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Commentary on the Council on Economic and Fiscal Policy (June 24, 2026)

~Public-Private Investment in 17 Strategic Sectors & Regional Future Strategy~

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(Executive Summary)

- Scale of Public-Private Investment: Anticipated to reach a cumulative total of over 370 trillion yen (excluding duplication) over the 15-year period leading up to FY2040. Key priority areas include semiconductors, vertical AI, and physical AI within the AI/Semiconductor sector, alongside cloud computing, data centers, storage batteries, gaming, and pharmaceuticals within the Digital and Other sectors.
- Target Selection: Sixty-two items have been selected to leverage Japan's strengths in frontline manufacturing data and production technologies, aimed at addressing structural labor shortages and strengthening economic security. Notably, in physical AI, Japan aims to capture a global market share of over 30% by 2040 by leveraging its capabilities in integrating hardware and software for robotics. In semiconductors, the urgent goal is to secure "System to Silicon" capabilities, expanding domestic sales to 15 trillion yen by 2030 and 40 trillion yen by 2040. In vertical AI, Japan seeks to digitize the tacit knowledge embedded in its various worksites, aiming to secure a market of at least 5 trillion yen domestically and internationally by 2030 while preventing excessive foreign dependence.
- Cross-Sectoral Initiatives: To promote and accelerate domestic investment, the government will consider introducing four policy pillars: (1) Investment and strengthening of a new technology-driven nation, (2) Promotion of finance and startups, (3) Human resource development and labor market reform, and (4) Business environment improvement and support for SMEs.
- Regional Future Strategy: To spread investment nationwide and generate a virtuous cycle in local economies, a package consisting of three plan types—A. Strategic Industry Cluster Plans, B. Regional Industry Cluster Plans, and C. Local Industry Growth Plans—will be implemented. These plans will clarify the "5W1H" framework and undergo evaluations and revisions every six months.

1. Introduction

At the Council on Economic and Fiscal Policy held on June 24, 2026, the government released a roadmap outlining the public-private investment amounts, selection rationale, and future

directions for major products and technologies across “17 Strategic Sectors.” Summaries of the Japan Growth Strategy, the Regional Future Strategy, and medium-to-long-term economic and fiscal estimates were also disclosed.

Based on these meeting materials, this paper introduces the details discussed during the council meeting along with the author’s perspective.

2. Overview of Public-Private Investment Amounts

The total scale of public-private investment is projected to exceed a cumulative 370 trillion yen (excluding duplication) over the 15 years up to FY2040.

The figures were calculated by identifying “winning formulas” based on deliberations within working groups composed of academics and corporate experts, creating draft roadmaps of policy packages, and then aggregating the scheduled interviews and outlooks provided by major companies and organizations.

Representative examples of investment amounts in major fields include:

AI and Semiconductors: 10.5 trillion yen for physical AI, 68.0 trillion yen for semiconductors, and 23.1 trillion yen for vertical AI (AI specialized for specific tasks and industries).

Digital and Cyber Security: 32.7 trillion yen for cloud computing, data centers, and storage batteries, and 7.4 trillion yen for the AX/DX (Administrative/Digital Transformation) foundations of central and local governments.

Contents: 24.5 trillion yen for gaming, 3.3 trillion yen for anime, and 1.6 trillion yen for manga.

Bio and Medical: 12.8 trillion yen for biomanufacturing and 23.4 trillion yen for pharmaceuticals, including first-in-class drugs.

3. Selection Rationale and Direction for Major Products and Technologies

Next, 62 items requiring priority support were selected across the strategic sectors based on criteria such as “risk reduction,” “potential for capturing overseas markets,” and “technological innovation.”

Specific examples of key sectors include:

Physical AI: The market is expected to grow to approximately 60 trillion yen by 2040. While Japan is strong in industrial robots with roughly a 70% global market share, its share in

service robots remains just over 10%, and high implementation costs pose a challenge. Consequently, Japan aims to foster robot OEMs and critical components by utilizing its hardware–software integration capabilities, targeting a global market share of over 30% by 2040.

Semiconductors: Japan’s current global market share is below 10%. To meet the demand for real–time edge processing, it is urgent to secure “System to Silicon” capabilities—optimally integrating components by reverse–engineering from the required functions of the final application. Therefore, Japan will strengthen its manufacturing foundations and design bases, aiming to boost domestic semiconductor production sales to 15 trillion yen by 2030 and 40 trillion yen by 2040.

Vertical AI: Positioned as highly specialized AI for practical use on the frontline, this technology aligns well with efforts to digitize the vast amount of tacit knowledge found across Japan’s worksites. However, excessive foreign dependence carries risks of data leaks and digital deficits. The government and private sector will focus investments on priority domains such as manufacturing, healthcare, and defense, aiming to capture a market of at least 5 trillion yen globally by 2030.

