



FOCUS ON JAPAN



October 2026

The Growth Commission

The Growth Commission is a non-partisan group of international economists analysing public policy and regulatory proposals and how they will affect GDP per capita growth in the medium-to long-term.

Membership of The Growth Commission

Shanker A. Singham (Chairman)

Alden Abbott

Barbara Bowie-Whitman

James Carter

Tyler Cowen

Stephen J. Entin

Akira Igata

Christine McDaniel

Douglas McWilliams

Mieko Nakabayashi

Eduardo Pérez-Motta

U. Srinivasa Rangan

Ewen Stewart

Thomas Stratmann

Membership of our International Advisory Board

Tony Abbott (Former Prime Minister of Australia)

Andrzej Duda (Former President of Poland)

Iván Duque Márquez (Former President of Colombia)

Petr Nečas (Former Prime Minister of the Czech Republic)

Sebastian Kurz (Former Chancellor of Austria)

Janez Janša (Prime Minister of Slovenia)

Mateusz Morawiecki (Former Prime Minister of Poland)

Liz Truss (Former Prime Minister of the United Kingdom)

Elbegdorj Tsakhia (Former Prime Minister and President of Mongolia)

Authorship

This chapters in this paper were authored by the named Commissioners to coincide with the conference co-hosted by The Growth Commission in Tokyo on 18th October 2026.

How to keep in touch with The Growth Commission

Email: contact@growth-commission.com

Media enquiries: media@growth-commission.com

X (Twitter): [@TheGrowthComm](https://twitter.com/TheGrowthComm)

Web: www.growth-commission.com

The Growth Commission, 71-75 Shelton St, Covent Garden, London, WC2H 9JQ

Contents

Foreword	5
Preface	6
1. Trade, regulatory reform and economic security in Japan	7
Japan trade relationships and the use of economic partnerships	7
The United Kingdom and CEPA	7
CPTPP and ASEAN.....	8
RCEP and wider trading relationships	8
Partnership with AUKUS and Five Eyes on Chinese distortions	9
The institutional starting point: a minilateral approach	9
A common method for identifying distortions	9
A common approach to international barriers: cooperation among a smaller group of partners	10
Resilience and technology cooperation.....	11
Competing regulatory models and the case for reform	12
Domestic competition and regulatory reform in Japan	14
Regulatory challenge and business entry	16
Japan Post and competitive neutrality.....	16
Digital platform regulation and competition.....	16
Advisory councils and regulatory participation	17
Professional legal and digital services	17
Sanitary and phytosanitary measures.....	17
Labour mobility.....	18
Business dynamism and SME productivity	18
Investor rights and access to finance	18
GPU computing support and an allied technology ecosystem	18
Strategic cross shareholdings and keiretsu relationships	19
International competition and trade implementation	19
The United States and reciprocal reform	19
Logistics performance and customs procedures	20
Automotive access and implementation	21
Property rights and interpretation of the model results	21
Conclusion	21
References	22

2. The 2026 Japanese Tax Program: A Step in the Right Direction and The Lost Decade: How Misguided Tax Policy Wrecked Japan’s Growth.....	25
The 2026 tax changes.....	25
Corporate investment incentives.....	25
Adoption of Pillar Two rules	26
Increase in the personal income tax deduction	27
Infrastructure spending	28
Earlier errors in tax and spending policy are a still poorly understood drag on the Japanese economy	28
A superior tax system before 1988.....	28
The Nakasone/Takashita/Miyazawa reforms	29
The result of the Takashita/Miyazawa reforms.....	30
What to do.....	31
3. A note on Japan’s Fiscal and Demographic Challenges.....	32
4. Delivering Economic Growth for Japan – an external perspective from the UK.....	34
Introduction	34
Trade Policy.....	35
International finance.....	37
Securing resilient growth and taking advantage of tech	37
Demographics	38
Energy and food dislocation	38
Conclusion.....	39

Foreword

As Chairman of the Growth Commission's International Advisory Board, I am delighted that a number of our Commissioners, fellow members of the International Advisory Board and other supporters of the Commission's work are able to meet in Tokyo this October to discuss some of the most important issues facing Japan and her allies.

I am particularly grateful to Worldwide Support for Development for bringing us all together at this critical time, one year since the inauguration of Prime Minister Takaichi.

The backdrop of Russia's war in Ukraine and intensifying strategic competition between the United States and China – not to mention the ongoing instability in the Middle East – poses a range of challenges for G7 nations in the increasingly inseparable spheres of economics and security.

What are the right tax and regulatory frameworks to promote economic growth? Are governments doing enough to keep debt under control? What is the right approach for pursuing monetary policy and are there sufficient checks on the power of unaccountable central banks? How do our countries secure the critical minerals and cheap energy required to power a modern economy? What do governments need to do (or not do) to make the most of emerging advanced technologies? How should we be restructuring supply chains in a world where different countries abide by different rules? These are all questions which should be integral to every nation's growth strategy and some initial thoughts on these and related issues with respect to Japan are contained in this paper.

I look forward to our discussions, held in the spirit of allies working together to deliver prosperity to our respective peoples and nations in an uncertain world.

Right Honourable Liz Truss
Former Prime Minister of the United Kingdom
Chairman of The Growth Commission's International Advisory Board

Preface

The Growth Commission, a group of fourteen independent economists from all over the world, with an international advisory board of eight former world leaders, has been tasked since its inception with promoting economic growth in the world's major economies. Many of us have been concerned for many decades with the lack of economic growth and, frankly, the lack of focus on growth in the G20 countries – and especially, with the exception of the U.S., in the G7, where growth has stalled.

The Growth Commission is pleased to present this report in Japan. We believe Japan to be one of the most important countries in this changing world, and an important player in the growing global conflict of economic models between the U.S. and China. As we note in this work, we believe there are three operating systems battling to be the global operating system. The first is the system that delivers competition on the merits and where countries interoperate on the basis of equivalence, thus allowing the regulatory competition that generates better outcomes. The second is the one adopted most recently by the EU of precautionary regulation which seeks to expand through harmonisation around the world. The third is the Chinese top-down, state-led economic model. Only the first in our view generates economic growth in a long-term fashion. In this context, Japan's choices matter enormously, not just for Japan but for the world.

Our proposals for Japanese economic growth are focused on several challenges on which I have asked different members of our Commission to focus. I focus on the trade and domestic regulatory steps Japan can take to generate growth in today's challenging environment. I use The Growth Commission's economic models to show how certain policy changes can lead to growth which could fire up the Japanese economy. Commissioner Entin has focused on tax and fiscal issues, highlighting the lessons to be learned from previous Japanese governments and from other G7 tax experiments. Commissioner Nakabayashi focuses her comments on the demographic challenge facing Japan, as well as the challenge of reining in public spending which is a major preoccupation for all G7 countries at the moment. Commissioner McWilliams offers a UK perspective, and argues that a number of proposals for UK-Japan trade and economic integration would benefit both economies, and shares some lessons learned from the UK's difficult fiscal scenario.

We look forward to discussing these proposals in Japan, and to continuing a dialogue with Japanese officials and the Japanese public.

Shanker A. Singham
Chairman, The Growth Commission

1. Trade, regulatory reform and economic security in Japan

Shanker A. Singham

Chairman of The Growth Commission and CEO of Competere

1. Japan should use its trade agreements and security partnerships to strengthen competition, reduce dependence on distorted markets and raise productivity at home. This paper sets out how its international relationships can support that objective, assesses domestic reform priorities using the Anti-Competitive Market Distortions (ACMD) framework, and proposes closer cooperation with trusted partners in responding to Chinese distortions.

Japan trade relationships and the use of economic partnerships

2. Japan has built a network of economic partnership agreements that extends well beyond tariff reduction. These agreements address services, investment, intellectual property, customs procedures and aspects of competition. They give Japan a means of opening overseas markets while improving the conditions under which firms invest and compete at home. Their value depends on implementation and commercial use, as well as the commitments contained in the text. [1]

The United Kingdom and CEPA

3. The UK–Japan Comprehensive Economic Partnership Agreement (CEPA), in force since 1 January 2021, provides the bilateral framework for the relationship. It covers goods and services, investment liberalisation, electronic commerce, procurement, intellectual property, subsidies, state-owned enterprises and good regulatory practices. Japan can use its committees and consultation arrangements to identify practical obstacles faced by Japanese investors and exporters, while addressing corresponding British concerns. [2, 3]
4. The bilateral agreement now operates alongside the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which entered into force between the UK and Japan on 15 December 2024. Firms can select the available preferential route that best fits their product and supply chain, subject to that agreement's rules of origin and documentation. They cannot combine the most favourable provisions of different agreements into a single tariff claim. CPTPP cumulation can support production involving its participating economies, but it does not make every input from a country with a separate Japanese trade agreement eligible. [3]
5. Japan and the UK should use CEPA to deepen cooperation in digital trade and services, improve regulatory transparency and reduce duplicated conformity assessment where equivalent outcomes can be demonstrated. Work on interoperable customs data, advance rulings and reliable electronic documentation could support trusted technology supply chains. The existing provisions provide a starting point for investigating and developing

additional mutual recognition and production arrangements, with the aim of reducing regulatory friction and strengthening the conditions for investment and growth. [2, 4]

CPTPP and ASEAN

6. CPTPP gives Japan a wider platform for rulemaking with Pacific partners, including Australia, Canada, New Zealand and several Association of Southeast Asian Nations (ASEAN) economies, as well as the UK. Its accession provisions allow the agreement's framework for trade and investment to extend to additional economies on agreed terms. Its disciplines on state-owned enterprises, competition, procurement and intellectual property offer a basis for addressing some distortions that tariff schedules alone leave untouched. Japan should use implementation and future development of the agreement to promote competition on the merits and pursue broader negotiated disciplines on ACMDs. [5, 6]
7. Japan's ASEAN relationships combine bilateral economic partnership agreements with the ASEAN–Japan Comprehensive Economic Partnership (AJCEP). AJCEP entered into force in 2008, and its first amending protocol began entering into force in 2020, adding services, investment and movement-of-persons provisions. This provides an institutional framework for production networks that connect Japanese firms with regional suppliers, manufacturers and service providers. [1, 7]
8. Japan should use those relationships to widen sourcing options, help regional suppliers meet commercial and regulatory requirements, and reduce the cost of moving components across borders. Customs cooperation, digital trade corridors and support for verifiable origin can make diversification commercially viable. Engagement should offer ASEAN partners better market access and stronger investment opportunities, while helping them detect circumvention of lawful trade measures. ASEAN countries have different interests and obligations; participation should follow concrete projects and agreed standards. [7, 8]

RCEP and wider trading relationships

9. The Regional Comprehensive Economic Partnership (RCEP) connects Japan with participating ASEAN economies, China, the Republic of Korea, Australia and New Zealand. Its common framework for origin and trade procedures can simplify regional supply chains, subject to product-specific rules and tariff schedules. Japan should use those commercial opportunities while assessing concentrated dependence on Chinese inputs, processing and customers. Participation in RCEP does not remove the need for evidence-based action against subsidies, coercive restrictions or other distortions. [8]
10. The European Union (EU)-Japan Economic Partnership Agreement provides another major channel for trade and investment. Its implementation has opened markets and created mechanisms for resolving regulatory obstacles; the European Commission records continuing work on sanitary and phytosanitary (SPS) market access, regionalisation and approval procedures for plant products. Japan should pursue those practical gains while making its own assessment of whether a proposed regulatory approach improves competition. Cooperation and mutual recognition need not entail adoption of every element of the EU regulatory model. [9]
11. The United States remains central to Japan's trade and security strategy. The Japan–US Trade Agreement and Digital Trade Agreement form part of that relationship, but current

tariff disputes and concerns about domestic barriers require further negotiation. The objective proposed here is reciprocal reduction of ACMDs linked to a route towards zero or near-zero tariffs, including scrutiny of restrictions maintained by the United States itself. Japan's agreements with India and Australia, and its wider economic partnership network, can complement this strategy by broadening opportunities for investment, services and supply-chain diversification. [1, 4, 10, 11, 12]

12. Japan should therefore treat its agreements as instruments for continuing reform. A joint work programme with each partner should identify the specific barrier, the firms and markets affected, the change required and the timetable for delivery. Progress should be measured through use of preferences, clearance times, regulatory approvals and effective market access. Signing another agreement is of limited value if existing commitments do not translate into an opportunity to compete.

