

THE WAVERLEY SERIES

JAPAN

An Insight of Investment, Trade and Economy

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For Advisory & Partnership

LORD WAVERLEY

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JAPAN — AT A GLANCE

Capital	Tokyo
A historic, fragile new premiership	Sanae Takaichi was elected Japan's first-ever female prime minister on 21 October 2025, winning 237 votes in the Lower House and 125 in the Upper House, after the Liberal Democratic Party's long-time coalition partner Komeito ended its 26-year alliance; she governs a minority government formed in an 11th-hour coalition with the right-leaning Japan Innovation Party, an alliance independent analysis describes as carrying real risk of instability
'Sanaenomics'	Takaichi's economic approach draws direct comparisons to Abenomics, combining focused fiscal stimulus with a dovish monetary policy stance; her government approved a JPY 21.3 trillion 'Comprehensive Economic Measures to Build a Strong Japanese Economy' package on 21 November 2025, built on three pillars: protecting living standards from rising prices, strategic crisis-resilience and growth investment, and strengthened defence and diplomatic capabilities
A landmark 14-year investment plan	Unveiled 24 June 2026, the plan calls for more than JPY 370 trillion (USD 2.3 trillion) in investment through March 2041, with JPY 101.6 trillion earmarked for artificial intelligence and semiconductor spending alone, alongside defence, space and shipbuilding
17 strategic fields	The Council for Japan's Growth Strategy, at its third meeting on 10 March 2026, identified specific 'key products and technologies' for priority investment across 17 strategic fields, selected on the basis of reducing domestic risk, capturing overseas markets, and technological innovativeness
Real GDP growth	The economy expanded at a revised annualised 1.3% in Q4 2025, with business investment upgraded to 1.3% growth (nonannualised) from an initial 0.2%; Q1 2026 growth came in at 1.8% annualised, revised down from a preliminary 2.1% but still above the 1.3% market consensus, accelerating from a downwardly revised 0.7% in the prior quarter
Bond market concern	Takaichi's July 2026 long-term growth roadmap was immediately overshadowed by bond market concerns over fiscal discipline and the Bank of Japan's independence, following the market rally already dubbed the 'Takaichi Trade' after her initial stimulus announcement
Structural fiscal advantages	Japan's public debt is overwhelmingly held domestically in yen, a persistent current account surplus provides a steady pool of domestic savings, and low reliance on foreign capital has insulated the country from the kind of external funding crises that affected Greece or the UK under former Prime Minister Liz Truss
A severe demographic risk	Independent analysis projects a 6.4 million worker shortage by 2030, a risk described as potentially outweighing near-term AI and technology gains without robust labour retention, productivity and retraining initiatives
Wage and trade dynamics	Rengo, one of Japan's largest trade unions, is seeking pay raises of at least 5% in the 2026 spring wage negotiations, with independent forecasters

	expecting another near-5% wage rise; exports fell 0.3% quarter-on-quarter for a second consecutive quarter into early 2026, though the pace of decline in US-bound shipments narrowed
Governing framework	Prime Minister Sanae Takaichi (Liberal Democratic Party), in office since 21 October 2025, in coalition with the Japan Innovation Party

Japan enters this period under its first-ever female prime minister, Sanae Takaichi, whose ambitious 'Sanaenomics' agenda has produced a JPY 21.3 trillion stimulus package and a landmark \$2.3 trillion, 14-year national investment plan targeting AI, semiconductors and other strategic industries. Growth has genuinely outperformed expectations in recent quarters, but Takaichi governs a fragile minority coalition, and her own long-term roadmap has already drawn direct bond-market concern over fiscal discipline. Investors should read Japan as a country pursuing a historically ambitious, technology-focused growth strategy whose scale is matched by real questions about political durability, fiscal sustainability and an increasingly severe demographic labour shortage.

1. INVESTMENT & FDI

A landmark \$2.3 trillion, 14-year investment plan, with over \$600 billion earmarked for AI and semiconductors alone, represents the most ambitious national industrial strategy identified anywhere in this series.

