

Annual Review 2025

**Publisher's Note,
Exclusive Interview,
Policy Recommendations,
&
Roundtables with the Experts**



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Introduction

Efficiency or resilience, which is more crucial as a trade policy goal? We have been pursuing answers to this question during FY 2025. Efficiency was always our economic policy goal, not only a trade policy goal. In principle, promotion of free trade and competition was considered the best policy to achieve the optimal resource allocation, namely economic efficiency, before the geopolitical crises of recent years wholly changed the landscape of the global economy.

Authoritarian governments have been increasing their influence in the world, not only those that are long-standing; some democratic governments have shown signs of being influenced by authoritarian approaches, occasionally shaped by anti-intellectual and anti-globalization movements. One such sign is the pursuit of more nationalistic trade and economic policies – in other words, protectionism.

Raising tariffs to protect domestic industries or employing economic coercion by limiting trade in resources vital for other nations' production is a tactic being used more often. In particular, when such authoritarian states are superpowers, their trading partners' economic security will be exposed to serious danger. This is what we call the weaponization of economic interdependency.

Thus, resilience has become another important policy goal. It is occasionally more important to secure supplies of critical resources than achieve efficiency. Regardless of price, the countries faced with economic security crises will have to secure vital resources on their own or find new providers. They could do this by forming alliances with other like-minded nations (sharing democratic values) to reduce their dependency on certain superpowers' supply. Long-term strategies to ensure the resilience of trade have become dominated by independent industrial policies, but such supply systems may not be efficient anymore, as most likely they result in the procurement of resources at higher cost. In the light of economics, efficiency is always the best outcome. However, resilience is a good solution in an age of geopolitical crises.

A balanced approach to tackling these two policy goals can be seen in the **Roundtable on “Is It Possible to Strengthen the Supply Chains?” in the July/August 2025 issue**. Our conclusion is to pursue both, while bearing in mind that a rules-based trading system is vital for our economic welfare. In terms of economic security, it is needless to say that resilience is important. But we need to pursue resilience in a rules-based international trading order. Otherwise, the lack of rules will increase uncertainty and discourage business activity.

With growing inefficiency, the world will always be faced with the risk of stagnant business and inflation. And there is another reason for Japan to observe free trade, which is political, that is to protect Asia from rising trade protectionism. This reasoning is developed in the

Publisher’s Note “Should Japan Be the Active Guardian of Free Trade?” by JEF Chairman Masakazu Toyoda in the July/August 2025 issue.

To realize this co-existence of efficiency and resilience, Japan needs to establish better and more robust relations with the Global South. Global South nations are not like-minded with Japan at this moment, but with their continuing economic growth they could become more like-minded in the near future, as trade liberalization would be a vital step towards their status as wealthy developed nations. **“JEF’s Policy Proposal: to Achieve Japan’s Sustainable Growth Through Co-Creation with the Global South” in the March/April 2026 issue** offers solutions for consolidating Japan’s relations with each geographical group of Global South nations.

It is also important to realize a revitalized Japanese economy in order to achieve good contributions to a resilient and efficient global economy. The service industry, with its increasing weight in the economy in terms of added value and working population, is a key to this revitalization. We highlighted the growth potential of the Japanese service industry and how it can be fully utilized in the **January/February 2026 issue**, in particular in the **Roundtable discussion on “Aiming for a Service Industry that Leads Japan and the World”**.

Health is also a key to achieving well-being and happiness for the nation, leading to a revitalization of the economy. We have articles on “Health Asia with Enhanced Earning Capacity” in the **November/December 2025 issue**, including on medical tourism in a **Roundtable on “Building a Healthier World Through Medical Tourism”**, as well as an exclusive interview with **former Japanese Minister of Health, Labour and Welfare Prof. Keizo Takemi in the May/June 2025 issue**.

Health and well-being should be developed as good incentives to work in a happy working environment. We must consolidate investment in human resources so that every employee could have opportunities to gain experience and explore new jobs. In this way, an independent individual worker could have a better life and better earning capacity, which would raise labor mobility and eventually labor productivity.

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R oundtable on “Is It Possible to Strengthen the Supply Chains?” (on May 30, 2025)

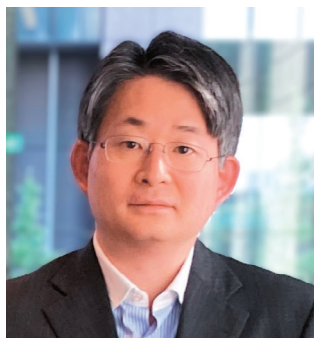
By *Japan SPOTLIGHT*

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Moderator: Masakazu Toyoda, chairman & CEO, Japan Economic Foundation (JEF)

Participants



Prof. Mariko Watanabe



Kiyotaka Morita



Prof. Emeritus Shujiro Urata



Masakazu Toyoda

Abstracts of Discussion

China's Overproduction & Economic Coercion

China's large-scale industrial policies have led to market-distorting overproduction, harming smaller economies through surges in exports. Experts argue this could violate World Trade Organization (WTO) principles and call for international rules that regulate scale-based power and prevent economic coercion. Emphasis is placed on sharing those rules on economies of scale through trade agreements and enhancing cooperation among like-minded countries. Economic Partnership Agreements (EPAs) and Free Trade Agreements (FTAs) should maintain high standards while supporting economic security through diversification, particularly with the Global South. Responding to coercive tactics, including in disputes like Japan's seafood exports to China, requires a rules-based framework and coordinated actions among allies and trade partners.

Trump Administration's Tariff Hike Offensive

US President Donald Trump's tariffs, violating WTO rules, threaten industries around the world. Experts recommend a dual-track response: pursuing bilateral negotiations while preserving the option to appeal to the WTO, despite the United States not being a member of the Multi-Party Interim Appeal Arbitration Arrangement (MPIA). Multilateral platforms, such as the Asia-Pacific Economic Cooperation (APEC) forum, the Group of Seven (G7), and the Group of Twenty (G20), should share global concern, even without binding force. Economists stress that the US political shift reflects broad dissatisfaction with globalization, not just Trump's agenda. The solution lies in collaboration between academia and policy makers and rule reform, not isolationism or tariffs, to address both domestic inequality and international market failures constructively.

Can Japan Become a Champion of Rules-Based Free Trade?

With US leadership seemingly in decline, Japan is expected to take a leading role in promoting free, rules-based trade. Leveraging frameworks such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Regional Comprehensive Economic Partnership (RCEP), and the MPIA, Japan can expand high-standard FTAs, especially with Mercosur, Gulf states, etc. and in addition to the European Union. Experts stress the importance of supporting countries like Indonesia and South Korea in joining the CPTPP, while

ensuring adherence to digital, investment, and environmental standards. Political initiative is necessary to establish new international rules when WTO mechanisms are ineffective. Cooperation with the EU and mid-sized powers such as Australia is critical for Japan to help shape global trade norms.

Physical Risks & Cyber Risks

Cyber threats pose increasing risks to national security and supply chains. Experts emphasize the need for stronger legal frameworks, advanced encryption technologies, and international rulemaking, including engagement with China. Cyberattacks on infrastructure, data theft, and election interference illustrate the urgency. Responses include deepening public-private collaboration, international cooperation, and cybersecurity training. While values may differ across nations, establishing minimum digital norms is vital. Protecting against coercion and disorderly data access requires both technical self-defense and multilateral rules to ensure a stable, secure digital economy.

Introduction – Risks Surrounding Supply Chains

Toyota: The supply chains that are critical to manufacturing in Japan are currently facing significant disruption due to various factors. These include geopolitical risks, such as the restrictions on rare earth exports from China that began with the territorial dispute between Japan and China in 2010, and physical risks, such as the supply constraints on essential medical supplies and semiconductors caused by the novel coronavirus that persisted for several years starting in 2020. And in 2022, a ransomware attack on a certain automobile company forced all factory lines in Japan to shut down for an entire day, illustrating the risks posed by cyberattacks.