Partnership with AUKUS and Five Eyes on Chinese distortions

13. Japan can help build an economic security partnership around the principle that trusted countries should reduce distortions among themselves and cooperate against distortions imposed from outside. Closer cooperation could combine compatible allied remedies with shared evidence and intelligence support, with Japan working alongside Five Eyes countries and AUKUS partners. This would extend the existing security relationships into cooperation on trade and competition, requiring agreement on the scope of investigations, evidence sharing and remedies. [4, 6, 13] Japan's economic-security clearance law entered into force on 16 May 2025. It provides for designated sensitive economic-security information to be shared with approved private businesses and personnel who have passed suitability assessments. [14] These arrangements could be developed further to support closer cooperation with partners, including on defence and intelligence.

The institutional starting point: a minilateral approach

14. AUKUS is the partnership between Australia, the United Kingdom and the United States. Its Pillar II work on advanced capabilities offers a practical route for cooperation with Japan. The September 2024 ministerial statement recorded consultations on interoperability with Japan's maritime autonomous systems; the December 2024 Australia-UK statement also described discussions on project-by-project participation. Japan should build on this approach where it can contribute useful technology and meet the agreed security requirements. Cooperation on selected projects is distinct from membership of the trilateral partnership or participation in its submarine programme. [15]
15. Five Eyes links Australia, Canada, New Zealand, the United Kingdom and the United States in intelligence cooperation. Japan is not one of its five members. However, a realistic proposal is for participating governments to agree secure channels for sharing relevant assessments with Japan, under defined access, handling and onward-disclosure rules. Formal expansion of Five Eyes is not a precondition for an economic security initiative, and should not be assumed. The scope of any sharing would remain a decision for the governments and agencies concerned. [4, 6, 16]

A common method for identifying distortions

16. The starting point should be a shared evidential method. Chinese state support may operate through subsidies, preferential finance, land or energy supplied on favourable

terms, procurement preferences, or state-enabled restrictions on market access. The World Trade Organization (WTO)'s 2024 review of China records concerns about state support and the transparency of subsidy notifications. [17] For Japan and its partners, the inquiry should identify the intervention, the advantage or exclusion it creates, and its effect on competition. An inefficient producer sustained by state support and an efficient Chinese producer winning business on the merits require different responses. Nationality, low prices and excess capacity alone cannot settle the issue. [6] The proposed cooperation would use a common approach to Chinese ACMDs, allowing participating countries to share relevant intelligence and evidence, reduce duplicated investigation and lower the cost of bringing actions. [4, 6]

17. Japan and its partners should therefore establish a process for joint evidence gathering, bringing together trade, competition, customs and economic security expertise. Public records and company evidence should supply the ordinary basis of a case. Where opacity prevents reliable assessment, shared intelligence may help identify ownership, financing, state direction and routes used to conceal the beneficiary. Sensitive material should be handled through agreed safeguards; public decisions should disclose enough of the case and methodology to permit a meaningful response, with protected procedures where necessary.
18. The Growth Commission uses the Singham-Rangan-Bradley-γ (SRB-γ) ACMD model to help assess the domestic income consequences of reform and identify which policy changes deserve priority. The model relates gross domestic product (GDP) per capita to measures of property rights (PR), domestic competition (DC) and international competition (IC). The construction of the three pillar indices and the SRB-γ econometric specification are set out in chapters 3 and 4 of International Trade, Regulation and the Global Economy; the broader framework and its application to trade negotiations are developed in Trade, Competition and Domestic Regulatory Policy and the Growth Commission's August 2025 white paper. [4, 6, 18] A country-level GDP-per-capita effect is not, by itself, a subsidy margin or a measure of injury to a particular industry. Any remedy should therefore be calibrated through a separate assessment of the relevant competitive harm, causation and damage, avoiding double counting across firms, sectors and markets. [6]

A common approach to international barriers: cooperation among a smaller group of partners

19. The same method should apply to distortions outside China. Competere's April 2026 Section 301 submission examines digital regulation and competition enforcement in Korea, competition enforcement and foreign investment restrictions in India, and EU SPS measures affecting market access. [19] Where a distortion affects several markets, a positive-comity approach would allow partners to use evidence gathered by another jurisdiction while conducting their own assessment of damage and causation. This would reduce duplicated investigation and make it harder for a beneficiary of distortions to evade a response simply by redirecting exports. Each jurisdiction would retain responsibility for its findings and remedies. [6, 18] Where public information is insufficient, including in investigating opaque state support in China, intelligence sharing could supplement the evidence available to participating authorities. [17]
20. A response must cover more than goods entering the investigating country. Firms benefiting from distortions may displace Japanese and allied suppliers in third-country markets, win

public contracts using artificial cost advantages, or exclude competitors from digital and other services markets. Existing countervailing duties, anti-dumping measures, competition powers and procurement rules each have their own scope and evidential tests. An enhanced ACMD remedy would extend the response to proven distortions through tariffs on affected goods, measures concerning regulated services, or adjustments to the evaluation of procurement bids. Its use would require evidence of the distortion, competitive harm, causation and damage, with the response calibrated to the competitive effect established. Any new power requires legislation or agreement, and measures must be assessed against applicable domestic law and international commitments. [6, 19]

21. Japan should seek compatible rules on circumvention, traceability and the treatment of benefits transmitted through third-country production. Genuine investment and substantial production in ASEAN should remain commercially viable; simple transshipment should not defeat a lawful remedy. Coordination would also make it easier to distinguish commercial diversification from attempts to preserve a subsidised advantage through another jurisdiction. Findings should identify the conduct and economic benefit at issue, rather than presume that all production linked to China is distorted. [6]

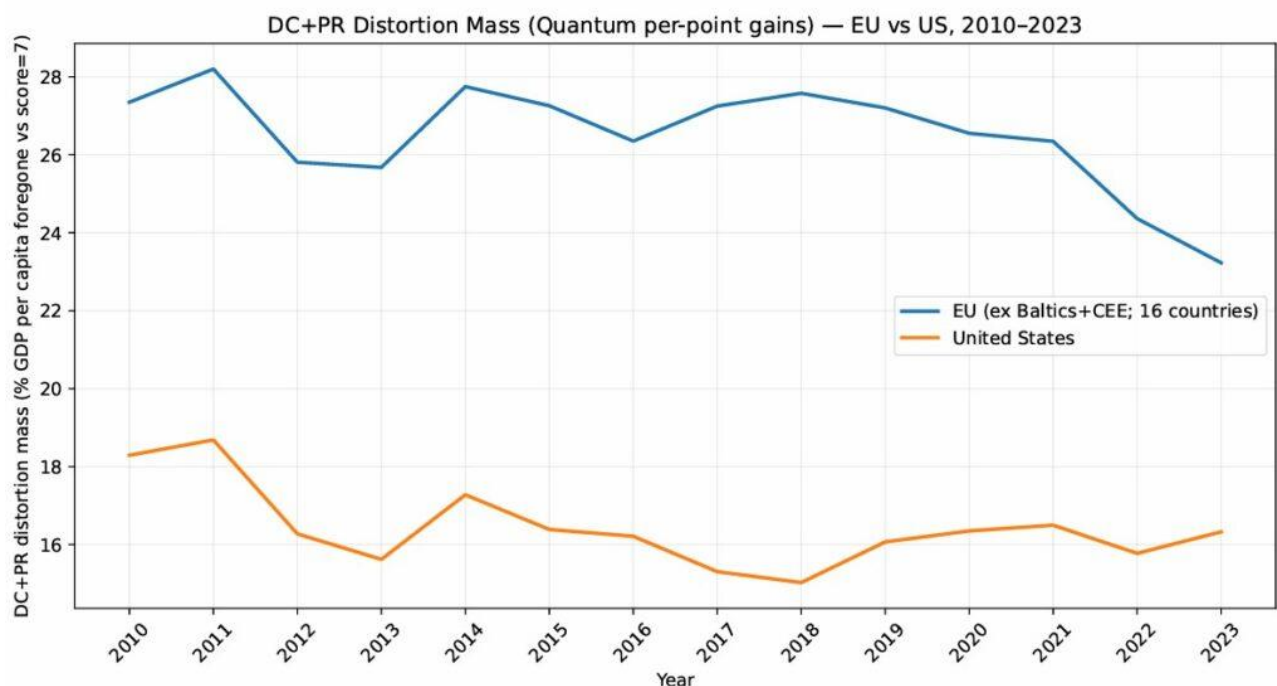
Resilience and technology cooperation

22. Cooperation against proven distortions should be accompanied by opportunities for trade and investment among participating countries. Japan and willing partners should develop diversified supplies of critical inputs, compatible technical standards and joint research or production projects where these improve resilience. The proposed Western plus Japan technology stack could span semiconductors, computing capacity, cloud services, artificial intelligence (AI) models and applications. Cooperation could also cover quantum technologies and nuclear energy, particularly small modular reactors. Participation should depend on demonstrated capability, security and respect for intellectual property. Open competition within the group, with scope for additional partners meeting those requirements to join, could reduce the risk that economic security becomes a justification for permanent national champions. [4, 6, 13]
23. Where coercive restrictions threaten a partner's essential supplies or export markets, the group should agree contingency sourcing, assistance in finding alternative customers and coordinated diplomatic and legal responses. Investment screening, export controls and any restrictions on access to finance should have their own defined objectives and legal basis. An ACMD finding should inform that assessment without automatically becoming a security designation. The aim is to reduce the ability to exploit dependency while preserving beneficial trade that does not create the identified risk. [13]
24. Japan could begin with a small number of jointly agreed cases and supply-chain projects, supported by a common methodology, designated national contact points and regular review. Remedies should fall as the proven distortion is removed and be capable of returning if it recurs. Participants must also be willing to address their own distortions. Reciprocal reform would give Japan a stronger basis for seeking allied market access and for challenging Chinese practices, while leaving room for other countries to join on the same terms. [4, 6, 10]

Competing regulatory models and the case for reform

25. There is a contest over the rules governing the world economy. The first model is competition on the merits: countries seek pro-competitive regulation and cooperate through equivalence and mutual recognition. The second is China's state-led development model, which relies on extensive distortions benefiting state-owned enterprises and privileged private firms. The third is the EU's reliance on precautionary and hazard-based regulation, combined with the international reach of its market and regulatory requirements, often described as the Brussels Effect. [4, 6, 18, 20]
26. The argument of this paper, and indeed the Growth Commission as a whole, is that the first model offers the strongest route to wealth creation. Where state direction or precautionary regulation restricts competition beyond what legitimate objectives require, the resulting distortions reduce productive and allocative efficiency. The test must be applied to specific measures, including those maintained by countries that generally favour open markets. Market access negotiations should address those domestic rules as well as tariffs. [4, 6, 10, 18, 20]
27. Figure 1 illustrates the scale of estimated domestic competition and property rights distortions in the selected Western European group and the United States. It uses the calibration labelled quantum per-point gains in the chart. Its numerical series differs from the coefficient-based comparison including Japan shown in Figure 2; the two should not be combined as a single series.

Figure 1 EU and U.S. domestic distortion comparison



Source: ACMD comparison using the quantum per-point calibration, 2010–2023. The EU series covers 16 countries excluding the Baltics and Central and Eastern Europe.

28. In Figure 1, the estimated gap is around 9-10 percentage points of GDP per capita over much of the period. The United States also retains substantial distortions and is not the model's undistorted benchmark. Its own series shows roughly fifteen to twenty percent of

modelled scope for improvement towards that benchmark, so matching US conditions would not exhaust the scope for reform. The EU regulatory-volume index in Table 1 provides a separate comparison, rising from 45 in 2010 to 185 in 2024.

