancement.

Positive Side

Some potential positives include:

- Less focus on short-term share price boosting (activist proposals & share buybacks) and longer focus on R&D, employees, and multi-year complex projects
- Japan able to maintain its reputation for “patient capital”, especially important to big time-horizon projects like critical mineral supply chains, defense build-out, etc.

Negative Side

Some potential negatives include:

- Diluting hard-won corporate governance reforms under the guise of “long-term planning”
- Diluting M&A and corporate buy-out potential thereby making the Japan market less attractive to investors
- Reducing capital efficiencies by treating all buy-backs and activist proposals as equally negative could lead to reduced performance and inability to rectify poor management practices

Mixed: Public-Private Partnerships and Special Funds

PPPs and government led funds are at the core of the JGS as the actual mechanisms to wed national priorities and budget mobilization with the power of private capital and markets.

Positive Side

Some potential positives include:

- Japan's PPPs outside of the country are highly regarded especially in terms of providing top-class, sustainable development assistance and infrastructure throughout the Global South.
- With (theoretically) more rigorous and independent PDCA mechanism, budgets can be properly allotted and unperforming sectors cut.
- PPP models can allow for “moonshot” projects by taking solid plans and providing the capital to scale up.

Negative Side

Some potential negatives include:

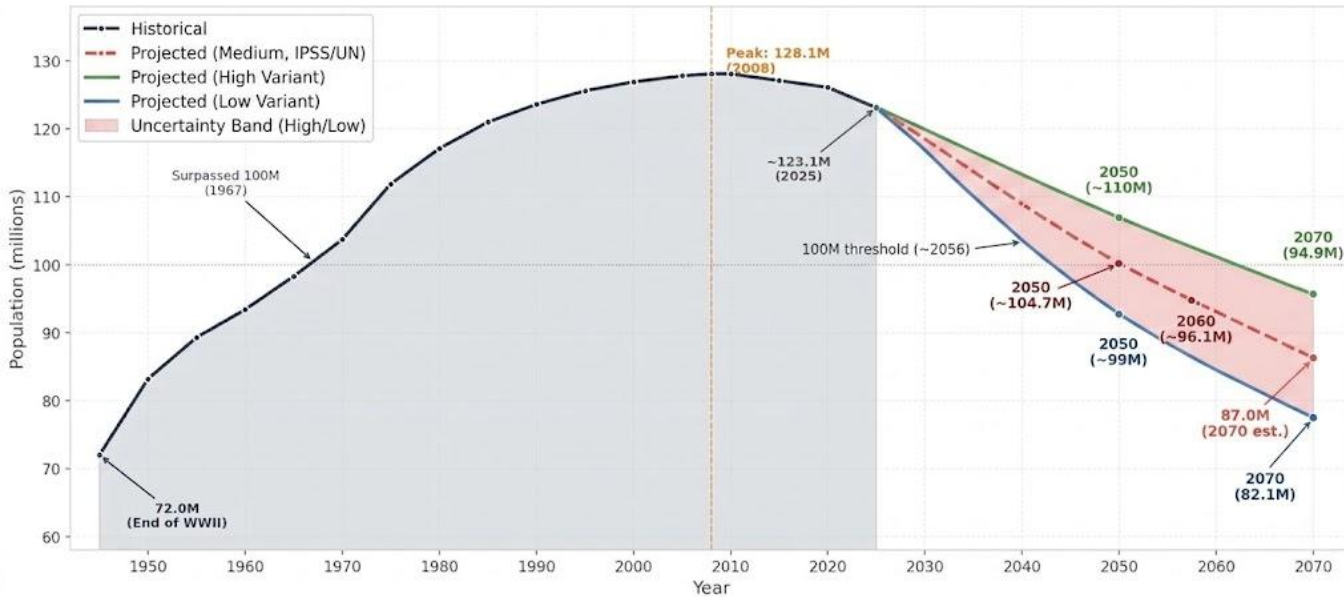
- A very checkered record on targeted funds domestically, with the “Cool Japan Fund” having been mired in scandal in and having ¥54 billion in red ink despite a 600% surge in anime and related IP growth overseas from 2013-2024 (Association Of Japan Animations).
- Several other public-private fund failures include A-FIVE and (Agriculture, Forestry & Fisheries Fund) and JOIN (Transport & Urban Development Fund) with the Japan Innovation Corporation facing losses via Japan Display restructuring and JOLED bankruptcies.
- PPPs and funds have a history of cutting losses to “save face” and avoid Diet scrutiny and falling into the bureaucratic “echo chamber trap”.