Geopolitical risks continue to persist, with the Russia-Ukraine war that began in 2022 and the Israel-Gaza conflict that erupted in 2023 still ongoing. Currently, the world is in turmoil due to the high tariff policy implemented by the administration of President Donald Trump, who took office in January 2025, and the retaliatory tariffs imposed by some countries in response. The Russia-Ukraine war began with Russia's invasion of Ukraine, which is clearly a violation of the United Nations Charter, and Trump's high-tariff policy is a violation of the WTO. However, neither the UN nor the WTO has been able to stop this.

In addition to physical and cyber risks, the escalating geopolitical risks in recent years seem to signal the clear end of the postwar *Pax Americana* led by the US. There is no time to lament. We must pool our wisdom to strengthen supply chains, not only for Japan's development but also for the growth of the global economy.

Today, we have gathered three experts to discuss geopolitical risks. First is Prof. Mariko Watanabe of Gakushuin University, who is knowledgeable about China and the WTO; second is Kiyotaka Morita, director of international affairs at Keidanren (Japan Business Federation); and third is Prof. Emeritus Shujiro Urata of Waseda University, who served as chair of our Supply Chain Resilience Study

Group.

I would like to discuss four main points. First, despite the intensifying US-China rivalry, China's overproduction and economic coercion sometimes cause a chill in Japan-China relations. How should we respond from the perspective of strengthening supply chains? Second, the Trump administration's tariff hike offensive is causing turmoil not only in US-China relations but also in relations with allies, including Japan. How should we respond? Third, the US that contributed so much to the stabilization of the postwar international order seems no longer to exist. Can Japan, which advocates rules-based free trade, become a champion of free trade? Fourth, from the perspective of supply chain resilience, in addition to geopolitical risks there are physical risks and cyber risks. I would appreciate it if you could select one risk that should not be overlooked from these two categories and discuss countermeasures.

China's Overproduction & Economic Coercion

Toyota: First, I would like to ask Prof. Watanabe for her thoughts on the problem of overproduction caused by China's industrial policy. If the US-China rivalry results in a decline in Chinese exports to the US, Asian countries, including Japan, may suffer even more from the flood of cheap products resulting from China's overproduction. Prof. Watanabe, you have long argued that China's industrial policy requires regulations on scale and international agreements, so could you please elaborate on why this is necessary?

Watanabe: Effectively utilizing scale to improve efficiency is an excellent economic strategy, it would be unreasonable to criticize China's vigorous efforts in this area. However, concerns arise when economies of scale, achievable only by countries with large populations and extensive territories, become monopolized. When such countries leverage their price competitiveness aggressively in international markets, it disproportionately burdens smaller nations, raising fairness concerns.

“In particular, exporting surplus production abroad, resulting from intense domestic competition that leads to domestic losses, signifies a disruption of market mechanisms – essentially constituting a market failure. Therefore, it is necessary to establish appropriate regulatory frameworks to address this issue. In such cases, investigating subsidies as the cause is unnecessary; the mere existence of significant market share at a given production scale inherently confers power and warrants corresponding regulation.”

In domestic economies, competition laws typically recognize that engaging in loss-making production to drive out rivals constitutes an illegal practice. This reflects a shared understanding across many jurisdictions regarding the principles of fair competition. I believe it is time for such principles to be integrated into international trade rules as well.

Second, the abuse of economic scale as an instrument of political coercion directly contradicts the founding principles and institutional structure of the WTO. It is therefore imperative to establish proper disciplines to address such behavior. While there may not be a single, comprehensive solution at present, the international community must address these challenges incrementally, on a case-by-case basis.

As a starting point, if deficit-driven exports are taking place, they should be prohibited outright. Under the current WTO framework, it is difficult to regulate such practices unless subsidies are explicitly involved. However, when excessive production at the domestic level is systematically offloaded into foreign markets, there must be clear rules in place to manage such distortions.

Furthermore, economic coercion that results from converting scale into political power should be explicitly subject to regulatory oversight. Once such disciplines are established, it will be equally important to promote mechanisms – such as FTAs – that enable the shared use of scale economies across countries.

For example, following the semiconductor trade conflict between Japan and the US, the WTO’s Information Technology Agreement (ITA) was introduced. This agreement mandated tariff elimination on IT products among its signatories, facilitating the creation of robust global value chains. As a result, economies of scale in the IT sector have been shared globally, enabling countries both large and small to benefit from and participate in the industry’s growth.

In sectors where multilateral cooperation has enabled the sharing of scale-related benefits, economic frictions have largely been avoided. While certain technical constraints and sector-specific features must be considered, I believe this cooperative, rules-based approach offers the clearest path forward.

Toyoda: Next, I would like to ask Mr. Morita. You have stated that values such as freedom and democracy should not be included in the

conditions for concluding EPAs/FTAs, but at the same time you have also said that cooperation among like-minded countries that share values is effective in achieving specific objectives, such as responding to economic coercion. Could you elaborate on this point? Regarding economic coercion, do you mean that special provisions should be included in EPAs/FTAs?

Morita: First, when considering the conclusion of an EPA/FTA, it is important to build cooperation beyond like-minded countries. As the chair of the G7 Hiroshima Summit in 2023, Japan proposed transparency, diversification, security, sustainability, trustworthiness and reliability as principles essential for building a robust global supply chain, which were adopted as the “G7 Leaders’ Statement on Economic Resilience and Economic Security”. Among these, “trustworthiness and reliability” in particular are not based on like-mindedness such as freedom and democracy, but rather on how well each party can adhere to the rules.

Given the current situation where companies are globalizing and supply chains are spread worldwide, it is important to promote free trade and investment based on rules, overcoming differing values. While like-mindedness is indeed important, I do not think enclosing access to critical materials among countries that share the same values would be the optimal solution in achieving energy, resource, or food security. In this unstable international environment, we must recognize the risks of excessive dependence on like-minded countries or allies. Rather, diversifying supply sources through free trade and investment, is the key to ensuring economic security.

As you mentioned, I believe that EPAs/FTAs are crucial for diversifying trade and investment. Of course, the WTO, which comprises 166 countries and regions with diverse values, remains important for promoting multilateral free trade. However, regrettably, the WTO is not currently functioning effectively, and achieving consensus among 166 countries is a challenging reality. In such circumstances, I believe conclusion and utilization of EPAs/FTAs is the most practical approach. EPAs/FTAs with the Global South are particularly important from the perspective of achieving free trade and investment alongside economic security.

However, does this mean that we should merely increase the number of EPA/FTA partner countries? Not necessarily. If we conclude agreements but fail to achieve high standards, this could affect other EPA negotiations. This may also dampen motivation for free trade. For example, discussions are currently underway to expand the CPTPP. Several countries/regions have already applied to join, and Indonesia is one of them. As a resource-rich country with significant trade volume with Japan, Indonesia’s accession to the CPTPP is very much appreciated. But it is essential to at least maintain the original standards of the CPTPP. This includes the

liberalization of “substantially all trade” as well as the removal of foreign investment restrictions and the prohibition of local content requirements in the investment sector. Additionally, the removal of export restrictions on energy and natural resources is also necessary.

Next, I would like to address the issue of economic coercion. While the definition of economic coercion is not clear, when countries in geopolitical opposition restrict trade and investment, this not only undermines free trade but also poses a threat to national security. It is necessary to coordinate responses to such actions, and in this regard I believe that cooperation with like-minded countries is important. This issue was also discussed at the G7 Hiroshima Summit in 2023, where it was agreed to establish an “Coordination Platform on Economic Coercion” and to promote cooperation with partners beyond the G7. I believe it is important to materialize these initiatives moving forward.