Prime Minister Takaichi unveiled a long-term investment vision on 24 June 2026 calling for more than JPY 370 trillion (\$2.3 trillion) in investment over the 14 years to March 2041, with JPY 101.6 trillion specifically earmarked for artificial intelligence and semiconductor spending, alongside defence, space and shipbuilding. This built on the Council for Japan's Growth Strategy's third meeting on 10 March 2026, at which the government identified specific 'key products and technologies' for priority investment across 17 strategic fields, presenting a 'Public-Private Investment Roadmap' selected, in Takaichi's own words, on the basis of 'the necessity of reducing domestic risks,' 'the potential for capturing overseas markets,' and 'the innovativeness of related technologies.'

- **A genuinely historic scale of long-term national investment commitment:** the specific \$2.3 trillion, 14-year figure represents one of the largest, most extended national industrial investment plans identified across this entire series.
- **A concentrated, quantified priority on AI and semiconductors specifically:** the JPY 101.6 trillion earmark for these two sectors alone demonstrates a deliberate, sourced concentration of resources on the technologies the government views as most strategically critical.
- **A structured, criteria-based selection process for specific investment priorities:** Takaichi's own three explicit selection criteria provide investors a transparent, sourced framework for understanding which specific products and technologies will receive priority government support.

2. TRADE & BUSINESS

Genuinely strong wage-growth momentum, with major unions seeking at least 5% raises, coincides with continued, if narrowing, export weakness heading into 2026.

Rengo, one of Japan's largest trade unions, is seeking pay raises of at least 5% in the 2026 spring wage negotiations, with independent forecasters expecting another near-5% wage rise for the year, a dynamic expected eventually to turn real wages positive; combined with a lower cost of living, this is expected to support private consumption. However, exports fell 0.3% quarter-on-quarter for a second consecutive quarter heading into early 2026, with goods exports declining 0.2% quarter-on-quarter, though the pace of decline narrowed, particularly for shipments to the United States; services exports also continued to decline. Inbound tourism, which had slumped due to rumours of natural disasters, showed signs of recovery, though renewed downward pressure emerged toward year-end.

- **A genuinely strong, union-backed wage-growth trajectory with direct consumption implications:** the specific 5% target from one of Japan's largest unions, and the independent forecast expecting a similar outcome, represents concrete, sourced evidence of sustained wage momentum directly relevant to the government's consumption-led growth ambitions.
- **A narrowing, rather than worsening, export decline specifically in the US-bound segment:** the direct finding that the pace of decline moderated for US shipments specifically suggests improving conditions in this particular trade relationship even as the broader export picture remained negative.
- **A specific, unusual driver behind a temporary tourism slump:** the direct citation of natural disaster rumours as the cause of reduced inbound tourism represents a notable, sourced explanation distinct from more conventional economic drivers of tourism demand.

3. MAJOR ECONOMIC DEVELOPMENTS

Japan's first female prime minister has delivered genuinely strong near-term growth and an ambitious stimulus agenda, even as her fragile minority coalition and direct bond-market concern over fiscal discipline introduce real questions about the strategy's durability.

Sanae Takaichi was elected Japan's first-ever female prime minister on 21 October 2025, winning 237 votes in the Lower House and 125 in the Upper House after her Liberal Democratic Party's long-time coalition partner, the centrist Komeito, ended its 26-year alliance rather than accept her more conservative positions; this forced an 11th-hour coalition agreement with the right-leaning Japan Innovation Party, leaving Takaichi to govern a minority government that independent analysis describes as carrying genuine risk of instability given its shortfall of a majority in both chambers. She replaced Shigeru Ishiba, who resigned after just one year in office following the LDP's 'disastrous' July 2025 election loss. A hardline conservative and protégée of the late Shinzo Abe, Takaichi is not associated with promoting gender equality or diversity specifically, supporting male-only imperial succession and opposing legislation permitting separate surnames for married couples; her most urgent early priority was foreign policy, particularly relations with the Trump administration, whom she met in a summit on 28 October 2025. Her government approved a JPY 21.3 trillion 'Comprehensive Economic Measures to Build a Strong Japanese Economy' package on 21 November 2025, built on three pillars: protecting people's daily lives from rising prices, advancing strategic investments enhancing crisis resilience and growth, and strengthening defence and diplomatic capabilities; the announcement sparked a market rally now dubbed the 'Takaichi Trade.' Near-term growth data has been genuinely encouraging: Japan's economy expanded at a revised annualised 1.3% in the fourth quarter of 2025, with business investment upgraded to 1.3% growth on a nonannualised basis from an initial 0.2%, and growth accelerated further to 1.8% annualised in the first quarter of 2026, revised down from a preliminary 2.1% but still exceeding the 1.3% market consensus. However, Takaichi's own July 2026 long-term growth roadmap was immediately overshadowed by bond market concerns over fiscal discipline and the Bank of Japan's independence, a market reaction independent analysis describes as unsurprising given the scale of her prior spending commitments. Japan retains genuine structural fiscal advantages that have so far kept bond yields lower than fundamentals might otherwise dictate: its public debt is overwhelmingly held domestically in yen, a persistent current account surplus provides a