Negative: Demographics and Labor (1)

Overall Demographic Headwinds

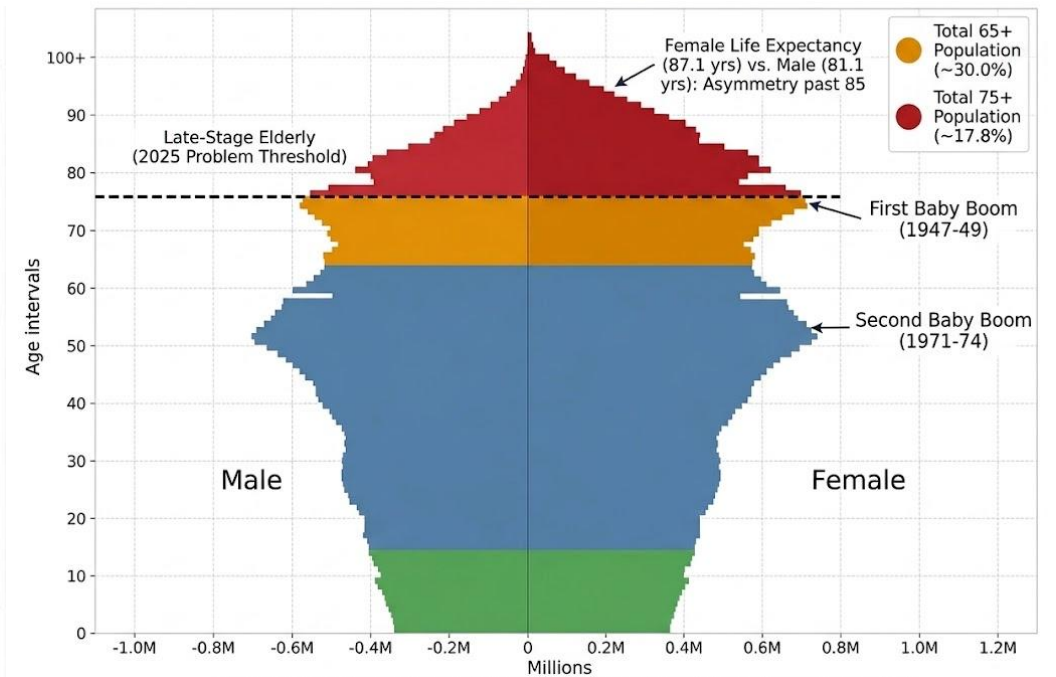
The JGS calls for massive investments, build-outs, and deployments which require a great deal of human capital in both blue and white color sectors. Given the current **shrinking population** coupled with a **rapidly aging population**, building out new industries while maintaining existing services becomes an existential issue for the nation that no amount of easy money can remedy.