Discussions on the general review of the CPTPP are now under way. Among these discussions, there is a plan to further explore measures to address economic coercion. If one CPTPP member country is subject to coercion by a specific country, such as having the supply of goods halted, one possible approach could be for the CPTPP member countries to collaborate to provide the necessary goods to the affected country. Alternatively, if a member country is unable to export their goods to a specific country, CPTPP member countries could volunteer to purchase those goods from the affected country.

Furthermore, although this may not necessarily be related to EPAs/FTAs, it is also important to consider what is necessary to avoid economic coercion. For example, by collaborating with like-minded countries to maintain technological superiority over countries that have the potential to exert economic coercion, coercive behavior can be prevented before it occurs.

Toyoda: Prof. Urata, I would like to ask you about the handling of treated water from the Fukushima nuclear power plant. China agreed in September 2024 to resume imports of Japanese seafood products that meet its own food safety standards, but it has yet to approve imports of seafood from Japan. Other countries are not discriminating against Japan. Many argue that there is a strong risk of violating WTO rules in this Chinese policy, but why doesn't Japan file a complaint with the WTO? China is a member of the MPIA, so even if there is no appellate body at this moment, wouldn't it be sufficient to await the MPIA's decision if Japan wins in the WTO panel?

Urata: I agree with your opinion that, given other countries are allowing imports, China's decision to completely ban imports of

seafood from Japan over the issue of treated water from the Fukushima nuclear power plant is likely to be in violation of WTO rules. In response to the release of treated water from the Fukushima Daiichi Nuclear Power Plant into the ocean, China announced in August 2023 a complete ban on imports of Japanese seafood products. This measure was taken by China despite the Japanese government's release of the water in strict accordance with International Atomic Energy Agency (IAEA) standards, including rigorous management of tritium concentrations, citing “safety concerns”.

On the other hand, many countries, including the US, the EU member states, Australia, and South Korea, have determined that Japan's plan to release treated water is “scientifically sound” based on the IAEA's assessment and have eased or lifted import restrictions. In this context, China's continued imposition of a complete ban is likely to violate the WTO agreement.

Therefore, I think the Japanese government should file a complaint against China under the WTO's dispute settlement mechanism. Indeed, while the Appellate Body of the WTO (the final review body) is currently suspended, making a ruling unlikely, both Japan and China have joined the MPIA, an alternative mechanism to the Appellate Body, so it is possible to refer the matter to that body for a ruling. In fact, based on past experience, China has generally respected WTO rulings.

However, I believe the Japanese government has not filed a lawsuit against China due to diplomatic considerations regarding bilateral relations. Filing a lawsuit with the WTO would be seen as a clear countervailing action against China, and the Japanese government is likely concerned about the risk of the adverse effects of this action on other areas such as the economy and national security. So it is reasonable to assume that the Japanese government is first seeking a resolution through dialogue.

Additionally, while this is a different issue from the current treated water dispute, Japan's previous experience of losing a WTO case against South Korea over import restrictions on Japanese seafood following the 2011 Fukushima Daiichi nuclear disaster may also be a factor contributing to Japan's caution in this matter. In this case, Japan won the initial ruling (panel decision) at the WTO, but South Korea won the appeal at the Appellate Body. This was because the legitimacy of the regulations was assessed not only based on “scientific safety” but also on “consumer concerns” and “public sentiment”, which were recognized to some extent. The Japanese government may be mindful of this precedent.

Trump Administration's Tariff Hike Offensive

Toyoda: Let's move on to the second topic. This is about the Trump administration's tariff hike offensive. I would like to hear your thoughts, Mr. Morita. These tariff hikes have caused turmoil in the industrial sector. While Japan and the US appear to be prioritizing their bilateral relations, is there a possibility that Japan might be treated as an exception? Given the high likelihood of WTO violations, if negotiations fail to lead to tariff removal, should Japan not file a complaint with the WTO while also coordinating with the G7 and G20 to negotiate with the US to avoid a futile appeal? How does the industrial sector view the current situation?

Morita: The Trump tariff is currently set at a flat rate of 10%, but there are concerns that when the 90-day grace period ends on July 9 and the planned 24% reciprocal tariff is imposed on Japan, this will have a significant impact on our business. As pointed out, this US measure violates WTO rules. Under the Most-Favored-Nation (MFN) principle of the WTO, tariffs must be applied equally to all the WTO members. Therefore, the concept of reciprocal tariffs itself is outrageous and finds no place under the WTO framework. You cannot even think of imposing a 24% tariff on Japan, 10% on Singapore, and 145% on China for like products under the WTO.

First and foremost, Japan's national interests are important, and Minister Ryosei Akazawa is currently working hard, so we should first convince the US through bilateral negotiations that the reciprocal tariff must be withdrawn. Meanwhile, the option of having recourse to the WTO Dispute Settlement should not be ruled out. Since the US has not joined the MPIA, it can "appeal into the void". Nevertheless, it is worthwhile bringing this case to the WTO and having the Panel Report addressing this issue published. In doing so, it is important to collaborate with the international community such as the G7 and G20.

Toyoda: Prof. Urata, you also emphasized the role of APEC, so I would like to hear your thoughts on that as well. Can APEC serve as an effective forum for resolving issues? What about the OECD, G7, and G20?

Urata: APEC is a forum that voluntarily promotes economic cooperation and trade liberalization based on agreements among member economies, and it does not have legally binding rules or dispute resolution mechanisms. Therefore, it does not function as a "legal countermeasure" against unilateral tariff measures such as those taken by Trump.

In fact, during the first Trump administration in 2018, the APEC

Leaders Meeting held in Papua New Guinea saw escalating tensions between the US and China over free trade, having resulted in the unprecedented situation where the Leaders Declaration was not adopted for the first time in APEC history. Instead, Peter O'Neill, prime minister of Papua New Guinea, the host economy, issued a "Chair's Statement" that clearly expressed concerns about protectionism and unilateral trade measures, and emphasized the importance of a free and open trading system. While that statement does not have legal binding force, it reflects the views of the majority of APEC member economies and clearly expresses concerns over unilateral trade measures by specific economies. In this sense, it holds significant weight as an outcome of consultations among member economies.

In other frameworks such as the OECD, G7, and G20, it is difficult for the organizations as a whole to issue statements condemning the unilateral measures of the US or take countermeasures, as the US itself is a participating country. But I think it is very important to record the concerns of many countries other than the US within international frameworks such as APEC, OECD, G7, and G20 as an expression of international opinion.

Toyoda: Prof. Watanabe, as an economist and an expert on the WTO, how do you view the current situation? Some believe that stagflation will affect the US and that MAGA ("Make America Great Again") will not happen. What are your thoughts on this?

Watanabe: From a political economy perspective, I believe it is important to recognize that the current course of action, when viewed from within American society, possesses a certain internal logic. Specifically, when Trump speaks of restoring the American middle class and securing its interests – alongside the broader goals of reducing domestic inequality and ensuring equal opportunity – these are not merely personal views. Rather, they reflect a collective choice emerging from within American society. This is not about Trump's personal preferences, but a political position that a substantial portion of the American public may legitimately support.

Although much of today's media coverage focuses on Trump's individual performance and rhetorical style, behind this visible front lies a broader political movement focused on the post-Trump era – one that emphasizes middle-class renewal and community reconstruction. Figures such as Vice President J. D. Vance and Secretary of State Marco Rubio appear to be key proponents of this agenda, suggesting a more structured political base.

Moreover, if we consider the fate of those who lost jobs in deindustrialized regions such as the Rust Belt, many have found employment in the US military. These individuals now form a significant segment of the population supporting America's defense

institutions.