Table 1 EU regulatory volume index, 2010-2024

Year	Regulatory volume index	Key legislative drivers / catalysts
2010	45	Baseline
2011	48	Baseline
2012	52	Baseline
2013	55	Baseline
2014	60	Baseline
2015	62	Baseline
2016	115	Spike: Animal Health Law, Novel Foods Reg, Official Controls Drafts
2017	85	Post-consolidation adjustment
2018	90	Steady accumulation
2019	94	Steady accumulation
2020	98	Steady accumulation
2021	105	Steady accumulation
2022	110	Steady accumulation
2023	115	Pre-implementation build-up
2024	185	Spike: EU Deforestation Reg (EUDR), Feed Additives, CSDDD

29. Removing domestic distortions could produce a substantial increase in the level of GDP per capita, with illustrative gaps of around 25% in the European comparison in Figure 1. A 25% level gain achieved over ten years would imply an additional compounded growth factor of about 2.26% a year during that transition. Similarly, a 10% gain over ten years corresponds to about 0.96% a year compounded. These calculations illustrate the scale of a level gain without specifying how quickly reform could deliver it. Their significance is evident against the slowdown in advanced economies: growth in real GDP per capita across the Group of Seven (G7) as a whole fell from about 2.6% a year in 1981-1989 to 1.4% in 2010-2025. [20]
30. Japan's real GDP per capita grew by about 3.7% a year in the 1980s, compared with 0.8% over 2016–2025 in the calculations below. The simple average across G7 countries fell from 2.29% to 0.95%. These inflation-adjusted growth rates provide context for the scale of the reform challenge.

Table 2 Average annual real GDP per capita growth

Country	1980–1989 average	2016–2025 average	2023–2025 average
Japan	3.71%	0.82%	1.03%
United States	2.18%	1.82%	1.84%
United Kingdom	2.29%	0.78%	0.01%
France	1.85%	0.90%	0.89%
Germany	1.87%	0.54%	–0.50%
Italy	2.49%	1.35%	0.80%
Canada	1.63%	0.45%	–0.34%
G7 simple average	2.29%	0.95%	0.54%

Source: Calculations using the World Bank GDP per capita growth series, July 2026 data vintage. Figures are arithmetic averages of annual growth rates. The G7 average gives each country equal weight; it is not growth in the G7's combined GDP per capita.

31. Japan's recent decade growth rate is approximately 78% below its 1980s rate. Every G7 member grew more slowly per person over 2016–2025 than in the 1980s, with the simple average declining by approximately 59%. The United States experienced a relatively smaller slowdown, while recent per-capita growth in the United Kingdom, Germany and Canada has been particularly weak.
32. Japan's latest individual year in these calculations, 2025, recorded approximately 1.7% growth per capita. The longer comparison nevertheless shows the extent of its slowdown. The model comparison that follows assesses the scope for improvement in Japan's domestic competitive conditions.

Domestic competition and regulatory reform in Japan

33. Japan remains closer to the United States than to the selected European group in the coefficient-based comparison, but still has considerable room for improvement. Across 2010–2023, Japan's estimated DC and PR distortion mass averages approximately 21.5%, compared with 18.7% for the United States and 27.8% for the European group. Each average covers the fourteen annual estimates shown in Figure 2. They describe model-based distances from the specified frontier, rather than observed income losses.
34. The strongest domestic reform priorities are making regulation easier to challenge, improving labour mobility, simplifying business entry and expansion, and improving access to capital. Including international competition, the largest individual numerical gap is the ease of arranging competitively priced international shipments.
35. The component ranking uses the latest year in the underlying datasets, 2023, and each component's weighted distance from a frontier score of 7. The pillar coefficients are DC 0.0803, PR 0.0686 and IC 0.0637. The corresponding linear approximation multiplies each weighted score gap by 8.03, 6.86 or 6.37 respectively. [21]

Figure 2 Coefficient based comparison of domestic competition and property rights

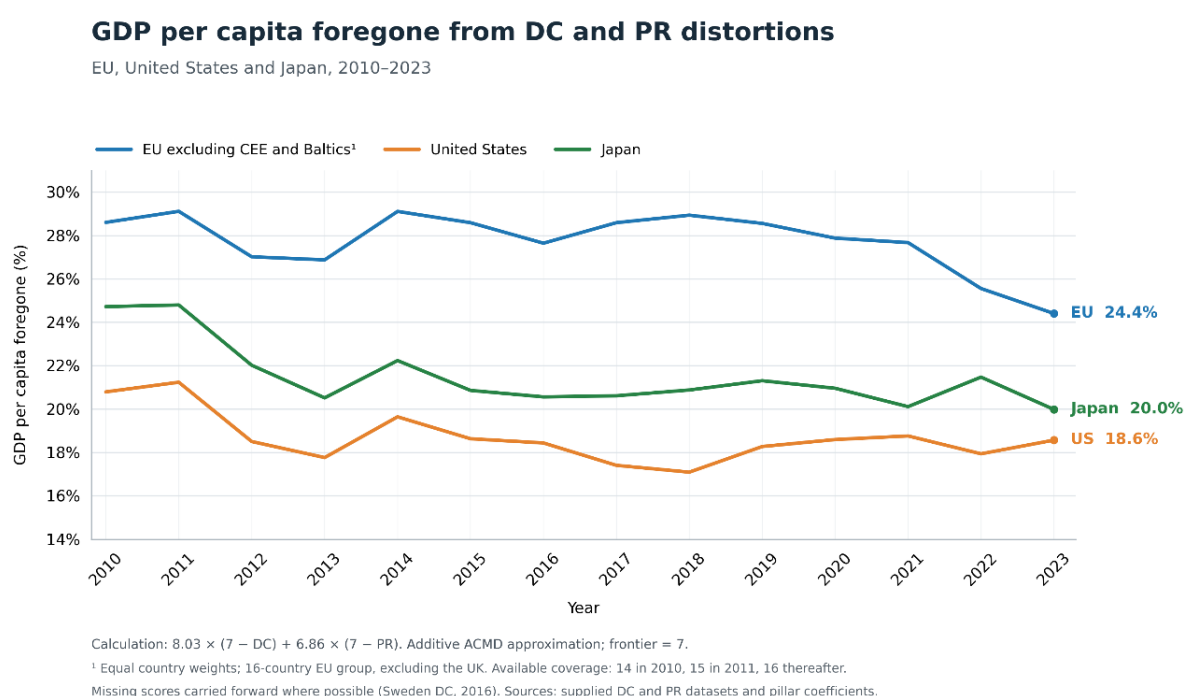


Table 3 Japan reform priorities by weighted distance from the frontier

Area	Pillar	Japan score / 7	Indicative long run GDP per capita uplift*
International shipments	IC	4.39	5.99%
Ability to challenge regulations	PR	4.45	4.20%
Labour freedom	DC	5.59	2.83%
Business freedom	DC	5.74	2.54%
Trade freedom	IC	5.67	2.48%
Intellectual property protection	PR	5.98	1.74%
Investor protection	PR	4.60	1.48%
Legal rights in financial transactions	PR	3.50	1.31%
Financial freedom	DC	4.60	1.20%

* Indicative long-run GDP-per-capita level effects from closing each component gap to 7 using the additive approximation. These are not annual growth rates or forecasts of delivery within a specified period. A particular policy may affect several indicators; policy estimates must avoid double counting.

36. The examples that follow concern issues raised by Japan's trading partners. The 2026 National Trade Estimate (NTE), published by the Office of the United States Trade Representative (USTR), records US concerns across the sectors examined below. EU implementation discussions address further issues, including SPS access. The WTO Trade

Policy Review and the Organisation for Economic Co-operation and Development (OECD) country analyses also document Japan's regulatory conditions. [9, 12, 22, 23, 24] These concerns require assessment of the particular measure and its effects on competition. Addressing verified barriers would provide a basis for negotiating lower tariffs and improved market access in the US-Japan relationship.

Regulatory challenge and business entry

37. The ability to challenge regulations is Japan's largest DC/PR weakness based on the ACMD model: its 4.45 score carries 24% of the PR pillar. Judicial independence scores considerably better, at 6.20, so the diagnosis points particularly towards the practical effectiveness of challenging regulatory decisions.
38. Japan should examine access to regulatory review, its cost and speed, and the availability of effective remedies, alongside competition assessments of licensing and other entry restrictions. Business freedom strengthens this diagnosis. The OECD's 2026 survey identifies Japan's administrative and regulatory burden on businesses as the second highest in the OECD. [22] Examples of ongoing regulatory issues are below.

Japan Post and competitive neutrality

39. Japan Post raises questions about the treatment of a legacy public enterprise across delivery and financial services. Among trading-partner concerns, the NTE records the US objection to different customs treatment for postal shipments valued up to ¥200,000 and continuing competition concerns involving Japan Post Bank and Japan Post Insurance. The ACMD question is whether legal or administrative arrangements confer advantages unavailable to competing suppliers, including Japanese private firms. [12, 18]
40. Ownership alone does not resolve that question. The assessment should examine customs administration, funding and access to distribution, while accounting for universal-service obligations. The cost of an assigned public service must be distinguished from advantages in contestable commercial activities; an alleged implicit guarantee should be tested against financing terms and other evidence.

Digital platform regulation and competition

41. Japan's Mobile Software Competition Act became fully effective on 18 December 2025 and covers designated providers of mobile operating systems, app stores, browsers and search engines. The Japan Fair Trade Commission (JFTC) describes its objectives in terms of competition, innovation, choice and security. The Ministry of Economy, Trade and Industry (METI) administers the separate Transparency Act, which establishes disclosure, reporting and review arrangements for designated platforms. Trading-partner concerns include the US objection, recorded in the NTE, that compliance burdens fall disproportionately on US companies. [12, 25, 26]
42. The ACMD framework distinguishes protection of competition from protection of particular competitors. Competition enforcement should assess effects on output, prices, quality and innovation, including the efficiencies that can arise from scale and network effects in digital markets. [18, 27, 28] For Japan's platform regimes, the relevant test is therefore the effect of specific obligations on entry, prices, innovation, security and intellectual property. The nationality of designated firms does not, by itself, prove discrimination, and a

competition-policy label does not establish that every obligation improves competition. [6, 18]

Advisory councils and regulatory participation

43. Trading partners also raise procedural concerns. The NTE reports US companies' concerns about opaque selection of METI's digital monitoring panel and its influential role in evaluating platform compliance reports. [12] The issue is whether affected firms can participate effectively and whether the panel's recommendations reflect the evidence submitted. Any assessment of regulatory capture would require examination of its membership, interests, submissions and decisions.
44. The ACMD concern is government-enabled exclusion from effective participation. Japan should ensure that affected firms can submit evidence, that competing accounts receive consideration, and that reasons and routes of challenge are available. However, consultation with businesses is not itself regulatory capture. The same standard should apply regardless of their nationality. [18]

Professional legal and digital services

45. The OECD's 2024 survey describes generally open services trade alongside remaining restrictions affecting legal and telecommunications services. [23] Its 2025 Japan services note identifies constraints on law-firm ownership and professional entry, while recording that foreign registered lawyers have been able to establish legal professional corporations jointly with Japanese lawyers since 2022. The distinction between practising foreign law and qualifying to practise Japanese law remains material. [29]
46. This directs attention to the particular licence, organisational restriction or cross-border condition at issue. Professional competence, confidentiality and consumer protection are relevant objectives. The commercial question is whether a rule excludes otherwise qualified suppliers or unnecessarily raises service costs. Digital services also require scrutiny of the separate platform regimes discussed above. [18, 25, 26]

Sanitary and phytosanitary measures

47. SPS concerns are raised through several trading relationships. The NTE identifies US concerns about post-harvest fungicides and country-wide responses to individual maximum-residue-limit breaches. Separately, EU–Japan discussions address market access, disease regionalisation and plant-product approvals. These examples show that the issue extends beyond a single partner, while the particular measures and complaints remain distinct. [9, 12]
48. The WTO SPS Agreement recognises the right to protect human, animal and plant health, with disciplines concerning science, risk assessment and non-discrimination. It also addresses equivalence, regional conditions and provisional measures. Partner concerns should be tested against those requirements and the evidence, rather than treated as adjudicated violations. Equivalent health protection does not invariably require identical rules. Agricultural tariffs, quotas and purchasing commitments are separate questions. [30] Japan has also raised concerns about EU SPS regulation. At the December 2025 bilateral SPS Committee meeting, it questioned the use of maximum residue levels to pursue EU environmental objectives; the EU stated that its measures complied with its international

commitments. [31] A more concrete agreement on science-based regulation would therefore be relevant to both parties.