Japan's Post-War Population (1945-2070)



Sources: Census data (Statistics Bureau of Japan); Projections: IPSS 2023 revision & UN WPP 2024 medium variant

Population Pyramid of Japan (2025)

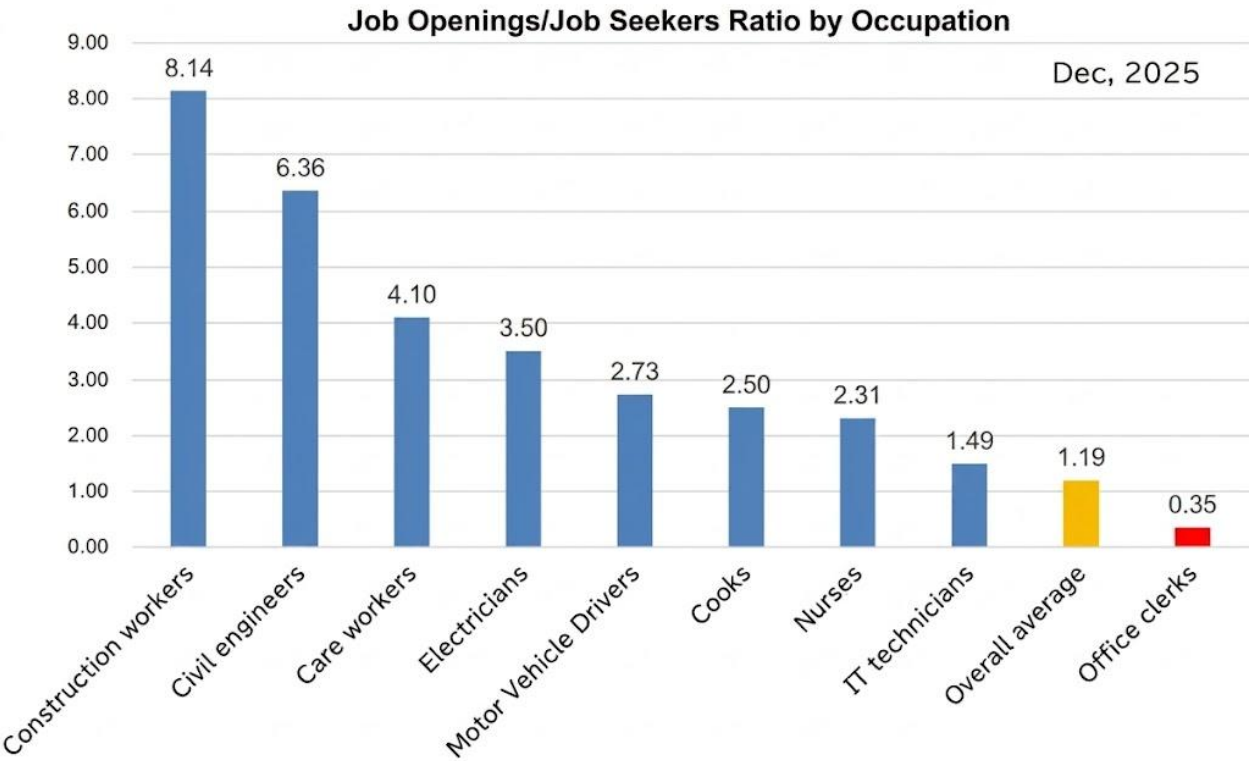


Sources: Census data (Statistics Bureau of Japan); Projections: IPSS 2023 revision & UN WPP 2024 medium variant