Against this backdrop, the current sentiment – expressed by many Americans – that they are “exhausted by globalization” should be taken seriously. While many of Trump’s actions may appear irrational or performative, the underlying political current reflects a desire to pause, reassess, and reconstruct the foundations of globalization. I believe this desire should be engaged with directly and constructively.

In this context, the action by academics may not work as supposed in light of the deep political divisions in the US. The ideological split between American academia and Trump-era politics is stark. Rather than pursuing political action in opposition, scholars should return to their primary role: generating ideas and proposing reforms that address the underlying structural issues within American society. In particular, it is incumbent upon academics and policy researchers from Europe and Japan to collaborate and offer constructive proposals for how international rules might be revised to respond to these challenges. This, I believe, is the more appropriate and effective path forward.

Toyoda: I would like to add something related to that. I understand that we need to save the losers of free trade, but I feel this is something the US government should do. For example, Japan’s agriculture faces similar problems, and I think there are various things the Japanese government could do, such as providing subsidies, but do you still think this is something that should be done internationally?

Watanabe: This is precisely where the issue of scale comes into play. China has implemented industrial policies, and in fact other Asian countries have done the same, to nurture their own industries. As a result, both developing countries and China are reaping the benefits. Under the current rules, there is no robust filter in place to prevent advanced countries’ competitors from being forced out of business. While the US also faces the issue of addressing domestic inequality, there is also a clear “international market failure” at play. In economics, the wisdom is that market failures should be addressed through rules, not tariffs or prices. Therefore, I believe we should work toward establishing rules that address this issue.

Toyoda: So rather than doing nothing or imposing tariffs, you are arguing that the issue should be dealt with through rules. I understand.

Can Japan Become a Champion of Rules-Based Free Trade?

Toyoda: I would like to move on to the third question. Can Japan become a leader in rules-based free trade, although it seems China is proclaiming itself as the champion of free trade? I would like to first ask Prof. Urata for his opinion from his perspective. The era of the US as the standard-bearer for maintaining the international order has come to an end. There are many voices calling for Japan to take on this role. What are your thoughts on this? Based on the CPTPP, should we seek to expand the number of participating countries, quickly invite the EU to join, or conclude cooperation agreements to build a larger rules-based world? Prof. Urata, what are your thoughts on this?

Urata: In response to the Great Depression of the 1930s, countries raised tariffs and adopted discriminatory trade policies that favored their colonies in order to protect their own economies. This led to a contraction in world trade and a major downturn in the global economy, which some believe was one of the triggers for World War II. In response to these lessons, the General Agreement on Tariffs and Trade (GATT) was signed in 1947, establishing an international trade system based on the principle of free and non-discriminatory trade.

Until it was replaced by the WTO in 1995, GATT played a central role in the international trade system. The multilateral trade negotiations conducted under GATT significantly reduced tariffs among countries, contributing greatly to the expansion of world trade and the high growth of the global economy. Of course, Japan was one of the countries that benefited greatly from this. It is clear that a rules-based, free, open, and stable global trade regime plays a crucial role in the growth of global trade and the global economy.

With the establishment of the WTO, the foundation of the trade system has been further strengthened, and its scope has expanded beyond trade in goods to include trade in services, intellectual property rights, and others. The dispute settlement system has also been improved. However, it cannot be said that the WTO is fully achieving the expected outcomes – the establishment of trade rules, the promotion of liberalization, and the strengthening of dispute settlement functions.

For example, the Doha Round, the first multilateral trade negotiation under the WTO, stalled due to disagreements among member countries and made little progress despite its launch in 2001. Furthermore, the dispute settlement function has also faced serious issues, with the Appellate Body totally paralyzed due to a shortage of members.

Now, under the second Trump administration, unilateral measures

such as the introduction of reciprocal tariffs, which violate the WTO's fundamental principles of "market openness" and "non-discrimination", have placed the WTO in a crisis situation. Underlying this dysfunction is the WTO's decision-making method of "unanimous consent". Currently, the WTO has 166 member countries and regions, and achieving unanimous consent is extremely difficult given the significant differences in their stages of economic development and industrial structures.

In light of this situation, and given the difficulty of reaching agreement within the WTO as a whole, there has been increased activity to establish frameworks for cooperation among countries that share the same values. With regard to the establishment of trade rules and liberalization, regional trade agreements (RTAs) and plurilateral agreements (PAs) are being promoted, and the MPIA was established for dispute settlement.

RTAs include FTAs and "customs unions" (CUs). Both eliminate tariffs between member countries and fully open their markets to imports from other member countries. However, under FTAs, each country can maintain its own tariff system for imports from non-member countries, whereas under CUs all member countries apply a common tariff rate. Approximately 90% of RTAs notified to the GATT/WTO are FTAs, and in the Asia-Pacific region almost all are FTAs.

Japan currently has 21 FTAs in effect or signed with 24 countries and regions, and trade with these countries accounts for approximately 80% of Japan's total trade. Among these, the CPTPP and RCEP have made significant contributions to the establishment of international trade rules.

The Trans-Pacific Partnership (TPP) was negotiated and concluded under the leadership of the US, with some APEC economies as members. But it did not come into effect after the US withdrew under Trump. Japan then took the lead in renegotiating with remaining members such as Australia and Singapore, resulting in the CPTPP, which did come into effect. The United Kingdom has also joined the agreement. This agreement covers a wide range of areas, including investment, intellectual property, e-commerce, state-owned enterprises, labor, and the environment, and is characterized by a high level of liberalization. Regarding tariffs, the agreement requires that basically all tariffs on imports from all member countries be eliminated after a certain period of time.

On the other hand, the RCEP is an FTA involving 15 countries, namely the 10 ASEAN countries, Japan, China, South Korea, Australia, and New Zealand. India also participated in the negotiations but withdrew at the final stage. The RCEP member countries account for approximately 30% of the world's population, GDP, and trade, forming a massive framework. However, compared to the CPTPP, there are challenges in terms of the scope of coverage

and the degree of liberalization, and upgrades are required in the future.

While RTAs establish comprehensive rules among a relatively small number of members, PAs are concluded when many countries share an interest in specific themes. In 2017, like-minded WTO member countries launched the Joint Statement Initiative (JSI). This initiative is open to all WTO member countries, and currently about 100 countries are participating in JSIs focused on themes such as e-commerce, investment facilitation, domestic regulation of services, and support for small and medium-sized enterprises. These initiatives would evolve into PAs if the negotiations are successfully concluded.

Furthermore, amid the dysfunction of the WTO dispute settlement system, the EU, Canada, Australia, and other countries established the MPIA in 2020. Under this framework, it has been agreed that disputes between member countries will be resolved through arbitration. Currently, 56 countries, including Japan and China, have joined the MPIA, but the US and South Korea have not.

Going forward, Japan is expected to play a leading role in rebuilding a free, open, and stable trade regime based on trade rules through the promotion of FTAs, particularly the expansion and upgrading of the CPTPP and RCEP, the promotion of PAs, and the utilization of the MPIA and the expansion of participating countries. In doing so, cooperation with middle-power countries such as the EU member states, Australia, South Korea, and Indonesia will be important.

Toyoda: I would like to ask Prof. Watanabe about the issue mentioned earlier regarding the international rules on scale economy in China's industrial policy. Given the significant risk of the US violating WTO rules through unilateral tariff impositions, what should be done when the WTO is dysfunctional? Would it be appropriate to address the issue at the G7 or G20? The question is how to establish new regulations in the absence of a functioning WTO.

Watanabe: When existing rules cease to function effectively, political initiative becomes the only viable option. In this regard, the most effective initiative may, in fact, come from the G7. The G20, by contrast, may be too large and diverse to serve as a forum for developing new rules. Moreover, with the US and China themselves being the primary parties to the current conflict, it is difficult to expect either of them to take the lead in creating new frameworks.