Labour mobility

49. Labour freedom is a major mover of the DC pillar. Its score also declined from 5.94 in 2010 to 5.59 in 2023 which makes it economically significant.
50. The reform agenda includes facilitating mid-career recruitment, making training and retirement benefits more portable, and reducing the dependence of pay on tenure. These changes could help expanding firms recruit experienced workers. The OECD's 2024 survey likewise recommends reform of seniority wage schemes and greater mid-career recruitment. [23]

Business dynamism and SME productivity

51. The OECD's 2026 survey reports Japanese firm entry and exit rates at around half US levels. It associates low productivity among small and medium-sized enterprises (SMEs) with sector composition, weak technology adoption and limited participation in international trade. [22] The OECD's 2024 survey also identifies extensive public loan guarantees as a factor weakening banks' incentives to assess credit risk. [23]
52. Entry, exit and the ability of firms to grow are separate parts of the productivity question. Larger firms may be more productive because of scale, investment, management or sector composition, and productive firms may be more likely to grow. The ACMD inquiry is whether government-created advantages restrict entry, expansion or reallocation. Support for incumbents and support for entrants therefore require separate assessment, even when both are described as SME assistance. [18]

Investor rights and access to finance

53. Financial freedom 4.60, investor protection 4.60, and financial legal rights 3.50 form a connected weakness. Together, their calculated frontier contributions are approximately 4.0% of GDP per capita.
54. Japan should examine minority-investor remedies, secured-lending arrangements, competition among finance providers and financing for firms with few physical assets. The objective is to let capital reach productive entrants and expanding businesses. The OECD identifies traditional collateral-based lending and broad credit guarantees as constraints, while also recording subsequent reforms to collateral-based lending. [22, 23]

GPU computing support and an allied technology ecosystem

55. METI announced support of up to ¥72.5 billion for five projects in April 2024, directed at computational resources for AI development and graphics processing unit (GPU) cloud services. This concerns domestic computing capacity rather than GPU manufacture. Among trading-partner objections, the NTE records the US concern that the programme's domestic focus disadvantages US hyperscale cloud providers. Purchasing US-designed chips and restricting a US cloud service have different commercial effects. [12, 32]
56. The proposed Western plus Japan technology stack would connect semiconductors, computing infrastructure, cloud services, models and applications. It should reinforce the allied cooperation described earlier, with clear participation, procurement, interoperability

and security conditions. Security requirements should respond to identified risks; corporate nationality alone should not substitute for that assessment. [4, 6, 13] Japan and its partners could examine joint production zones and digital trade corridors as means of improving interoperability and reducing regulatory and customs friction in these sectors. The aim would be to support growth through cross-border production and exchange while retaining access to wider international markets. [33-35]

Strategic cross shareholdings and keiretsu relationships

57. Japan has already changed disclosure requirements. In January 2025, the Financial Services Agency finalised rules requiring specified disclosures when holdings are reclassified from strategic holdings to pure investment, including the reasons for the change and the subsequent holding or disposal policy. [36] The OECD's 2026 survey identifies strategic crossholdings as a potential constraint on openness to foreign investors and external management discipline. [22]
58. The keiretsu question is whether ownership and trading relationships insulate firms from competitive pressure or restrict access to customers, suppliers and corporate control. Equally, long-term relationships can also support investment and coordination. Share ownership alone does not establish foreclosure, and relabelling a holding does not necessarily change its economic function. [18, 36]

International competition and trade implementation

59. International shipments dominate the IC result because the component combines a score of 4.39 with a weight of 36.04%. Customs and timeliness add further scope for improvement. Japan should connect this domestic trade-facilitation agenda with negotiations that address partners' concerns and secure reciprocal improvements in access. Single windows and digital trade corridors can reduce repeated information requirements across border procedures. [33, 35, 37] Joint production zones offer a related approach to organising production across participating countries, with digital trade corridors carrying the compliance and origin information needed for movements between them. [34]

The United States and reciprocal reform

60. The changes in US tariff policy have created uncertainty about the relationship between tariffs, market access, industrial policy and national security. The Growth Commission's approach uses reciprocal ACMD reduction as a basis for negotiating lower US tariffs. [4, 10, 11] Following the Supreme Court's ruling that the International Emergency Economic Powers Act (IEEPA) does not authorise tariffs, Section 301 of the Trade Act of 1974 remains available for action, including duties, against qualifying foreign acts, policies or practices that are unreasonable or discriminatory and burden or restrict US commerce. [38, 39] Section 232 of the Trade Expansion Act of 1962 separately provides for adjusting imports that threaten to impair national security. [40] For Japan, this would mean addressing government measures that obstruct competition, distort investment or weaken property rights alongside conventional border barriers, while seeking corresponding changes in US restrictions. The objective should be a negotiated route towards zero or near-zero US tariffs supported by verifiable reform.

61. On 20 February 2026, the US Supreme Court held that IEEPA does not authorise presidential tariffs. USTR subsequently initiated Section 301 investigations covering Japan and other economies, including an investigation into structural excess capacity. Section 301 addresses specified foreign practices that are unjustifiable, unreasonable or discriminatory and burden or restrict US commerce. The Court's ruling did not establish that every tariff affecting Japan arises from Japanese market distortions: Section 232 national-security measures and other tariff authorities have separate legal foundations. An investigation is also distinct from a final finding and an implemented remedy. [38, 39, 40, 41]
62. Reciprocity is explicit in this approach. The Growth Commission's April and August 2025 papers include reductions in US ACMDs as well as foreign measures. A bilateral application should therefore address Japanese concerns about US restrictions under the same evidential test. Neither a bilateral deficit nor a company's lost sales, by itself, establishes an ACMD; the intervention, its competitive effects and the relevant commercial burden must be identified. [4, 6, 10]
63. In transport, the Jones Act generally reserves the carriage of merchandise between US coastwise points to US-built, US-owned vessels with the required coastwise endorsement. This restricts access to domestic coastal shipping rather than prohibiting Japanese vessels from carrying cargo between Japan and the United States. [42, 43] US air carriers must remain under US control, with at least 75% of their voting interests held by US citizens, while foreign air carriers are generally prohibited from carrying local traffic between US points. [42, 44]
64. Federal procurement preferences and state alcohol-distribution requirements provide further examples. Buy American restrictions can affect procurement outside applicable trade-agreement coverage, although eligible Japanese products receive national treatment in procurement covered by the WTO Government Procurement Agreement. [42, 45] State alcohol-distribution arrangements developed after Prohibition vary by jurisdiction and product. The US Treasury's 2022 review identified restrictions in distributor-franchise laws and direct-to-consumer shipping rules that can constrain competition and routes to market. [46]

Logistics performance and customs procedures

65. Japan should examine freight-service competition, border procedures, documentation, port coordination and shipment reliability. The underlying shipment indicator measures the ease of arranging competitively priced freight. Its gap cannot therefore all be attributed to regulation: freight-market conditions and geography also matter. [47]
66. Trading-partner concerns include duplicated border procedures and calls for coordinated pre-arrival processing and broader advance rulings, as recorded for the United States in the NTE. Repeated submissions and inconsistent decisions impose costs on exporters, Japanese importers and firms using imported inputs. Release times, inspection rates and the treatment of equivalent shipments provide observable measures for assessing reform. [12, 33, 37]
67. Customs clearance should be distinguished from shipping availability, port handling and inland transport. A single window provides a common point for submitting information to participating border authorities. Digital trade corridors can connect systems across a trade

journey so that verified shipment and compliance data can be reused, supporting earlier risk assessment and reducing repeated submissions. [33, 35, 37] Joint production zones could support integrated supply chains where participating countries agree arrangements that remove regulatory and customs friction between stages of production. Their design should preserve rules of origin, effective supervision and competition, with benefits assessed against the specific barriers removed. [34]

Automotive access and implementation

68. Japan's transport ministry introduced a certification scheme on 16 February 2026 implementing the commitment to accept qualifying US-made passenger vehicles certified to US standards without additional testing. Ministerial recognition remains subject to the scheme's safety and pollution provisions. This changes the earlier position, while trading-partner concerns about effective access continue: the NTE records remaining US automotive concerns. [12, 48]
69. The existence of a certification route should be distinguished from its use. Relevant evidence includes applications, approvals, costs and the ability to distribute and service qualifying vehicles. Low sales alone cannot establish the cause: regulation, product offerings and customer demand are separate explanations. The objective is an opportunity to compete, rather than a guaranteed sales share. [18]

Property rights and interpretation of the model results

70. Intellectual property protection is relatively strong at 5.98, but its 25% PR weight makes further improvement material. Japan should investigate the cost and accessibility of enforcement, especially for smaller innovators. The aggregate score does not identify which particular rules require amendment.
71. Japan's headline DC improvement conceals declines in some of its components. DC rose from 5.57 to 5.84 between 2010 and 2023, but the government-integrity component accounts for more than the entire net increase. The other components collectively declined slightly; business freedom fell from 6.07 to 5.74. Regulatory challenge, labour freedom and business freedom together account for approximately 48% of the calculated DC/PR frontier gap.
72. The June 2021 revision of Japan's Corporate Governance Code called for at least one-third independent directors on Prime Market company boards. For Prime Market listed subsidiaries, it also called for a majority of independent directors or an independent special committee to address conflicts between the parent company and minority shareholders, on a comply-or-explain basis. [49] The 2019 Patent Act amendments revised infringement damages and introduced court-appointed expert inspection to collect evidence; the inspection provisions entered into force on 1 October 2020. [50] These changes address investor protection and patent enforcement and may support investment, innovation and economic growth. [6, 18]

Conclusion

73. Japan can use its trade agreements to secure market access and support domestic reform, while building a more coherent economic security partnership with trusted countries. The analysis identifies priorities within Japan's own control: make regulation easier to

challenge, improve labour and capital allocation, reduce trade friction and ensure that competition policy protects competition on the merits. These priorities connect directly to the conditions under which firms invest and expand. Intellectual property must be enforceable, finance and skilled workers must be accessible, and customs and regulatory procedures must permit firms to use the market access their agreements provide. Digital trade corridors and joint production arrangements can support that objective where they remove identified barriers. [6, 18, 20, 33-35, 37]

74. Domestic reform and reciprocal market opening should advance together. Japan should seek reductions in partners' barriers while addressing verified constraints in its own market, with tariff changes tied to implementation. [4, 10] Cooperation with AUKUS partners and Five Eyes countries should combine secure evidence sharing with compatible, legally grounded responses to proven Chinese distortions. The same standards should apply to participating countries' own measures. [4, 6, 13] Success should be judged by distortions removed, improved opportunities to compete and higher productivity. The commercial test is whether firms can protect their investment, enter markets and move goods and services on competitive terms. The economic objective is a sustained increase in the income Japan can generate per person.

