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Growth Strategy and the Role of Small and Medium-sized Enterprises (SMEs)

The True Objective of the 17 Strategic Sectors and the Public-Private Investment Roadmap
Toshihiro Nagahama, Executive Chief Economist
Economic Research Department, Daiichi Life Research Institute Co., Ltd.

(Executive Summary)

- The cornerstone of the Takaichi Administration's growth strategy is a national strategy aimed at securing "economic security" in response to supply chain vulnerabilities, as well as gaining international leadership. By signaling a long-term government commitment, the policy aims to enhance predictability for the private sector and raise the potential growth rate of the Japanese economy. Japan possesses distinct strengths in "physical" domains, such as automobiles and industrial robotics. Fusing these manufacturing strengths with next-generation semiconductors to drive "Physical AI" represents Japan's greatest path to winning.
- For small and medium-sized processing enterprises, the construction and expansion of semiconductor facilities generate diverse and highly advanced processing demands nearby. This presents a "once-in-a-lifetime opportunity" to move away from reliance on existing clients and challenge themselves with technological sophistication. To achieve this without being swayed by industry fluctuations, companies must closely monitor long-term government outlooks, shift away from "general-purpose, single-client dependency," and focus on the "multipurpose deployment of core technologies" into other growth sectors such as healthcare and aerospace.
- Allowing once-shrunken industries like shipbuilding and defense to contract or relocate overseas purely through market logic creates fatal risks during emergencies, such as an inability to maintain or repair essential equipment domestically. Government policy must support these sectors, integrating defense technologies with advanced commercial innovations to transform them into next-generation growth industries. To ensure predictability in ultra-long-term sectors, the government must move beyond single-year budget constraints to present long-term procurement plans and support schemes, creating an environment where SMEs can confidently invest in equipment and skill transfer.
- To prevent supply chain disruptions, institutional mechanisms—such as guidelines for appropriate labor cost pass-through and strict enforcement of the Subcontract Act—

must be implemented to ensure investment capital reaches the bottom tiers, rather than relying on trickle-down effects. Regarding the positioning of SMEs, mid-tier enterprises, and startups, policy should shift from viewing them as “vulnerable entities to be protected” to recognizing them as the “main drivers of growth” that lead innovation and regional economies.

1. Introduction

Regarding the objective of the 17 Strategic Sectors and the Public-Private Investment Roadmap, an “economic security” perspective—completing supply chains for critical technologies and materials domestically or among allied and like-minded countries—has become imperative amid emerging supply chain vulnerabilities. Furthermore, in fields where the private sector cannot bear massive initial investments or long-term risks alone, the government provides long-term commitments in the form of a “roadmap.” This framework is based on a grand design to raise predictability for private enterprise and boost the overall potential growth rate of the Japanese economy. In short, the true objective is not merely to nurture or rescue individual industries, but to serve as a pillar of national strategy directed at ensuring economic security and securing international leadership and rule-making power.

Regarding the qualitative shift in demand for AI semiconductors and the government’s perspective, traditional demand centered on “miniaturization” for smartphones and PCs. In contrast, semiconductors for generative AI require “ultra-high-speed processing of vast datasets” and “unprecedented energy efficiency.” The government views this shift as a critical “paradigm shift in industry.” Consequently, the massive government support provided for establishing domestic manufacturing bases for cutting-edge semiconductors—such as Rapidus—and research and development of next-generation technologies is aimed at securing leadership over key infrastructure in the AI era.

Meanwhile, regarding the connection between “Physical AI” and Japan’s strengths, while the United States leads in cloud and data-based “Cyber AI,” Japan holds competitive advantages in the “physical” realm—including automobiles, industrial robots, machine tools, and high-performance components and materials. Therefore, in the field of “Physical AI,” where advanced sensors and robots learn from real-world field data to operate autonomously, seamlessly integrating Japan’s manufacturing prowess with controlling next-generation

semiconductors can build an overwhelming global advantage. The government views this exact synergy as Japan's greatest strategic path to winning.

2. To What Extent Can Japan Regain Semiconductor Leadership?

However, achieving complete domestic self-sufficiency is impossible. The actual objective is two-fold: (1) establishing a system capable of stably manufacturing a certain volume of advanced semiconductors domestically, and (2) further refining Japan's dominant global share in semiconductor manufacturing equipment and high-performance materials to reinforce a position where "the global semiconductor supply chain cannot function without Japan." In other words, rather than aiming for a simple revival of the historic "Hinomaru Semiconductor" era, the government seeks to secure an "indispensable status" in the global market.

In this context, peripheral small and medium-sized processing enterprises should view the construction and expansion of semiconductor facilities not just as chip manufacturing, but as a source of diverse, highly advanced processing demand—such as ultra-high-precision piping, vacuum vessels, specialized surface treatments, and jig manufacturing. For SME processors, this represents a timing to break away from single-client dependence, form alliances to enter semiconductor and equipment supply chains, and attempt technological upgrades. This trend serves as a "once-in-a-lifetime opportunity" for local SME processors to apply their existing technologies to cutting-edge fields.

Nevertheless, because fluctuations in the semiconductor industry are inevitable, SME management must make strategic decisions to avoid being swept away by the "silicon cycle." To ensure executives are not overly reactive to day-to-day order swings, it is vital to: (1) closely monitor long-term outlooks such as the government's Public-Private Investment Roadmap, and (2) maintain the flexibility to deploy core technologies across other growth sectors like medical devices, aerospace, and robotics. In essence, companies must navigate a transition away from "general-purpose, single-client dependence" toward the "multipurpose deployment of core technologies."

3. Why Were "Once-Shrunk Industries" Like Shipbuilding and Defense Included in Strategic Sectors?

Looking at the shipbuilding and defense industries, allowing them to contract or relocate overseas purely under market logic creates fatal risks during emergencies, such as losing

the capacity to maintain or repair ships and defense equipment domestically. Supporting these industries through national policy while fusing defense technology with advanced commercial technology allows them to transform into next-generation growth sectors. This inclusion is the direct result of combining “a sense of crisis regarding the collapse of security foundations” with “innovation through dual-use technology.”

To enhance “demand predictability” in ultra-long-term businesses such as shipbuilding and naval vessel production, the government must transcend single-year budget barriers and present long-term procurement commitments alongside multi-year transition roadmaps for next-generation vessels. The government is rushing to establish an environment where SMEs can confidently commit to capital investments in modern welding robotics, DX initiatives, and skill transfer over a ten-year horizon. Ultimately, the government aims to guarantee predictability more than ever before through “multi-year procurement plans and long-term support schemes.”

4. Benefits to Bottom-Tier Supply Chains and Government Expectations

If bottom-tier suppliers remain exhausted while primary contractors prosper, the supply chain itself will sever, making the maintenance of strategic sectors impossible. Therefore, the government is deliberately designing “institutional mechanisms”—such as strengthening the execution of the Partnership Building Declaration, providing guidelines for appropriate labor cost pass-through, and strictly enforcing the Subcontract Act—to ensure investment capital spreads throughout the entire supply chain rather than waiting for a passive trickle-down effect.

Finally, regarding the positioning of SMEs, mid-tier enterprises, and startups within the growth strategy, policy discussions (such as council meetings) emphasize highlighting “mid-tier enterprises” expanding overseas and nurturing “startups” that grow rapidly through corporate partnerships. For SMEs, policy is shifting from simple liquidity support toward “proactive growth investment” that facilitates structural transformation, capital expenditure, and scale expansion via M&A. These moves mark a fundamental shift in positioning SMEs away from “vulnerable entities needing protection” toward “main drivers of growth leading innovation and regional economies.”