Data Platforms: Ensuring the utilization of intra–company data and data collaboration across organizations is deemed critical for economic security, with a goal to expand the domestic market size to 5 trillion yen by 2035.

In summary, to resolve structural labor shortages and strengthen economic security, Japan has presented a strategy to concentrate massive public–private investments into priority areas—such as “AI, Semiconductors, Quantum, Materials, Bio, GX, and Contents”—where it can leverage its strengths in frontline data and manufacturing technologies, simultaneously aiming for high global market shares and the resolution of social issues.

4. Addressing Cross–Sectoral Challenges and Key Measures

To resolve the challenges that arise when promoting domestic investment in these 17 strategic sectors, the following four cross–sectoral measures will be implemented:

Investment and Strengthening of a New Technology–Driven Nation: To enable predictable investments, a “New Investment Framework” will be created outside ordinary expenditures. For fields highly critical to economic security, a policy scheme will be considered to secure financial resources across multiple fiscal years and manage them separately. Additionally, a new system will be established to certify a core group of universities with high research capabilities, providing medium–to–long–term support for their R&D and social implementation.

Promotion of Finance and Startups: The government will execute the “Comprehensive Startup Creation Package” to reinforce the supply of funds from government–affiliated financial institutions. It will also establish the “Strategic Product and Technology Government

Implementation Acceleration Program” to provide seamless support from the R&D stage to full-scale procurement, while drastically strengthening the SBIR (Small Business Innovation Research) system. Furthermore, to guide corporate resource allocation toward growth and talent investment, the government will draft a “Growth Investment Guidance” requiring explanations to boards of directors and consider amending the Companies Act to facilitate swift management.

Human Resource Development and Labor Market Reform: To accelerate the development of science, engineering, and digital talent, the government will support universities in reorganizing departments toward science fields. It will also deliberate revisions to labor hour legislation within the Labor Policy Council to realize flexible and diverse working styles. In collaboration with relevant ministries, it will provide end-to-end support for re-skilling—from establishing skill standards to developing programs—and promote the use of housekeeping and babysitting services to prevent career breaks due to childcare or nursing care.

Environment Improvement and Cyber Security: To boost the “earning power” of SMEs, the government will consider targeted support for SMEs actively raising wages, promote price pass-through in public procurement, and establish a qualification system for those supporting SME M&As. Concurrently, based on the “Cybersecurity Strategy,” the government will establish systems for active cyber defense and set unified standards for critical infrastructure.

5. Policy Package for the Regional Future Strategy

Aiming to expand investment in the 17 sectors of the Japan Growth Strategy nationwide and make the “Japanese archipelago strong and prosperous” through a virtuous cycle of robust regional economies, support will be provided according to the following three plan types:

A. Strategic Industry Cluster Plans (Formulated by the National Government): Clusters triggered by large-scale investments in the 17 strategic fields. The government will systematically promote infrastructure development (such as roads and industrial water) and industrial talent cultivation. This includes support for establishing specific semiconductor manufacturing facilities, developing industrial land, and restructuring university departments.

B. Regional Industry Cluster Plans (Led/Executed by Prefectural Governors, etc.): Identifying industrial fields that should be intensively fostered to target overseas exports or top domestic market shares. This involves promoting large-scale investments like building new factories for mid-sized firms, SMEs, and startups, increasing efficiency through shared facilities, and formulating Regional Future Finance Action Plans.

C. Local Industry Growth Plans (Executed by Municipalities or Prefectures): Aiming for the further growth of numerous local industries that broadly support regional economies, such as agriculture, forestry, fisheries, tourism, and traditional craft manufacturing. This

includes supporting high-value addition and overseas expansion of local products, infrastructure development, and expanding inbound tourism consumption.

For all the above plans, goals, pathways, and policy instruments will be incorporated, clarifying the “5W1H” (the significance, deadlines, and responsible entities of the measures). Progress reviews and strategy refinements will be conducted approximately once every six months, visualized through investment maps, and periodically evaluated and revised.

6. Author’s Recommendation

Based on the above, the author put forward a proposal at this council meeting highlighting a strong concern over the risk that the “New Investment Framework” could become hollowed out (or de-fanged) due to rigid operations at the frontline of budget compilation and assessment, and urged a fundamental shift in mindset to prevent this.

No matter how excellent a growth strategy framework is built, there is always a risk that it will fail to function effectively depending on how it is operated on the ground. Specifically, expected pitfalls include pressure that makes ministries hesitant to request budgets, as well as rigid responses during the assessment stage, such as over-regulation and conditioning based on precedent. If these occur, the “medium-to-long-term predictability” required by private enterprises will be lost, and the investment framework risks reverting to a mere rebranding exercise.

Therefore, to guarantee the effectiveness of the growth strategy and foster strong expectations for economic growth, a thorough transformation of the mindset at the frontline of budget execution and assessment is indispensable. To break through rigid assessments, we highly anticipate strong guidance from each minister and robust leadership from the government.