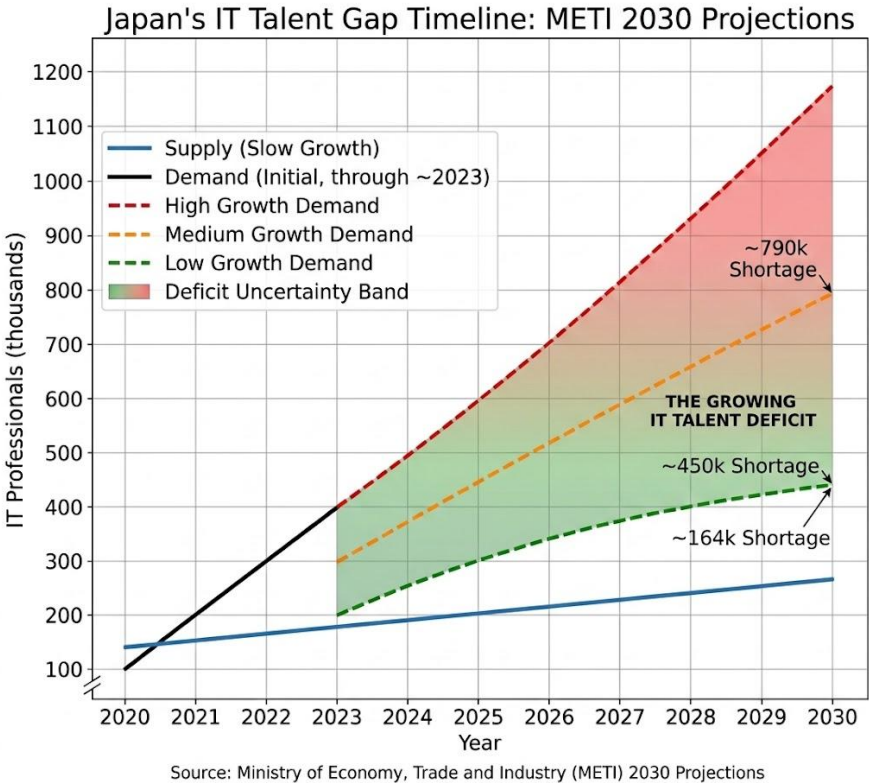
Negative: Demographics and Labor (2)

Labor Mismatches and Key IT Skill Gaps

Shrinking population does not automatically mean an immediate labor shortage as people can remain healthy and productive for longer, but this combined with a pronounced labor mismatch and digital skill deficit needed for AX/DX could severely impact the nation's overall growth and severely undermine competitiveness. This will also cause a drain on TFP induced growth where technology is expected to massively improve productivity outputs.



Source: Ministry of Health, Labor and Welfare



Negative: Demographics and Labor (3)

Japan Less Attractive for Labor/Talent

Barring massive advances and deployments with physical AI, foreign labor will be needed to not only support an aging population (nursing care, etc.), but also to supplement industries where labor mismatch is not abatable. High-skilled IT talent will also be needed to realize AX/DX. Several factors make this difficult:

- Generally unfriendly policies and cold political atmosphere to immigrant labor (especially paths to long-term residency) as a means of scoring easy political points
- Lower wages for high skilled positions compared to North America and many European countries
- Competition for labor from countries facing or preparing to face demographic issues (South Korea, China, Singapore, etc.) coupled with a weak currency makes Japan unattractive to economic migrants looking to support dependents
- Wage and opportunity increases in fast growing economies like Malaysia, Vietnam, etc. have further dampened appetites to work in Japan

Negative: Debt and Growth Rate Risks

Primary Balance as a Secondary Concern

The fundamental assumption of the JGS dictate that the **Primary Balance** (difference between a government's total revenue and its total spending, excluding any interest payments on existing national debt) is secondary to growing the GDP, thereby reducing the debt to GDP ratio.