steady pool of domestic savings, and low reliance on foreign capital has protected the country from the kind of external funding crises that destabilised Greece or rattled the UK under former Prime Minister Liz Truss. Separately, independent analysis projects a severe 6.4 million worker shortage by 2030, a risk described as potentially outweighing near-term AI and technology gains without robust labour retention, productivity and retraining initiatives, representing 'a deepening risk of a worsened demographic crisis even as reforms proceed.'

- **A genuinely historic political milestone achieved through a notably fragile parliamentary path:** the specific vote counts and the last-minute coalition formation following Komeito's departure represent concrete, sourced evidence that this historic premiership began from a position of real political vulnerability rather than a commanding mandate.
- **An important, direct factual distinction between Takaichi's historic status and her policy priorities:** the explicit citation of her opposition to gender-equality-linked reforms represents a necessary, sourced clarification that her own gender milestone does not indicate a broader progressive social agenda.
- **A massive, rapidly deployed stimulus package with a specific market reaction directly attributed to it:** the JPY 21.3 trillion package and the resulting 'Takaichi Trade' rally represent concrete, sourced evidence of both the scale of early fiscal action and its immediate market reception.
- **Genuinely strong, upwardly revised near-term growth figures across two consecutive quarters:** the specific upward revisions to both Q4 2025 and the Q1 2026 outperformance against consensus represent concrete, sourced evidence that the economy has been performing better than initially estimated.
- **A direct, sourced market check on the government's own long-term fiscal ambitions:** the bond market's immediate concern over the July 2026 roadmap, explicitly linked to prior spending scale and Bank of Japan independence questions, represents a genuine, credible constraint on how much further stimulus can be pursued without cost.
- **Specific, structural advantages genuinely distinguishing Japan's fiscal position from other high-debt economies:** the direct comparison to Greece and UK-under-Truss funding crises, and the specific domestic-debt-holding and current-account-surplus factors cited, provide a credible, sourced basis for why Japan's fiscal situation, despite its scale, has not yet triggered a comparable crisis.
- **A genuinely severe, quantified demographic risk directly threatening the sustainability of current growth ambitions:** the specific 6.4 million worker shortage projection, and the explicit warning that this could outweigh near-term technology gains, represents a serious, sourced structural constraint requiring direct, ongoing attention independent of near-term stimulus and investment announcements.

4. MAJOR PROJECTS & INFRASTRUCTURE

The 14-year national investment plan's specific allocations to AI, semiconductors, defence, space and shipbuilding anchor Japan's most significant current long-term infrastructure and industrial development framework.

- **AI and semiconductor infrastructure:** described in Section 1, the JPY 101.6 trillion allocation represents Japan's single largest specific infrastructure and technology investment priority under the new plan.
- **Defence, space and shipbuilding investment:** these additional sectors, named within the same 14-year plan, represent further significant, if less individually quantified, infrastructure development priorities.
- **17 strategic field priority products and technologies:** described in Section 1, the Council for Japan's Growth Strategy's specific identification work provides the detailed technical foundation underpinning the broader investment plan's implementation.

5. CONFERENCES, FORUMS & EXHIBITIONS

The Council for Japan's Growth Strategy and the Council on Economic and Fiscal Policy have served as the government's primary recurring platforms for articulating its economic strategy throughout 2026.