That being the case, responsibility will likely fall to countries that are neither directly involved in the confrontation nor lacking the analytical and institutional capacity to design and propose effective rules. In this respect, European nations, Japan, Australia, and Canada are best positioned to assume this role.

These countries, therefore, have a responsibility – not only to pursue their own national interests, but also to contribute constructively to the development of a fairer international rules-based order. They must engage in the difficult task of devising proposals and bringing both the US and China to the negotiating table. If Japan does not take on this responsibility, no one else will. Even if it seems daunting, I believe this is a task that must be undertaken.

Toyoda: I understand. Now, Mr. Morita, I understand that Keidanren's view is to overcome geopolitical risks by concluding various FTAs and RTAs. While the US is in turmoil, what are your thoughts on prioritizing the conclusion of FTAs and RTAs with, for example, Mercosur, the Gulf countries, and Africa?

Morita: First, regarding whether Japan can become a champion of free trade, as Prof. Watanabe said, Japan must become the champion. To do so, the CPTPP is an important tool. After the US withdrew from the TPP, Japan took the lead in negotiations, and the CPTPP is truly Japan's diplomatic asset. Therefore, I believe that striving to enhance the quality of the CPTPP and expand its membership is essential for Japan to become a leader in free trade. Earlier, I mentioned Indonesia's accession. In addition, although they have not yet expressed interest, we anticipate the accession of South Korea, our neighbor. The business community of Thailand also hopes to join the CPTPP. It is important for us to support these countries in their efforts to join the CPTPP at a high level.

I also believe that concluding EPAs with Mercosur and the Gulf Cooperation Council (GCC) countries is important. As is clear from looking at a world map, Mercosur and the GCC countries are currently blank spots on Japan's EPA/FTA map, and it is important to fill in those blanks.

First, regarding Mercosur, cooperation is important from the perspective of food security and securing supply of mineral resources such as iron ore. From the perspective of promoting investment in mineral resource development and agriculture, I believe that liberalization and protection of investment through an EPA is necessary. Brazil, in particular, has many restrictions in the investment area, such as foreign investment ceilings, local content requirements, and remittance regulations. By eliminating these barriers through the future EPA, I think investment from Japan to Brazil will increase. For example, Japanese companies could invest in the agricultural sector or related infrastructure in Brazil and then produce biofuels from soybeans or sugarcane in Brazil. This would also contribute to the spread of hybrid vehicles, which Japan excels in. Not only trade and investment, but also cooperation in the green transition can be enhanced in this manner.

The GCC countries are important for Japan from the perspective of securing supply of energy resources. On the other hand, the GCC countries are prioritizing attracting investment from the viewpoint of reducing their dependence on oil. Therefore, I believe concluding a Japan-GCC FTA opens the door to investment opportunities in those countries, in sectors such as green and digital. The GCC countries have already concluded an FTA with South Korea. It is important for Japan not to fall too far behind.

Last but not least, Africa. Given its relative distance from Japan and the fact that the business environment is still not ideal, I think it is more important to first conclude investment agreements with core countries rather than immediately pursuing EPAs/FTAs. Currently, Japan is engaged in investment agreement negotiations with African countries such as Ethiopia, Tanzania, Nigeria, and Senegal, and those should be concluded. If we were to conclude an EPA/FTA, potential candidate countries would include South Africa, where Japanese companies have a strong presence, and Morocco, which has good access to Europe. Negotiations should be initiated soon.

Toyoda: I agree with you that the CPTPP is Japan's diplomatic legacy. Regarding how to proceed, when it comes to making specific statements to China and the US, it may be difficult for Japan to get them to listen if we were to speak alone. Rather, we should work as a team and get the EU to cooperate with the CPTPP in some form, so that we can form a large bloc and persuade China, which is trying to join, to meet the membership requirements. While the US has not yet stated its intention to join, creating something so attractive that it cannot afford not to join – expanding the CPTPP as a diplomatic legacy – seems like a realistic approach. What are your thoughts on this point?

Morita: Cooperation with the EU is absolutely essential. Until now, it seemed that the EU did not have much appetite towards involvement in the CPTPP, but it has recently shown considerable interest. European Commission President Ursula von der Leyen has clearly mentioned cooperation with the CPTPP, and among EU member states, I understand Denmark is quite enthusiastic. I think the chance is too good to lose.

However, when it comes to actual cooperation, we may face some challenges, because there are some differences in approach between CPTPP members and the EU. In the digital sector, for example, while the CPTPP emphasizes "Data Free Flow with Trust" (DFFT), the EU places greater emphasis on the protection of personal data under the General Data Protection Regulation (GDPR). Regarding investment, the CPTPP upholds the principle of free investment and provides Investor-State Dispute Settlement (ISDS) for investment dispute resolution. In contrast, while the EU also supports free investment, it

appears to place greater emphasis on investment screening, likely influenced by China and Russia. Furthermore, the EU is against the introduction of ISDS. Those differences in approach will inevitably emerge, however, both the CPTPP members and the EU share the goal of promoting free trade and investment, and therefore we must not miss this opportunity and should envisage working together.

Physical Risks & Cyber Risks

Toyoda: I would like to move on to the final question. It concerns physical risks and cyber risks, which both also pose serious risks to the supply chain. Could each of you select one risk that you believe should not be overlooked and share your thoughts on it? I would also appreciate it if you could discuss countermeasures. Let's start with Prof. Watanabe.

Watanabe: Although I am not a specialist in either area in the strict sense, and I am somewhat uncertain as to how constructively I can contribute, it is clear that rules governing the digital domain – including cyberattacks – are still under development in virtually every country.

The question of how far to allow the free flow of data, and how to balance that with the protection of individual privacy, remains a matter of ongoing exploration and debate worldwide. In this context, it is essential to engage in proactive discussions, including how to regulate and deter deliberate criminal acts such as cyberattacks.

In doing so, it will be crucial to ensure that China is fully included in these negotiations. China itself is in the process of developing its own digital governance framework, and there has been increasing public demand within China for the protection of personal data, resulting in some institutional progress on that front.

These shared concerns provide an opportunity for alignment. By identifying areas of mutual interest and compromise, it should be possible to establish rules that can both accommodate differing domestic systems and prevent politically motivated coercive behavior in the digital realm. Rule-making, in this sense, can serve as a foundation for constructive communication and confidence-building among key actors.

Toyoda: How about Mr. Morita?

Morita: I would like to focus on cyber risks. Let's suppose a case in which a national information authorities gain direct access to servers located in another country through cyberspace and obtain information. If the authorities of one country infiltrate the servers of another country and completely extract the data stored there, or destroy that data, this constitutes a violation of national sovereignty

and an illegal act under international law. The “Tallinn Manual” explicitly prohibits such actions. However, the reality is that there are many cases where the national authorities infiltrate servers located in another country to obtain information, but do not destroy it and it is even unclear whether they accessed the data or not. In such cases, each country must protect itself. I think it is important to develop technologies for self-defense, such as improving encryption technology.

On the one hand, it is never good to leave the issue of direct access unchecked, and establishing some set of rules is necessary. Even with countries that are not necessarily like-minded, minimum rules are essential. However, if you ask a country that is not like-minded, “You extracted our data, didn't you?” they will never say “yes”. Therefore, while minimum rules are necessary, the ultimate solution is to improve encryption technology to prevent data extraction and protect oneself.

Urata: Like you both, I am very interested in cyber risks. Cyber risks affect a wide range of entities, including countries, companies, and individuals, and cause serious problems for each of them. Among these, cyberattacks targeting countries are a serious threat that has a significant impact on the economy, society, and national security.

Examples of cyberattacks targeting nations include attacks on critical infrastructure such as power, gas, transportation, healthcare, and communications; theft of government-related information containing defense secrets, diplomatic documents, and personal information such as My Number IDs; interference with elections and democracy through intrusion into election systems or manipulation of public opinion via social media; and disruption of supply chains through backdoors or malware embedded in IT devices or software. Among these, a recent example that comes to mind is the cyberattack on an airline company that caused disruptions in its reservation and flight operations systems, leading to significant chaos.