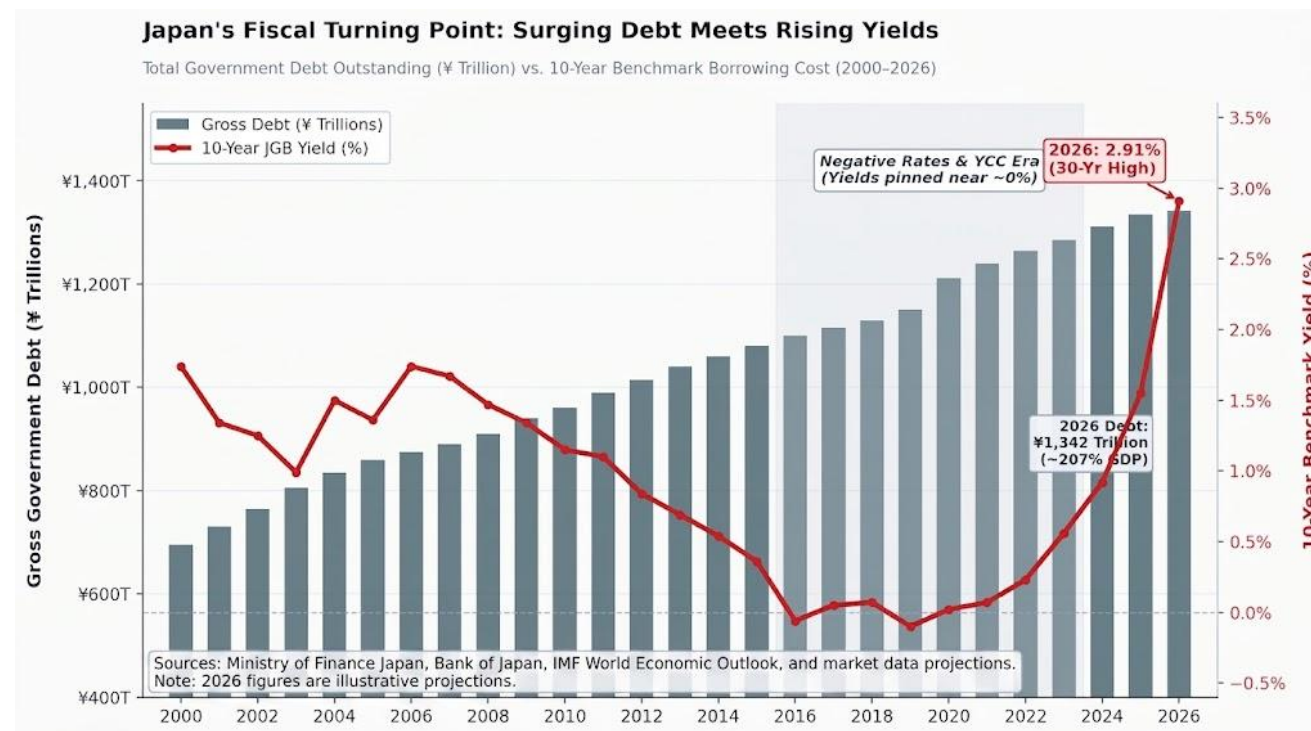
- Japan already has around 204-207% Gross Public Debt
- Interest rates have been ticking up (or perhaps normalizing) in pace with debt, making it harder to see how growth can realistically keep up

The Sovereign Debt Equation

r vs g Fiscal Balance Model

$$\Delta(D/Y) = (r - g)(D/Y) - PB$$

To steadily reduce the sovereign Debt-to-GDP ratio (D/Y) while running a primary balance (PB) deficit, the nominal growth rate of the economy (g) MUST consistently exceed the effective sovereign interest rate (r).



Negative: Stubbornly Weak Currency

Weak Yen Damping Consumption and Hurting Growth

The current macro-economic situation is challenging the assumption that a weak yen is good for an export powerhouse like Japan. While the yen weakness has more contributing factors than just the country's debt load, there are serious issues in long term weakness including:

- Yen weakening consumer spending and creating a cycle of depressed wages leading to even lower spending
- Obvious fixes like closing the rate gap are not politically tenable as **75% to 79% of newly originated property loans are floating, variable rate loans (Japan Housing Finance Agency & Japanese Bankers Association)**. A raise in rate means more money going to service individual debt rather than consumption.
- Inputs from food to raw materials cost more which could drive economic metabolism but also greatly outpace wage growth
- Yen has been stubbornly immune to interventions, even coordinated ones between the US and Japan although a predicted rate raise by the BOJ seems to have caused yen movements

A Few Parting Thoughts

二兎を追う者は一兎をも得ず

Nito wo ou mono wa itto wo mo ezu

“He who chases two rabbits will end up with none”

- Japanese proverb

Will trying to do so much result in nothing? (or worse)

“Necessity is the mother of invention”

- adapted from Plato’s *The Republic*

The world’s first superaged society struggling with demographics and growth might be what is needed to advance frontier technologies

Thank You!

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