References

- [1] Ministry of Foreign Affairs of Japan, Economic Partnership Agreement (EPA) / Free Trade Agreement (FTA) and Related Initiatives, updated 10 April 2026. [Source](#)
- [2] UK Foreign, Commonwealth and Development Office, UK/Japan: Agreement for a Comprehensive Economic Partnership: summary of chapters, updated 30 November 2020. [Source](#)
- [3] UK Department for Business and Trade, CPTPP rules of origin in Japan, accessed 30 September 2026. [Source](#)
- [4] Shanker A. Singham, The Growth Commission, 21 August 2025, Trade Policy in the Trump Administration: Advancing Reduction of Anti-Competitive Market Distortions, pp 31-39 and 42-44; appendix F. [Source](#)
- [5] Comprehensive and Progressive Agreement for Trans-Pacific Partnership, signed 8 March 2018, Articles 1 and 5; incorporated Trans-Pacific Partnership chapters 15-18, available through the New Zealand Ministry of Foreign Affairs and Trade's CPTPP texts and resources. [Treaty text](#); [Chapter texts](#)
- [6] Shanker A. Singham, 2025, International Trade, Regulation and the Global Economy: The Impact of Anti-Competitive Market Distortions, Routledge, chapters 3-4, pp 16-57; chapter 6, sections 6.4-6.10, pp 105-110. [Source](#)
- [7] Ministry of Foreign Affairs of Japan, ASEAN-Japan Comprehensive Economic Partnership Agreement, including the agreement and First Protocol; ASEAN Secretariat, ASEAN-Japan Economic Relation, section on AJCEP and the First Protocol's entry into force, accessed 30 September 2026. [Agreement](#); [Protocol background](#)
- [8] Ministry of Foreign Affairs of Japan, Regional Comprehensive Economic Partnership (RCEP) Agreement, treaty text, chapters 2-4; Japan Customs, Guide to obtaining preferential tariff treatment when importing goods under the RCEP Agreement, accessed 30 September 2026. [Agreement](#); [Customs guidance](#)
- [9] European Commission, EU trade relations with Japan, implementation of the Economic Partnership Agreement, accessed 30 September 2026. [Source](#)
- [10] Shanker A. Singham, The Growth Commission, 15 April 2025, How to foster growth by advancing Anti-Competitive Market Distortion-focused trade policy reform in the United States. [Source](#)
- [11] The Growth Commission, 22 February 2026, U.S. Supreme Court tariffs ruling provides welcome clarity and a pathway to reducing market distortions. [Source](#)
- [12] Office of the United States Trade Representative, 2026, National Trade Estimate Report on Foreign Trade Barriers, Japan chapter, pp 304-314. [Source](#)

- [13] Shanker Singham, 14 March 2022, A four-point plan for (re)building the global network of liberty, ConservativeHome. [Source](#)
- [14] Cabinet Office of Japan, 16 May 2025, press conference by Minister Kiuchi, opening statement and questions concerning the economic-security clearance system; Cabinet Office, official overview of the economic-security information protection and utilisation legislation, Japanese-language sources. [Commencement statement](#); [Statutory overview](#)
- [15] AUKUS defence ministers, AUKUS statement: 26 September 2024, Pillar II and engagement with partners; Australia-UK Ministerial Consultations (AUKMIN) 2024: joint statement, 17 December 2024, paragraphs 38-39. [AUKUS statement](#); [AUKMIN statement](#)
- [16] Australian Signals Directorate, Cooperation and partnerships, accessed 30 September 2026. [Source](#)
- [17] World Trade Organization, 2024, Trade Policy Review: China, concluding remarks by the Chairperson, discussion of state support, subsidy notifications and transparency. [Source](#)
- [18] Shanker A. Singham and Alden F. Abbott, 2023, Trade, Competition and Domestic Regulatory Policy: Trade Liberalisation, Competitive Markets and Property Rights Protection, Routledge, chapters 3-4, pp 42-112; chapter 9, pp 244-262; chapters 10-11, pp 263-363; chapter 14, pp 421-461. [Source](#)
- [19] Shanker Singham, on behalf of Competere LLC, 15 April 2026, Comment on Section 301 Investigations into Structural Excess Capacity and Production, pp 3-14. [Source](#)
- [20] The Growth Commission, September 2026, Economic Growth and the G20: Why fast-growing economies like Poland deserve a seat at the head table of global governance, Figure 1 and discussion, pp 5-6; growth measures and reform framework, pp 6-11; ACMD analysis, pp 18-22. [Source](#)
- [21] Competere Foundation, April 2026, Response to House of Lords Call for Evidence on UK-EU Dynamic Alignment, written evidence DYN0016, Annex 1, table headed “Results of SRB-γ ACMD OLS Regression using longer set of 2010-2023 Panel Data”. [Source](#)
- [22] OECD, 13 May 2026, OECD Economic Surveys: Japan 2026, chapter 2, Reigniting productivity growth, sections 2.1-2.4, including Figures 2.2 and 2.5. [Source](#)
- [23] OECD, 2024, OECD Economic Surveys: Japan 2024, chapter 1, Key policy insights, sections on productivity, services restrictions and SME finance, and the table of past recommendations and actions on labour supply. [Source](#)
- [24] World Trade Organization, 4 January 2023, Trade Policy Review: Japan, Report by the Secretariat, WT/TPR/S/438, summary, pp 8-12, and chapter 3. [Source](#)
- [25] Japan Fair Trade Commission, Approaches in the digital market, Mobile Software Competition Act section, accessed 30 September 2026. [Source](#)
- [26] Ministry of Economy, Trade and Industry, Transparency Act: Act on Improving Transparency and Fairness of Digital Platforms, overview and designated-platform requirements, accessed 30 September 2026. [Source](#)
- [27] Alden Abbott, 14 March 2022, The Consumer Welfare Standard and Antitrust Enforcement: A Response, ProMarket. [Source](#)
- [28] Alden Abbott, 2 November 2021, Consumer Welfare-Based Antitrust Enforcement Is the Superior Means to Deal with Large Digital-Platform Competition Issues, Truth on the Market. [Source](#)
- [29] OECD, 2025, Services Trade Restrictiveness Index: Japan, p 4. [Source](#)
- [30] World Trade Organization, 15 April 1994, Agreement on the Application of Sanitary and Phytosanitary Measures, Articles 2-6. [Source](#)
- [31] EU-Japan EPA Committee on Sanitary and Phytosanitary Measures, joint minutes of the seventh meeting, 3 December 2025, pp 1-2. [Source](#)
- [32] Ministry of Economy, Trade and Industry, 19 April 2024, Approval of Plans for Ensuring a Stable Supply of Cloud Programs under the Economic Security Promotion Act. [Source](#)
- [33] Trade Facilitation Commission, 2025, Smart Borders & Digital Trade Corridors, pp 2-3. [Source](#)

- [34] Shanker Singham and James Carter, Digital trade corridors can fix our outdated supply chain, Blaze Media, accessed 30 September 2026. [Source](#)
- [35] Shanker A. Singham, on behalf of the Competere Foundation, 18 May 2026, UK Trade with the EU, written evidence EUT0044 to the House of Commons Business and Trade Committee, section VI. [Source](#)
- [36] Japan Financial Services Agency, 14 February 2025, Weekly Review No 623, entry for 31 January 2025 on cross-shareholding disclosure amendments. [Source](#)
- [37] World Trade Organization, Trade Facilitation Agreement, Article 10.4, “Single Window”, paragraphs 4.1, 4.2 and 4.4. [Source](#)
- [38] US Supreme Court, Learning Resources, Inc. v. Trump, Nos 24-1287 and 25-250, 20 February 2026, syllabus and majority opinion, section II-B. [Source](#)
- [39] Trade Act of 1974, section 301, 19 USC § 2411, particularly subsections (b)(1)-(2), (c)(1)(B) and (d)(3)(A). [Source](#)
- [40] Trade Expansion Act of 1962, section 232, 19 USC § 1862, particularly subsections (b)(3) and (c)(1). [Source](#)
- [41] Office of the United States Trade Representative, 11 March 2026, USTR Initiates Section 301 Investigations Relating to Structural Excess Capacity and Production. [Source](#)
- [42] World Trade Organization, 9 November 2022, Trade Policy Review: United States, Report by the Secretariat, WT/TPR/S/434, government procurement, paragraph 3.315, p 158; air transport, paragraph 4.243, p 254; maritime transport, paragraph 4.264, p 259. [Source](#)
- [43] 46 USC § 55102, transportation of merchandise between coastwise points; 46 USC § 12112, coastwise endorsement requirements. [Section 55102](#); [Section 12112](#)
- [44] 49 USC § 40102(a)(15), citizenship and control requirements; 49 USC § 41703(c), domestic carriage by foreign aircraft. [Section 40102](#); [Section 41703](#)
- [45] Federal Acquisition Regulation, 25.003, definitions of designated countries and eligible products; 25.401 and 25.402, exceptions and general provisions governing trade-agreement procurement coverage. [FAR 25.003](#); [FAR 25.4](#)
- [46] US Department of the Treasury, February 2022, Competition in the Markets for Beer, Wine, and Spirits, pp 10-19 and 61-62. [Source](#)
- [47] World Bank, Logistics Performance Index: Ease of arranging competitively priced shipments, indicator LP.LPI.ITRN.XQ, metadata, accessed 30 September 2026. [Source](#)
- [48] Japan Ministry of Land, Infrastructure, Transport and Tourism, 16 February 2026, press release establishing the certification system for US-made passenger cars, Japanese-language release. [Source](#)
- [49] Tokyo Stock Exchange, 11 June 2021, Publication of Revised Japan’s Corporate Governance Code, board independence and minority-shareholder safeguards; Japan Exchange Group, Corporate Governance Code, comply-or-explain framework, accessed 30 September 2026. [2021 revision](#); [Code framework](#)
- [50] Japan, Act No. 3 of 17 May 2019 amending the Patent Act and other acts, English outline published on WIPO Lex; Cabinet Order No. 227 of 28 July 2020, fixing commencement of the inspection provisions on 1 October 2020. [Act and outline](#); [Commencement order](#)

2. The 2026 Japanese Tax Program: A Step in the Right Direction and The Lost Decade: How Misguided Tax Policy Wrecked Japan's Growth

Stephen J. Entin

**Growth Commissioner and Senior Fellow Emeritus at The Tax Foundation,
Washington, DC**

The Japanese government implemented its 2026 Tax Reform program, effective April 1. It marks an important shift in fiscal policy, from heavy reliance on increased government spending to lift the economy, which generally does not work, to a reduction in tax obstacles to private investment, which generally does work. It is a modest reversal of the ill-advised tax policies of the late 1980s, which raised taxes on saving and investment and triggered the “lost decades” of slow growth in GDP and living standards in Japan.

The 2026 tax changes

The 2026 corporate tax changes offer, for a limited time, the choice of immediate write-off (expensing) of, or new investment tax credits for, investment in buildings and structures, machinery, equipment and software, and additional credits for R&D. These provisions will increase capital formation, labor productivity, wages and GDP in the short term. They should be made permanent.

The government will complete its adoption of the international corporate global minimum tax rules (Pillar Two) proposed by the OECD. The adoption of the OECD Pillar Two rules could interfere with the expensing and tax credit incentives and outcomes in some cases if appropriate relief is not enabled.

The Japanese Consumption Tax (JCT) will be extended to purchases of electronic commerce services from abroad. Basic individual deductions from income and employment will rise by 40 thousand yen (roughly \$250) to account for recent inflation, a partial counter to inflation-caused “bracket creep”.

Corporate investment incentives

Corporations with investment plans approved under the Industrial Competitiveness Enhancement Act (ICE) will be allowed to utilize the investment incentives. The options are available for buildings and structures, machinery, equipment, tools and software. To qualify, investments must exceed ¥3.5 billion for large corporations, ¥0.5 billion for small and medium enterprises, must be expected to earn at least a 15 per cent return, must receive ICE approval by the Ministry of Economy, Trade and Industry before the end of March 2029, and the investment must be completed within five years of plan approval.