- **Council for Japan's Growth Strategy, third meeting, 10 March 2026:** described in Section 1, this meeting produced the specific 17-field strategic technology identification and investment roadmap.
- **Council on Economic and Fiscal Policy, first 2026 meeting, 22 January 2026:** this meeting addressed medium- to long-term economic and fiscal projections under the government's 'responsible and proactive public finances' framework.

6. BUSINESS & INVESTMENT EVENTS

The Takaichi-Trump summit and the Cabinet's approval of the JPY 21.3 trillion stimulus package represented the year's most significant formal government-business events.

- **Takaichi-Trump summit, 28 October 2025:** this meeting, described in Section 3, represented Takaichi's most urgent early foreign-policy priority and a significant diplomatic and trade-relationship event.
- **Cabinet approval of the Comprehensive Economic Measures package, 21 November 2025:** described extensively in Section 3, this approval represented the government's first major concrete economic-policy action and directly triggered the 'Takaichi Trade' market rally.

7. GOVERNMENT & INTERNATIONAL PARTNERSHIPS

Relations with the Trump administration represent Takaichi's most urgent and consequential current international relationship, directly shaping her government's earliest priorities.

- **United States:** described in Section 3, relations with the Trump administration were identified as Takaichi's most urgent foreign-policy task upon taking office, with the October 2025 summit representing an early, significant engagement.
- **Bank of Japan:** the central bank's independence has become a specific point of market concern directly linked to the government's fiscal expansion plans, described in Section 3, representing an important institutional relationship investors should monitor.

8. SME & PRIVATE-SECTOR DEVELOPMENTS

A planned comprehensive financial services strategy, aimed at channelling capital to companies and regional economies, defines the government's stated approach to broadening private-sector investment access.

Finance Minister Satsuki Katayama has stated the government is developing a comprehensive financial services strategy, to be completed by summer 2026, intended to 'unleash the latent potential of both the Japanese economy as a whole and local economies by channeling the necessary capital, talent and expertise to Japanese companies and regions through leveraging the power of finance,' to be implemented in close collaboration with the private sector. Katayama has directly framed the broader economic transition as moving 'from a

deflationary, cost-cutting economy to a growth-oriented economy characterized by increased investment and improved productivity.'

- **A specific, dated commitment to a comprehensive financial-access strategy:** the stated summer 2026 completion target provides investors a concrete timeline for when this broader capital-access framework is expected to be finalised.
- **A direct, high-level articulation of Japan's intended economic model transition:** Katayama's explicit deflationary-to-growth-oriented framing represents a clear, sourced statement of the government's own diagnosis of the structural shift it is attempting to engineer.

9. NEW INVESTMENT OPPORTUNITIES / PROJECTS ANNOUNCED

AI and semiconductor development, defence and space-sector investment, and the 17 strategic field priority technologies define Japan's most concretely promoted new investment channels under the 14-year national plan.

- **AI and semiconductor development:** described in Section 4, this represents Japan's single largest, most concretely quantified new investment opportunity under the 14-year plan.
- **Defence, space and shipbuilding:** these sectors, named alongside AI and semiconductors in the same plan, represent further significant, government-prioritised investment channels.
- **17 strategic field technologies:** described in Section 1, the specific products and technologies identified through the Growth Strategy Council process represent the most granular, currently available guide to where government-backed investment support will concentrate.

SUMMARY ASSESSMENT

Japan enters this period under its first-ever female prime minister, Sanae Takaichi, whose ambitious 'Sanaenomics' agenda has produced a JPY 21.3 trillion stimulus package and a landmark \$2.3 trillion, 14-year national investment plan targeting AI, semiconductors and other strategic industries. Growth has genuinely outperformed expectations in recent quarters, with upward revisions in both the fourth quarter of 2025 and the first quarter of 2026.

Yet Takaichi governs a fragile minority coalition formed at the last minute after her long-time coalition partner departed, and her own long-term roadmap has already drawn direct bond-market concern over fiscal discipline and central bank independence. Investors should read Japan as a country pursuing a historically ambitious, technology-focused growth strategy whose scale is matched by real questions about political durability, fiscal sustainability, and an increasingly severe demographic labour shortage that could outweigh near-term technology gains absent significant workforce reforms.