To address these cyber risks, it is essential to strengthen legal frameworks related to cybersecurity, promote international cooperation, and establish cooperative frameworks with allies such as the US, including information sharing. Additionally, enhancing public-private collaboration and conducting training to respond to cyberattacks are important. Furthermore, cultivating specialized talent in cybersecurity is an urgent priority.

Toyoda: Thank you very much for your wide-ranging discussion. **JS**

Written and translated by Naoyuki Haraoka, editor-in-chief of *Japan SPOTLIGHT*, with the cooperation of Tape Rewrite Co.

Should Japan be the Active Guardian of Free Trade?

By Masakazu Toyoda

My answer is “yes”, and I strongly believe that one of Japan's important missions should be to promote the virtues of free trade. My reasoning is that Japan has greatly benefitted from a free trade environment since its defeat in World War II, 80 years ago. In fact, free trade permitted Japan to quickly become one of the world's leading advanced countries and it would be a way for the country to give back to the world by arguing in favor of free trade which would contribute to the development of many economies and provide strength to supply chains. Those economies, especially the ones considered as developing and emerging, have a right to enjoy the fruits and benefits of economic development through free trade.

However, the Trump administration in US seems to be taking a different approach or path to support its growth and prosperity at the expense of others. What should we do? Five ideas come to mind.

First, it is important to understand that the tariff policies being pursued by the US violate the principles and rules of the WTO. We must perform in-depth quantitative economic impact analyses of these policies and share the results. Second, it is important to conclude FTAs and RTAs with as many countries as possible, so that we can all share the benefits of free trade. Third, expand the number of countries participating in the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership), which is endorsing the highest-level of FTAs. Fourth, once a sufficiently wide range of countries are included in the agreement, work towards transferring the embedded CPTPP rules into the WTO. And finally, provide support (such as reskilling) to those who would lose out from free trade.

First, among the various tariff policies currently being pursued by the second Trump administration, it is important to clarify that reciprocal tariffs, which impose higher additional tariffs on countries with large trade surpluses with the US, violate the WTO/GATT principle of most-favored-nation treatment, which states that “special treatment granted to one country must be granted equally to all other countries.” This treatment is an important rule “to avoid discrimination in international trade.” Among many factors, trade imbalances often reflect differences in industrial structures, etc. and are not a matter of fairness or unfairness which can be resolved through subsidy rules or anti-dumping rules. According to OECD estimates, the US proposal would reduce the world average growth rate for this year by 0.2% to 2.9%, with the US itself experiencing a decline of 0.6% to 1.6%. For Japan the estimates are for a decline of 0.4% to 0.7%. Other international economic institutions have reported similar results. In essence, those results suggest that the US would be most adversely affected by its own policies. The current US administration appears to want to revive manufacturing in the US, but given public interest and cost factors such as wages, many manufacturing industries in the US find it difficult to gain competitiveness. The US, however, excels in AI and software, and is generating significant surpluses in service trade.

Second, due to the legislative dysfunction that prevent the WTO from promoting free trade, Japan should step-in to

accelerate negotiations and advance FTAs and RTAs with countries in Latin America, the Middle East, and Africa. It should also help to strengthen the supply chain. While several rounds of dialogue have been held with MERCOSUR (Brazil, Argentina, Paraguay, and Uruguay), the official negotiations for an economic partnership agreement never truly began. Similarly, negotiations with the Middle East have been suspended since 2009 and the TICAD (Tokyo International Conference on African Development) forum for exchange with Africa, initiated by Japan some 30 years ago, has not yet reached the point of official FTA negotiations. As all these countries are now regarded as part of the Global South and subject to great expectations, it is important to advance negotiations with them so they can soon benefit from free trade.

Third, following the US withdrawal from the TPP, Japan, which led the establishment the CPTPP, should urgently seek to expand the number of participating countries and further pursue the membership of the EU, which has recently shown interest. Japan should develop some kind of cooperation agreement. Already, several ASEAN countries and Latin American countries have expressed interest in joining and, if realized, it would form a massive economic zone spanning from the Asia-Pacific to Latin America and Europe. There are many voices in India expressing interest while China, which has also expressed interest, has not yet joined. The important thing is to maintain the high level of standards for the CPTPP and not lower them. A huge economic zone should be attractive to the US as well. As a result, this would contribute to a resolution of the US-China conflict based on rules.

Fourth, because the number of WTO member countries has now reached 166, the process of decision making by consensus only has become impractical. However, if the proposed high standards of the CPTPP are preserved, many countries will join, and wide regions could be covered. It would then be a good idea to transfer the rules of the CPTPP into the WTO and be important to shift decision-making to a majority vote system rather than consensus.

My final idea would be to not forget those considered as losers as a consequence of free trade, including those in the US. Support could be provided through labor adjustment laws and other measures, such as reskilling, in order to pave the way for development. It would also reduce social fragmentation.

In the US, the second Trump administration has now entered its seventh month. Negotiations over tariffs are still ongoing and, as mentioned earlier, these tariffs not only violate WTO rules but also harm the US economy while clearly wearing-down the stability of the supply chains.

What the world needs is free trade and a few leading countries, like Japan, to unequivocally advocate for the acceptance of free trade.

JS

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Policy Proposal: To Achieve Japan's Sustainable Growth Through Co-Creation with the Global South (Nov. 27, 2025)

By Global South Research Group

1. Why Is Cooperation with the Global South Necessary?

(1) The Growing Influence of the Global South

Against the backdrop of heightened geopolitical risks stemming from the “struggle for hegemony” between superpowers, the possibility of supply chain disruption is increasing. Risks associated with trade dependency on specific countries, along with the accompanying risk of economic coercion, are becoming apparent. Establishing an international economic order based on the “rule of law” rather than “rule by force” has become a critical task. This would also enable the strengthening of supply chains, which hold the key to the Japanese economy.

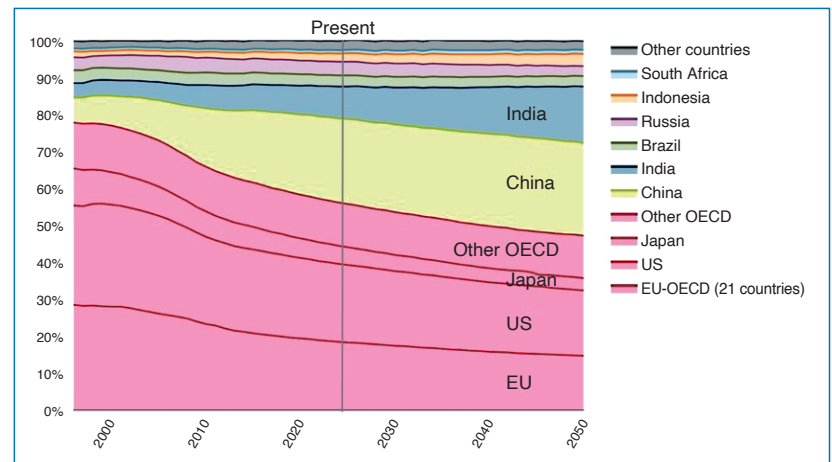
Meanwhile, the share of OECD advanced economies like the United States and EU in the global economy is declining and is projected to decrease further in the future (Chart 1). Since the 21st century began, the real GDP growth rates of emerging and developing economies have consistently outpaced those of advanced economies (Chart 2). Among these, ASEAN, India, the Middle East, Africa, and Latin America are often referred to as the Global South. Pursuing their own interests, they increasingly voice their own opinions. Even amid US-China or US-Russia rivalries, they avoid aligning with either side and are gradually gaining significant influence. A typical position is to condemn Russia's invasion of Ukraine as a violation of the UN Charter while refusing to participate in sanctions against Russia. China sometimes positions itself as a representative of the Global South. However, in this context, China is positioned alongside Russia as a challenger to the international order established by the US and its allies. It is not a “non-aligned neutral” developing country, nor is it part of the Global South.