The expensing option: Approved investments may utilize immediate expensing of 100% of the investment. If the expensing results in a net operating loss (NOL), the NOL may be carried forward. Large corporations may carry forward net operating losses for up to ten years. Smaller

companies (with capital up to ¥100 million) can use expensing to offset 100% of taxable income in a year, with carried-forward losses of unused amounts; large corporations are limited to offsetting 50% of taxable income in a year, with carryforwards. (This provision investment will be a temporary match to the treatment adopted by the United States in the 2025 One Big Beautiful Bill Act (OBBBA), which permanently extended the expensing of equipment in the 2017 tax bill, and temporarily added expensing for manufacturing facilities through 2029.)

The investment tax credit option: Alternatively, firms may choose a 4 per cent investment tax credit for buildings and structures, or 3 per cent for shorter lived machinery and other assets. The credit may offset up to 20 per cent of income tax liability each year, with the remaining credit carried forward for up to three years.

The Open-innovation-related R&D credit: An augmented R&D credit of 40 per cent in strategic industrial technology (50 per cent in cases of certain joint research arrangements) is allowed for approved plans under ICE. The R&D must be completed by the fifth fiscal year after approval. The tax offset is limited to 10% of tax liability. Unused credits may be carried forward for three years.

These corporate investment incentives are limited in duration, requiring Ministry approval of the investment plans by March 31, 2029. They would accelerate capital investment and the growth of GDP near term. They would have a more powerful impact on the level of GDP in the out-years if made permanent.

The carry-forward provisions ensure that companies that cannot fully use these incentives immediately may gain partial benefit from them as they increase investment in the present. However, credits that cannot be used within the carryover period will be lost. Any delay in utilizing the write-offs or credits diminishes the incentive to invest, because the delayed write-offs lose value to inflation and the time value of money (the opportunity cost of locking up funds in the acquired assets). The proposals could be improved by adjusting the unused benefits annually by the rate of inflation plus some normal real return on capital. Three percent plus inflation would be a good approximation.

Adoption of Pillar Two rules

Japan will complete its adoption of the OECD Pillar Two rules designed to counter income shifting to low tax jurisdictions by multi-national businesses. The goal of the OECD rules is to impose a minimum effective tax rate of 15 per cent on corporate income. Japan will comply by:

1. adopting a “qualified domestic top-up tax” (QDMTT) requiring Japanese firms with foreign earnings to calculate the effective tax rate on their foreign source income by country, and, if it is less than 15 per cent, imposing a “top-up” Japanese tax to raise the effective tax to 15 per cent;
2. imposing an “income inclusion rule” (IIR) requiring multi-national Japanese firms with income in low-tax jurisdictions to add their foreign income to their domestic income to calculate their effective rate and ensure it is topped up to 15 percent;
3. imposing an “under-taxed profits rule” (UTPR) on a Japanese-located affiliate of a foreign multinational to the extent its associated foreign parent or other entities have an effective tax rate below 15%. If other countries also impose such taxes on the same “under-taxed” foreign entities, the imposing countries would be required to apportion the undertaxed foreign income according to their domestic affiliates’ share of employees and capital assets.

The Pillar Two rules should not generally be binding on Japanese companies due to Japan's relatively high corporate tax rate. The corporate tax rate in Japan is currently 31.52 per cent. The rate averaged 39.35 per cent from 1993 until 2026. Its all-time high was 52.40 per cent in 1994, falling to a record low of 30.62 per cent in 2019.¹

The high Japanese corporate tax rate and broad base, with caps on the amount of the deductions and credits allowed as an offset to the tax liability in any given year, ensure that the provisions are unlikely to reduce the effective corporate tax rate on a Japanese business (in the mid-20's) below 15 per cent. Also, Pillar Two calculations allow policies like expensing to result in temporary dips below 15 per cent, but some deferrals trigger additional taxes if they are not recouped within five years. The rules may possibly bind in the case of rapidly growing firms (which may be using expensing or investment tax credits) or start-up businesses just becoming profitable, or firms emerging from bankruptcy.

Expensing will raise total GDP and total tax revenue over time, including revenue recouped from higher total corporate profits on non-expensed assets including intellectual property, land and innovation. Asking only if revenues relating to the cost recovery system are recouped in a narrow accounting sense, while continuing to overstate corporate profits using lengthy depreciation as part of the normal definition of income, could impose an unjustified limit on the use of expensing. The OECD rules should not be permitted to interfere with the pro-growth expensing incentives of the 2026 Japanese tax reform, nor dictate the definition of taxable corporate income in its member countries.

Roughly 140 countries have reviewed Pillar Two, and over half have adopted at least some of the provisions. The United States is negotiating retention of its own anti-tax base shifting tax rules (as an acceptable "side-by-side" tax system) which achieve the same minimum rate. The OECD Pillar Two proposals are pressuring foreign countries with no corporate income tax to enact one to capture revenue from their domestic businesses that would otherwise be taken by foreign tax authorities.²

Ironically, the OECD's own economists have listed the corporate income tax as the worst anti-growth source of revenue in common use. "The reviewed evidence and the empirical work suggest a 'tax and growth ranking' with recurrent taxes on immovable property being the least distortive tax instrument in terms of reducing long-run GDP per capita, followed by consumption taxes (and other property taxes), personal income taxes and corporate income taxes."³ In other words, a corporate tax hitting "movable" capital assets that can choose where to locate to flee the tax is the most damaging source of revenue. Pillar Two will spread the misery further. It will interfere with the growth of numerous underdeveloped nations.

Increase in the personal income tax deduction

The increase in the personal income tax deduction will exempt a greater amount of initial annual earnings from tax. In some cases, this might drop an individual's remaining taxable income into a lower tax bracket, increasing the incentive at the margin to work longer or save more. However,

¹ <https://tradingeconomics.com/japan/corporate-tax-rate>

² See Cristina Enache, Global Corporate Tax Rates by Country 2025, available at <https://taxfoundation.org/data/all/global/corporate-tax-rates-by-country-2025/>

³ See Taxation and Economic Growth, OECD Economics Department Working Papers No. 620, page 8. Available at https://www.oecd.org/content/dam/oecd/en/publications/reports/2008/07/taxation-and-economic-growth_g17a1ad9/241216205486.pdf

inflation would still narrow the real width of the various tax brackets, and some taxpayers would still face higher marginal tax rates due to tax bracket creep. The ideal response to inflation would be to index the personal income tax exemptions and bracket widths to the consumer price index annually, instead of resorting to occasional, imperfect adjustments. Best would be to reduce the marginal tax rates in the brackets, and then to implement indexation.

Infrastructure spending

The 2026 economic program will include additional infrastructure spending. Infrastructure spending is counted as part of GDP in the short term as material suppliers and construction workers are paid. High-yield infrastructure projects that raise private sector productivity and lowers costs of production can continue to contribute to higher GDP over time. To do so, the services it provides must earn returns at least as high as the private sector activity that could have been supported by the resources tied up in the infrastructure. Diverting resources into low-yielding infrastructure results in lower long run GDP than removing tax and regulatory obstacles to higher-yielding private saving and investment activity.

Earlier errors in tax and spending policy are a still poorly understood drag on the Japanese economy

An ordinary, “broad-based,” or “Haig-Simons” income tax treats income used for saving and investment more harshly than income used for consumption. An ordinary income tax employs lengthy depreciation of capital assets. The value of these delayed capital consumption (depreciation) write-offs is reduced due to inflation and the time value of money and falls short of the real up-front cost of the capital assets. The result is an overstatement of profits and a higher effective tax rate on the real earnings. Most ordinary income taxes include double taxation of corporate income at the business level and again on dividends and capital gains at the individual level. They tax both the income used for saving and the returns on the saving, unlike income used for consumption. A saving-consumption neutral tax would either exempt the returns on after-tax saving or allow a tax deferral for income saved until it was later withdrawn for consumption.

The 2026 Japanese business tax reductions are structured to remove some of these tax biases against saving and investment. They should have a positive effect on GDP. That was not the case in the poorly designed tax reforms of 1987 and early 1990s. The 1987 reform was designed under Finance Minister Miyazawa during the administration of Prime Minister Takashita. The Takashita/Miyazawa tax changes precipitated the bursting of the stock market and property price “bubbles” the country experienced between 1986 and 1991, paralyzed the banking system, and caused a decade or more of economic distress and disfunction.

A superior tax system before 1988

Prior to 1988, Japan had a relatively good tax system. Some of the usual income tax biases against saving and investment were mitigated by features of the tax code. Japan had (and still has) a high corporate tax rate compared to its trading partners. However, the double taxation of corporate income was reduced by a special low rate on dividends, and there was no capital gains tax on sales of appreciated stock. Gains on land sales were favored by a low tax rate if the assets were held at least five years.

Individuals could accumulate savings in government bonds, postal savings or bank accounts up to a dollar equivalent of about \$15,000 (or about \$45,000 in 2026 dollars) and the interest would be tax-exempt. A family of four could amass \$60,000 in savings (\$180,000 in today's money) without tax on interest. An additional amount of \$25,000 for a household (\$75,000 in today's money) could be put in an account for savings to buy a home, with tax-free interest. These accounts covered a large portion of personal saving. Japan had high marginal tax rates at the upper end of the income distribution, but over time the country had widened the income tax brackets faster than inflation, putting much of the work force in the lower brackets, making them highly competitive in international markets.

On the negative side, Japan had one of the least generous capital recovery allowances (depreciation) in the developed world, in the bottom third of value compared to the cost of equipment and structures. (This has been addressed on a temporary basis by the expensing provision in the 2026 reform.)

Under the pre-1987 tax system, Japan had high saving and investment rates. Productivity, wages and GDP grew rapidly for decades, constituting a Japanese economic miracle. Some of Japan's savings were invested abroad, helping capital formation and growth in other economies as well. The Japanese net capital outflow enabled other countries to spend more than their current production, leading to a net surplus in Japan's current account. This trade imbalance annoyed policy makers abroad back then, as it still does today. There were specific industry-related transition issues stemming from the changing trade balances, but on balance (pun intended) the situation was a mutually beneficial improvement in global production and living standards

The Nakasone/Takashita/Miyazawa reforms

Prime Minister Yasuhiro Nakasone began a tax reform program in 1987. It provided a lower top individual income tax rate (to 60 per cent from 79 per cent), a flatter rate structure with lower rate and fewer brackets, and increased exemptions. His proposed sales tax was withdrawn after pressure from the business community.

The 1988 reforms were developed by Finance Minister (later Prime Minister) Kiichi Miyazawa under Prime Minister Noboru Takeshita. The reforms were adopted in part in response to pressure from abroad over the trade surplus, and to prepare for the rising number of retirees relative to the work force. One notion driving the changes was that repealing the relatively favorable treatment of saving in Japan might encourage higher consumption, including of imports. It would supposedly reduce the net capital outflow and current account surplus. An increase in infrastructure spending was also assumed to reduce the amount of "excess saving" and the trade surplus. This argument was invalid. Lower rates of saving would reduce growth of incomes in Japan, leading quickly to a reduction in consumption. Consumption would be a higher share of income, but income and imports would be lower. There would be no rush to buy more foreign products. Nonetheless, the anti-saving reform proceeded.

The reform reduced the number of tax brackets, made the progressive rates less steep with a top rate of 50 per cent, and it increased basic exemptions to reduce income subject to tax. However, the reform paid for the income tax rate reductions by raising taxes on saving and investment. The reform eliminated the tax-exempt status of interest in the personal savings accounts for people under the age of retirement, the very years in which it is essential for people to be saving for old age. It imposed a 20.3 per cent capital gains tax on stock sales where none existed before. It raised capital gains taxes on real estate sales by requiring a ten-year holding

period instead of five years to access reduced long-term rates (short term rate of 39.63 per cent reduced to long-term rate of 20.315 per cent). The reduced tax rate for dividends went from 32 per cent to 37.5 per cent. Minor basic corporate tax rate reductions between 1987 and 1994 (from nearly 42 per cent to 38 per cent) were not enough to counter the higher dividend and capital gains tax rates.⁴ The income tax rate for the largest corporations peaked in 1994 at 52.4 per cent before reforms. Further corporate tax rate reductions since 1998 have lowered the corporate rate to 31.52 per cent. In the short term, these reforms biased the tax system more heavily against saving and investment.

In April of 1989, the tax overhaul also introduced a 3 per cent value added tax (a subtraction method VAT), which is a tax on consumption. The VAT was raised over time to 5 per cent in 1997, to 8 per cent in 2014, and to 10 per cent in 2015 during the time of economic troubles following the initial reform. This is clearly not a way to encourage consumption.

(These Japanese reforms echoed some of the worst features of the U.S. Tax Reform Act of 1986 (TRA 86), but the Japanese reform pushed them much further. TRA86 reduced some of the 1981 Reagan tax cut's pro-saving incentives. TRA 86 raised the U.S. long-term capital gains tax rate on stock from 20 per cent to 28 per cent. Japan imposed a 20.3 per cent capital gains tax where none had existed. TRA 86 phased out annual contributions to tax-favored retirement saving plans by very high-income individuals. Japan eliminated tax-free interest for the young at all income levels. TRA 86 repealed the investment tax credit, and lengthened asset lives for depreciation (but left them shorter than before the 1981 levels) in exchange for a lowering the corporate tax rate from 46 per cent to 34 per cent, but the rate reduction was not sufficient to offset the resulting increase in the required rate of return. Investments underway in 1986 were continued, but new investment was discouraged, contributing to the U.S. recession of 1990-91.)

The result of the Takashita/Miyazawa reforms

The anti-saving, anti-investment nature of the Takashita/Miyazawa reforms contributed directly to the decade-long recession that has come to be known as the lost decade. The Urban Land Price Index reached a peak in September 1990, four times its September 1985 level. Five years later it had fallen 80 per cent from its peak and was 20 per cent below the level at the start of its 1985 meteoric rise. The Nikkei stock index hit a peak of Y38,915 at the end of 1989. It had tripled since September of 1985. It fell to Y14,309 in August 1992, 60 per cent below the 1989 peak⁵ By February of 2009 it had fallen to Y7568.42, down 80 per cent from the 1989 peak.

The collapse of the stock and land values destroyed trillions of yen of collateral behind bank loans. The resulting defaults drained bank capital and crippled the lending ability of the banks. The depressed stock market also blocked the raising of investment money through new stock issues, because the low share prices would bring in too little money to justify the watering down of the existing stock. With risk skyrocketing, and earnings down, businesses also had less in the way of retained earnings to fund major expansions.

⁴ https://www.mof.go.jp/english/policy/tax_policy/tax_system/corporate/index.html, [Materials on Corporate Taxation: Ministry of Finance](#)

⁵ <https://www.scribd.com/document/460028031/me19-s1-14>

Japanese policy-makers quickly realized they had a banking crisis. They may not have realized that they had brought on the crisis by adopting a poorly designed tax reform. It took years for the GDP to recover to its pre-collapse levels. Growth rates since the collapse remain far below those of the pre-1987 decades. Regaining the pre-collapse trend line may take many decades more. This is the consequence of shifting from a more-or-less saving-consumption neutral tax base to one that favors consumption over saving and investment.

What to do

- Make the expensing provisions of the 2026 tax reforms permanent. Accelerating depreciation allowances to match the real cost of capital assets has a powerful effect on investment and capital formation with no long run impact on the government budget, because it is mainly a shift in the timing of the write-offs, not a major rise in the total. But time is money to the private sector, and the acceleration greatly increases the quantity of real assets deemed able to clear the “hurdle rate of return” required to justify undertaking them. The subsequent rise in labor productivity and wages will lift income tax revenue and VAT revenue sufficiently to raise total tax receipts within a few years.
- Keep the corporate tax rate cuts that have already been adopted. Lower the rate further over time.
- Reduce or eliminate the capital gains tax increases imposed by the 1987-1988 reforms (or at least adjust the gains for inflation).
- Restore the tax exemption for interest and extend it to dividends. Alternatively, create tax deferred savings accounts.
- Widen the income tax brackets and personal deductions for inflation annually.
- Do not employ infrastructure spending as a counter-cyclical or growth tool. Do only those projects that can reasonably be expected to raise labor productivity and lower production costs by as much as private sector investments.

3. A note on Japan's Fiscal and Demographic Challenges

Mieko Nakabayashi

Growth Commissioner, President of the Tokyo Foundation and Professor of Political Science at Waseda University

Japan is at the forefront of a demographic transition that many advanced economies will eventually face. Its population is ageing and declining, while the working-age population is shrinking even faster. Yet this is not simply a story of decline.

Japan has shown that a smaller labour force does not translate mechanically into an equivalent loss of economic capacity. Labour-force participation by women has risen and older people are remaining economically active for longer. In 2025, 9.43 million people aged 65 or over were employed, a record high, accounting for 13.8 per cent of all workers. The first lesson is that demography sets constraints, but policy, institutions and technology determine how binding they become.

The more difficult issue is the interaction between demography and public finances. An ageing society increases demand for pensions, healthcare and long-term care while a smaller working-age population supports the tax and social-insurance base.

An official projection prepared in 2018 estimated that social-security benefits could rise from ¥121.3 trillion in FY2018 to roughly ¥188–190 trillion in FY2040. The precise numbers will change, but the direction is clear. Japan must preserve the sustainability and quality of social protection without placing an ever-growing burden on a smaller future workforce.

This makes the composition of public spending as important as its size. Japan needs investment that can expand productive capacity and resilience, including technology, energy security, human capital and infrastructure.

But not every expenditure labelled “investment” necessarily raises future growth. The relevant test is whether it raises productivity, crowds in private investment, eases labour shortages, reduces future costs or strengthens supply capacity. Demographic pressure makes this distinction more important because both fiscal and human resources are becoming scarcer.

Adaptation is also required locally. Many communities must rethink how healthcare, education, transport and infrastructure can be maintained with fewer residents and workers. Japan's emerging debate over “smart shrinkage” is useful if it means redesigning services rather than simply cutting them. Digitalisation, shared facilities, public-private partnerships and labour-saving technologies can help preserve access and quality.

At the same time, adaptation should not mean giving up on the birth rate. Helping younger generations form families, combine work and child-rearing, and have confidence in future incomes must proceed alongside institutional adaptation. Slowing population decline and preparing for it are complementary strategies.

Productivity is therefore the bridge between Japan's demographic and fiscal challenges. When the labour force is no longer expanding, improvements in living standards must increasingly come from producing more value per worker.

Automation and AI are especially important in sectors facing acute labour shortages. Labour mobility and the movement of capital and workers towards more productive firms and sectors also matter. Immigration can contribute, but it is unlikely by itself to offset the scale of Japan's demographic transition.

Aggregate GDP alone also becomes an incomplete measure of success: GDP per capita, productivity, real household income, and the quality and sustainability of public services matter in judging whether people are actually better off.

What, then, can other countries learn from Japan's comparative success?

The most useful lesson is not a single policy that can be copied. Japan has been forced earlier than most advanced economies to combine three tasks that others will increasingly face:

- expanding the effective labour force
- raising productivity through technology and investment
- redesigning social and physical infrastructure for a different population structure.

Its experience also shows the limits of treating pensions, healthcare, labour markets, family policy, regional policy and fiscal sustainability as separate problems. They are different parts of the same demographic adjustment.

Japan is therefore not only an ageing society to be studied as a warning. It is a laboratory for the economic and institutional choices that many countries will soon have to make.

Its experience suggests that demographic decline need not mean declining living standards — but only if societies adapt early, raise productivity, redesign institutions, and direct increasingly scarce public resources toward investments that expand future economic capacity.

Source note: Current elderly employment figures are from the Statistics Bureau of Japan (September 2026). The FY2040 social-security figure is the Japanese government's 2018 projection.

4. Delivering Economic Growth for Japan – an external perspective from the UK

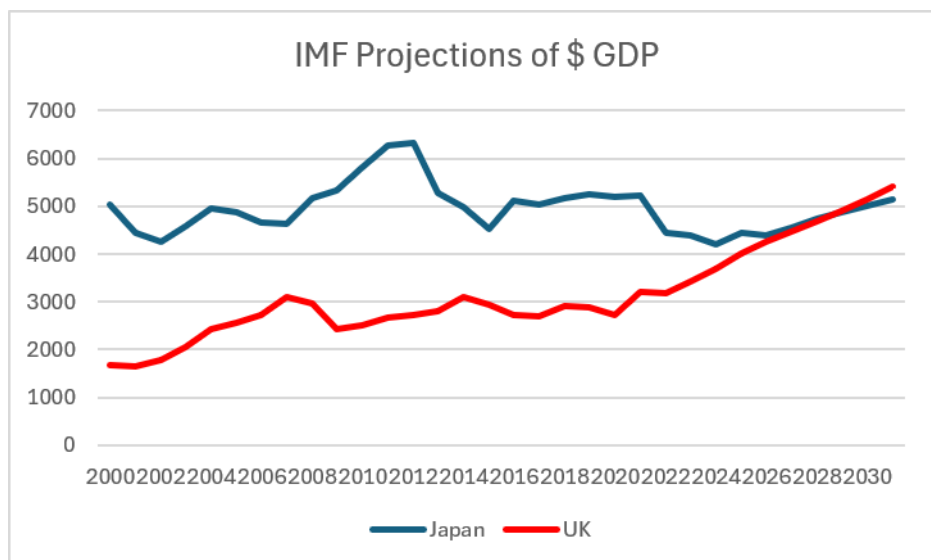
Douglas McWilliams

Growth Commissioner and Founder of Cebr (the Centre for Economics and Business Research)

Introduction

IMF figures and forecasts suggest that the UK and Japan will contest the positions of the fifth and sixth largest economies in the world over the next five years (Figure 1).

Figure 1 Dollar GDP projections (source: IMF World Economic Outlook April 2026)



Meanwhile the two countries suggest fairly similar levels of GDP per capita after adjusting for purchasing power (Figure 2).

Figure 2 GDP per capita (source: IMF World Economic Outlook April 2026)

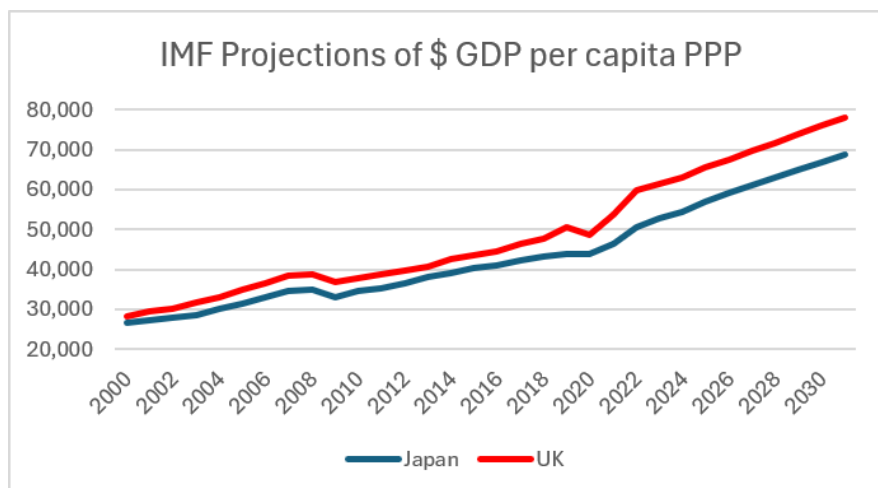
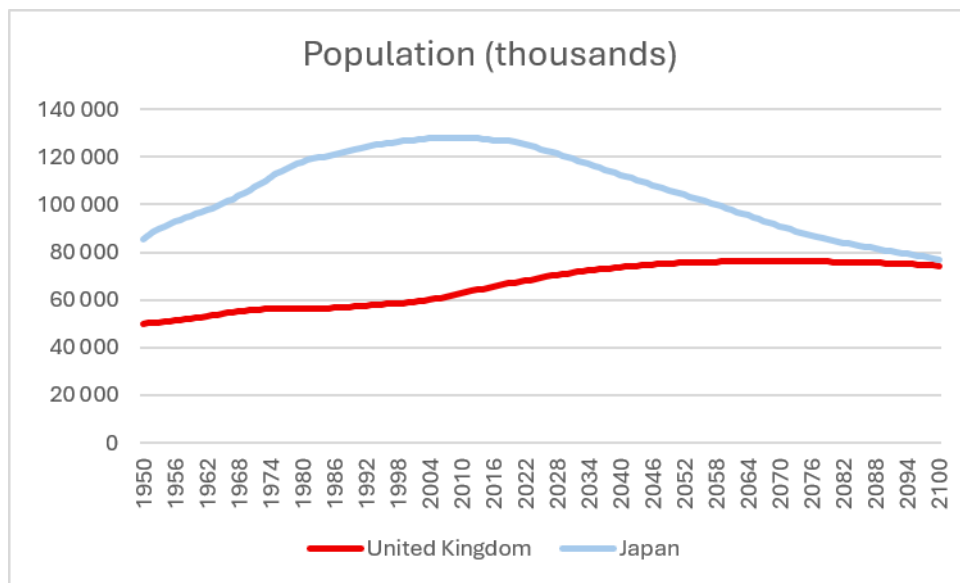


Figure 3 Population forecasts (source: UN population projections, medium variant)



Both countries are island nations with a need to import many raw materials and natural resources. By coincidence, both countries are forecast by the United Nations to have almost exactly the same population numbers by 2100 (Figure 3).