(2) From US-Dependent Growth to a Middle-Power-Centered World Order

Amid this, the influence of the US, once the leader shaping the international order, has waned, accelerating the world's “drift away from America”. Particularly, President Donald Trump's prioritization

CHART 1

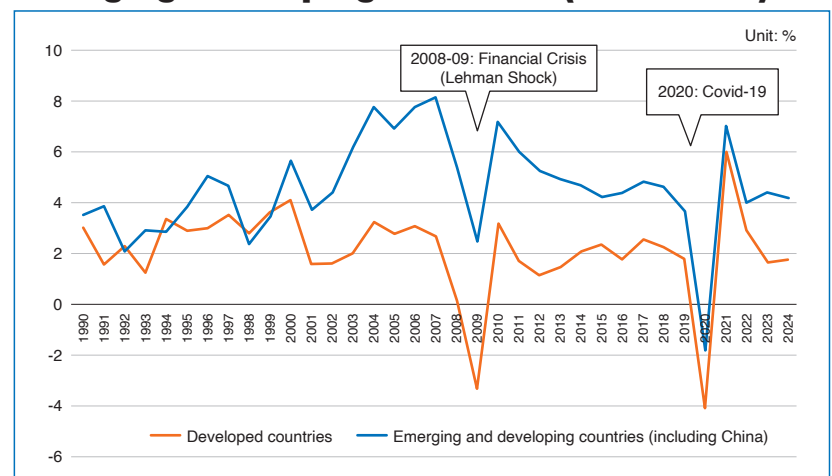
Share of global GDP: past & future projections



Source: OECD Outlook No. 95 – Long-term baseline projections (2014)

CHART 2

Real GDP growth rates of developed & emerging/developing countries (1990-2024)



Source: IMF WEO Database, October 2024

of “America First”, mutual tariffs, and reduction of foreign aid – all indicative of a disregard for international cooperation – have diminished America’s soft power and could further accelerate this global “drift away from America”.

In this multipolar world, Japan, grappling with a sluggish economy, must redouble its efforts to strengthen the resilience of its supply chains, which hold the key to its economy. Moreover, as mentioned earlier, geopolitical risks – such as the US-China rivalry, the Russia-Ukraine war, and instability in the Middle East – have become extremely heightened, making it increasingly necessary to integrate economic and security considerations. With American leadership waning, Japan must now pursue a new economic security diplomacy to simultaneously ensure the safety and sustainable growth of its economy.

The most critical task is rebuilding the “rule of law” and a “rules-based international economic order”. Achieving this requires cooperation with like-minded countries, particularly middle powers like those in Europe. In this context, it is vital to persistently persuade the US – which currently tends to downplay the rule of law and a rules-based international economic order – without excluding it, through forums like the G7. Within this multipolar world, Japan must strengthen its autonomy and originality in foreign strategy and play an active role in shaping the international order.

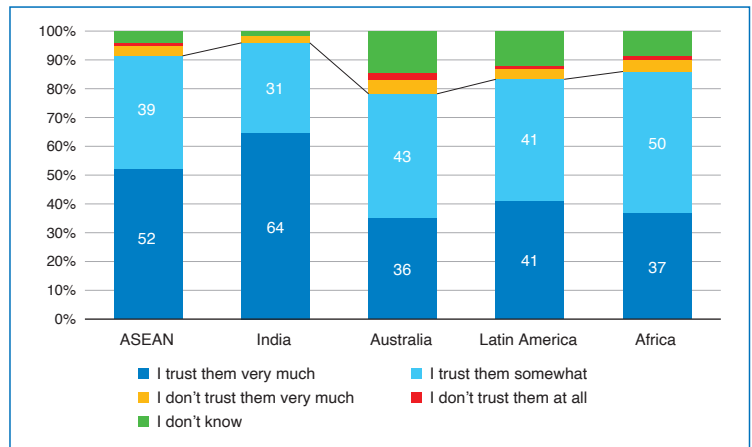
(3) The Need for Cooperation with the Global South as a Middle Power

Within this foreign strategy, another group of middle powers gaining prominence globally is the Global South. For Japan, alongside cooperation with the EU, collaboration with these nations is a critical task. It is necessary to build a new ecosystem based on “co-creation” with the Global South. In doing so, we must not forget that Japan’s longstanding economic exchanges, which do not rely on pressure or force, have provided Japan with important intangible foreign assets that neither the US nor Europe possesses. For example, goodwill stemming from Japan’s history of respecting partner nations’ uniqueness without imposing its own ideology; trust in the quality of Japanese industrial products and the integrity of the Japanese government; the development of human resources in developing countries fostered by Japanese corporate and government development cooperation; Japan’s consistent peace-oriented stance built over 80 years since the war; and the cultural symbols embodying this, such as films, music, and anime – in short, Japan’s soft power. Leveraging these assets is crucial for realizing co-creation with the Global South going forward (Chart 3).

Building on these soft power assets, Japan should fulfill its role as a “hub” connecting Western nations and the Global South. This involves respecting diversity, promoting tailored solutions that address challenges on the ground while acknowledging each country’s unique circumstances, and implementing cooperation that

CHART 3

Trust in Japan (results of public opinion survey on Japan)



Note: Survey conducted in 2023, except for Africa where the survey was conducted in 2022.
Source: Ministry of Foreign Affairs’ survey results on public opinion toward Japan.

aligns with actual conditions. It also entails building trust, facilitating mutual learning, and fostering exchanges between the next generation. The Global South comprises diverse nations. Their interests are not always aligned, nor do they consistently act in concert. Therefore, it is necessary to examine the future nature of cooperation and co-creation with Japan for each major region or country within the Global South.

Furthermore, as we advance cooperation and co-creation with the Global South, it is essential to clarify a basic policy framework centered on the significance and direction of immigration policy, as well as social integration policies, without overlooking movements that could potentially lead to the exclusion of foreigners, which has recently drawn attention. In doing so, we encourage reference to the proposal “Considering Solutions to Japan’s Depopulation”, compiled through a study group on Japan’s population issues hosted by the Japan Economic Foundation in 2024.

2. Desired Directions for Concrete Cooperation with the Global South

Many countries in the Global South aspire to reach the level of developed nations before their populations aging significantly. In this sense, cooperation and co-creation with the Global South should advance collaboration while supporting their development in the following areas:

(1) Promotion of Trade and Investment

Concluding free trade agreements is desirable as a framework for promoting trade and investment. In Japan-ASEAN relations, the Japan-ASEAN Economic Partnership Agreement exists, having entered into force with all countries in 2018. An agreement with India entered into force in 2011. Negotiations for a free trade agreement with the Middle East began in 2014 but have not yet led to

conclusion. While momentum exists with Latin America and Africa, negotiations have not yet commenced. Early negotiation commencement and conclusion are also anticipated in regions where agreements are unsigned or negotiations have not started. Furthermore, joining existing free trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and RCEP (Regional Comprehensive Economic Partnership) should be considered.

(2) Human Resource Development

Japan has long cultivated many industrial professionals through economic cooperation. In recent years, however, the importance of developing human resources in the fields of DX (digital transformation) and GX (green transformation) has grown significantly. This point was emphasized at TICAD 9 in August 2025, particularly in relation to Africa, where cooperation had been relatively slow.

(3) Educational Cooperation

Regarding fundamental human resource development, promoting study in Japan is crucial. The number of international students in Japan, which had been stagnant due to the Covid-19 pandemic, has recovered to approximately 330,000 by 2024 (excluding technical interns), with a particular increase in students from Asia. As the US began restricting visa issuance for international students under the Trump administration, an increase in students from other Global South countries is also anticipated going forward. A framework for accepting more students than ever before is now required.