Because of the similarities between the two nations, many of the issues affecting Japan and the UK are similar.

But the approaches taken to these issues by the respective countries are often strikingly different. This short paper compares these approaches and raises a range of questions as to what the countries can learn from each other and indeed from other countries.

The paper looks at five issues:

- 1) Trade
- 2) International finance
- 3) Growth and technology
- 4) Demographics
- 5) Energy and food security

Trade Policy

The UK and Japan share a trade agreement, the UK-Japan Comprehensive Economic Partnership Agreement (CEPA), which governs trade between the two countries. Japan and the UK are the two largest economies in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Both countries have done a major trade deal with the U.S. in recent years in response to the Trump tariffs. The UK is flirting with an EU 'reset' that might conflict with some of the obligations of the CPTPP.

Questions to consider

1. Is there scope for further deepening of the CEPA? Could quotas and tariffs under the CEPA be further liberalised? Among the differences between the CEPA and its predecessor EU-Japan agreement is the increased coverage of intellectual property and digital trade. Is there scope further to develop this?
2. Could the two countries work together in CPTPP as the two largest member economies?
3. Could Japan help the UK ensure it keeps within its CPTPP obligations in any EU 'reset'?

The trade relationship between the UK and Japan is carried by those two agreements, CEPA and the CPTPP. There is scope for further liberalisation on both sides in both of these contexts.

Japan and the UK should use CEPA to deepen cooperation in digital trade and services, improve regulatory transparency and reduce duplicated conformity assessment where equivalent outcomes can be demonstrated. A practical programme could combine interoperable customs data, advance rulings and reliable electronic documentation with cooperation on trusted technology supply chains. The existing provisions provide a starting point; additional mutual recognition or production arrangements would require agreement on their scope and legal effect.

CPTPP gives Japan a wider platform for rule-making with Pacific partners, including Australia, Canada, New Zealand and several ASEAN economies, as well as the UK. Its disciplines on state-owned enterprises, competition, procurement and intellectual property offer a basis for addressing some distortions that tariff schedules alone leave untouched. Japan should use implementation and future development of the agreement to promote competition on the merits, while recognising the treaty's exceptions, reservations and limits. Broader ACMD disciplines would have to be negotiated rather than assumed to exist already.

The UK's proposed SPS Agreement with the EU threatens the UK's non-EU trading partners, including Japan. It makes it difficult to see how the UK can honour its commitments to the CPTPP, as well as its wider commitments. The Growth Commission has reported on this at length⁶, and Japan has already joined a group of countries (U.S., India, Brazil, Canada and others) which have recently opposed EU pesticides regulation.

Clearly the unilateral expansion of the EU's regulatory zone to include the UK, the world's sixth biggest economy, would be a major challenge for Japanese exporters. Instead of aligning to the EU, Japan should be pressing the UK in CPTPP and other fora to join the mounting pressure on the EU's regulatory system from within⁷ and without.

⁶ See for example <https://www.growth-commission.com/2026/02/24/growth-commission-urges-ministers-to-junk-e-u-alignment-plan-that-could-cost-15-billion/>

⁷ See <https://www.growth-commission.com/wp-content/uploads/2025/09/HOW-TO-TRANSFORM-EUROPE-INTO-A-HIGH-GDP-GROWTH-CONTINENT.pdf>

International finance

Japan continues to run a balance of payments current account surplus despite its government deficit. One consequence is its large holding of U.S. government stock with holdings of \$1,104 billion in July 2026.

Paradoxically, despite its persistent trade deficit, the UK is the second largest external holder of U.S. bonds, holding \$998 billion in July 2026. The UK holdings reflect the role of the City of London in international finance rather than UK domestic savings.

Benchmark bond yields have been rising in the U.S. and this is being matched by rising yields in both Japan and the UK. There are fears of further bond sell-offs internationally.

Meanwhile, the war in Iran and other factors are raising inflationary expectations in both countries, though in Japan from a much lower base.

Questions to consider

1. What constraints do rising bond yields place on fiscal and monetary policy in each country?
2. What is the impact of rising inflation expectations on policy?
3. How much does Japan's high rate of domestic savings enable the country to adopt different policies from other countries?

Securing resilient growth and taking advantage of tech

For many years Japan has been at the forefront of technology, especially in the engineering field. Japan boasts many world-beating companies which are leaders in their own fields.

Japan's technological development is guided by its seventh Science, Technology and Innovation Basic Plan which continues the focus of the sixth plan, reorienting universities and research institutions away from curiosity-driven research to more practical purposes, and introduces an "actionable science" philosophy. The seventh plan places greater weight on three axes:

- revitalisation of Japan's basic research capabilities
- acceleration of innovation-driven economic growth
- integration of science and technology policy with economic security objectives

The UK set out its Industrial Strategy in a document produced in November 2025 with 29 objectives. In practice the country is continuing to focus in three areas:

- Life sciences, driven especially by the buying power and data availability of the UK's national health service and the country's historic strengths in the area
- AI, again based on the historic strengths both in universities and businesses
- The application of tech and especially AI where almost by accident the UK has developed a world-leading approach to the use of tech, especially in the so-called Flat White Economy⁸ in the East of London.

⁸ Called after the eponymous book *The Flat White Economy* by Growth Commissioner Douglas McWilliams

Questions to consider

1. To an external observer, Japan's technology policy seems to be led from the centre, while the UK's is more bottom up, driven by the chance developments from those working in the field. Can either country learn from the other's approach?
2. Is there scope for collaboration between the two countries in various areas of scientific research?
3. Is there likely to be enough to support the growth of data centres necessary for AI?
4. There is a move to regulate and constrain AI growth, led by China and the U.S. Do either the UK or Japan have a position on this?

Demographics

All countries will have to learn to cope with an ageing and declining population during the 21st century. Japan has been one of the first to deal with this.

In March 2024 the Growth Commission published *Demographic Impacts on Economic Growth with Specific Reference to Japan*⁹ by then Growth Commissioner Naohiro Yashiro, showing how Japan was dealing with this. The paper showed how labour market policy could cushion some of the effects, while technological developments could also ameliorate the impact of shortages of labour.

The UK does not have an explicit policy to deal with its ageing population but the Office for Budget Responsibility has pointed out some of the fiscal issues that are likely to emerge. Instead, and indeed to a greater extent than in many other countries, the UK has welcomed immigration to cushion the impact of a declining birth rate.

Questions to consider

1. What can other countries learn from Japan's comparative success in dealing with an ageing and declining population?
2. Has the UK depended too much on migration to fill the population gap emerging from a declining birth rate?
3. Should a falling population be welcomed?
4. Are there measures that might encourage a higher birth rate?

Energy and food dislocation

For the second time in four years there has been a major energy dislocation as a result of the Iran war. Meanwhile the threat of a 'super El Nino' may threaten worldwide food production.

At the same time both the UK and Japan are committed to a 2050 net zero target, meaning that energy systems need to be decarbonised.

⁹ <https://www.growth-commission.com/wp-content/uploads/2024/05/GC-Impact-on-Growth-From-Changing-Demographics.pdf>

The UK has moved quickly to decarbonise its energy but a consequence has been the highest energy prices in the world and a collapse of many energy-dependent businesses.

Net zero targets are also seen as giving a competitive advantage to Chinese businesses, especially automobile manufacturers.

Questions to consider

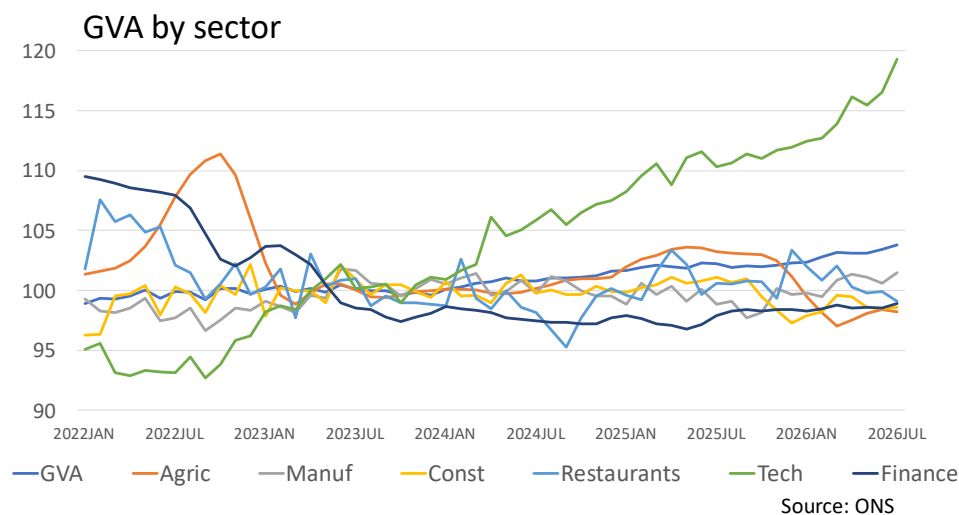
1. How can a country get the right balance between decarbonising its energy system and meeting environmental objectives?
2. What scope is there for nuclear power?
3. Both countries are committed to research for fusion power as a leading technology. Is it realistic to expect a contribution from this?
4. In the short term, what might be the consequences of a U.S. export embargo on diesel?
5. Is food production at risk from a 'super El Nino'?

Conclusion

Figure 4 shows the UK data for growth presented with The Growth Commission's *Growth Budget* on 1st October 2026.

Figure 4

Growth and tech– UK performance



It shows how the UK economy has become a two-speed economy, with tech growing dramatically and most of the rest of the economy flatlining, with output cost to its early 2022 level or worse.

And this picture shows dramatically what the UK has got right and what it has got wrong.

The UK focus on taking advantage of using tech rather than on producing (important not to exaggerate because in fact we do both and in AI the two tend to be intermingled) seems to have been highly successful. Can Japan learn from this?

But the policies of failing to control public spending, of spending too much on welfare, of excess regulation of planning combined with taxes and renters' rights legislation that makes being a private landlord uneconomic, of changing employment legislation to go back to the 1970s before the Thatcherite reforms and of raising taxes in a misguided attempt to pay for the excess public spending have failed. It is so important that Japan learns from our mistakes!

Both countries share many problems. It is to be hoped that collaboration and learning from what each country has got right and got wrong should help them find better solutions.



The Growth Commission is supported by The Growth Initiative, company no. 14785841.
Registered address: 71-75 Shelton Street, Covent Garden, London, United Kingdom, WC2H 9JQ