Furthermore, it is vital that human resource development and educational cooperation lead to the effective utilization of the talent cultivated in each region. For instance, when individuals trained through such programs become experts within their respective regional or national governments and collaborate with Japanese government agencies to formulate long-term development strategies for their countries, this lays the foundation for crucial future co-creation relationships with the Global South. It is essential to pursue human resource development and educational cooperation with this long-term perspective.

When implementing human resource development and educational cooperation with the Global South, it is extremely important to cultivate Japanese individuals who are well-versed in local economic and social conditions through study abroad programs and volunteer activities from Japan to the Global South.

(4) Energy and Global Environmental Cooperation

Securing energy is essential for economic development, yet the importance of climate change countermeasures is also recognized, making it crucial to balance both objectives. In Japan's relations with Asia, cooperation under the Asian Zero Emission Community (AZEC) is advancing, and striking a balance between energy security and climate change countermeasures is equally important for other countries. The Middle East, as a producer of natural gas and oil,

faces the challenge of how to decarbonize these resources. Meanwhile, in relations with Africa and Latin America, securing critical minerals is a key priority.

(5) Rebuilding a Rules-Based International Economic Order

The Trump administration's second term, with its tariff negotiations disregarding the WTO, has caused global turmoil. For the time being, rebuilding a rules-based international economic order with regions outside the US is necessary. It is essential to promote the use of panels as dispute settlement bodies within the WTO and participation in and utilization of the Multilateral Dispute Settlement System (MDSS). Furthermore, expanding the CPTPP and strengthening cooperation with the EU are required to further enhance and expand the dispute settlement system and the framework for legislative functions.

Meanwhile, on the security front, the Security Council has become dysfunctional, with divided opinions regarding Russia's invasion of Ukraine, widely seen as a violation of the UN Charter. Views within the Global South are also split. While many countries supported the condemnation resolution following Russia's invasion, they oppose or abstain when it comes to economic sanctions against Russia.

Below, we will organize the characteristics and directions for cooperation for each of the five major regions or countries within the Global South.

3. Five Regional Characteristics of the Five Global South Regions & Directions for Cooperation

<1> ASEAN

(1) Current Situation

Among ASEAN countries, those classified as part of the Global South are nine nations excluding Singapore: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Thailand, and Vietnam.

According to IMF projections, ASEAN's nominal GDP is expected to reach \$4.383 trillion by 2025, surpassing Japan. This would place it on par with India in economic size, following the US, China, and the EU. Looking at trade trends by partner, China and the US have seen their shares surge over the decade: from 13.9% and 8.1% respectively in 2013 to 19.7% and 11.3% in 2023. In contrast, Japan's share has declined from 9.5% to 6.8% (JETRO survey). Furthermore, examining the trend in global inward foreign direct investment (FDI), ASEAN's share has risen reflecting its economic development, increasing from just over 8% in 2013 to over 16% in 2023. By destination country, based on the average share from 2019 to 2023, Japan's share stands at 8.5%, following the US at 17.8% and ASEAN at 10.7%. Looking at the stock of FDI in ASEAN countries, Vietnam's increase is particularly notable. While development gaps within ASEAN remain significant, the region harbors strong aspirations to join the ranks of advanced economies and is expected to do so sequentially. ASEAN is actively leveraging the benefits of globalization to pursue economic development and

possesses the potential to become a leading advocate for adhering to the “rules-based international economic order” championed by Japan.

As previously noted, while trade ties with the US and China deepen, ASEAN has traditionally pursued a strategy that Southeast Asian nations should remain neutral and not become a battleground for competition between major powers as US-China tensions escalate. The geopolitical risk posed by the Ukraine crisis has made it clear that maintaining this strategy is becoming increasingly difficult.

First, it has become clear that the international community possesses extremely limited means to stop unilateral military invasions by major powers. The failure of global governance in addressing regional conflicts, not limited to Ukraine, has been laid bare by the dysfunction of the United Nations. Furthermore, the double standards of advanced nations in responding to military invasions in Europe versus others, such as those in the Middle East, have become apparent, leading to distrust from ASEAN countries.

Second, countries like ASEAN, which are not major powers, are forced to make many sacrifices in the arena of competition among major powers at the UN. This exposes the limitations of the “rule of law” centered on the UN and reaffirms the double standards applied to Europe and other regions. Consequently, it has led to the recognition that for their own security, these countries can rely on economic power – a power that offers significant benefits to super powers and makes the use of military force seem irrational. For ASEAN, this signaled the end of an era where growth strategies could be based on the premise of separating international politics and economics. Achieving prosperity before facing imminent security threats and before declining birth rates, aging populations, and population decline make high economic growth unattainable became an urgent security imperative. Confronted with the food and fertilizer supply crises stemming from the Ukraine crisis, ASEAN has recognized the limitations of its neutrality strategy amid great power competition. It has come to understand the importance of regional frameworks, including multilateral arrangements among like-minded regional partners, to ensure food security.

Furthermore, amid an uncertain international environment, risk hedging through individual diplomatic diversification or diversification via ASEAN is expected to advance further. Examples include strengthening ASEAN-GCC cooperation, participating in cooperation with the expanding BRICS, and moves toward OECD membership by Thailand and Indonesia.

(2) Future Challenges & Cooperative-Co-Creative Relations Between Japan & ASEAN

How can Japan become an indispensable partner for ASEAN? If building an economic scale and structure where the use of military force seems highly irrational contributes to ASEAN’s security, then contributing to this is paramount for establishing cooperative-co-creative relations between Japan and ASEAN. The Economic Research Institute for ASEAN and East Asia (ERIA) was established to facilitate this. Cooperation between Japan and ASEAN, including

other member countries (Australia, New Zealand, India, South Korea, China), is steadily progressing.

For example,

① Promoting Trade & Investment

Japan and ASEAN are bound by the Japan-ASEAN Economic Partnership Agreement. Furthermore, four ASEAN countries have already joined the CPTPP promoted by Japan, with Indonesia and Thailand expressing interest. While boosting trade and direct investment remains key to economic growth, ASEAN has recently emphasized its desire to build an economy capable of generating innovation independently. Japanese corporate investment is increasingly shifting toward local production for local consumption as ASEAN economies develop. It is crucial to aim for investments that are more closely integrated with local economies and generate innovation on the ground.

② Human Resource Development

We will promote cooperation in the DX and GX fields, which ASEAN is particularly focusing on for future economic development. We will cooperate in developing the necessary high-quality infrastructure, both in terms of software and hardware, with human resource development being especially important on the software side.

③ Educational Cooperation

The number of international students in Japan reached 330,000 in 2024, with nearly 60,000 coming from ASEAN countries (approximately 50,000 from Vietnam, 6,000 from Indonesia, etc.).

Should science and technology cooperation between ASEAN and the US become more difficult under the second Trump administration, it is crucial for Japan to strengthen cooperation in areas such as higher education, science and technology, policy research, and economic intelligence that foster innovation.

④ Energy & Global Environmental Cooperation

Energy and security cooperation is one of the most critical issues for ASEAN in achieving both environmental sustainability and economic growth. The Asia Zero Emission Community (AZEC) initiative is highly beneficial in this regard. Considering not only decarbonization but also the balance of various energy supplies from the perspective of reconciling economic growth and environmental protection meets ASEAN’s needs. Policy cooperation that takes ASEAN’s position into account is essential.

⑤ Rebuilding a Rules-Based International Economic Order

It is crucial to reject arbitrary protectionism, exemplified by the reciprocal tariffs of the Trump administration’s second term in the US, and to ensure that at least among third countries, the rules-based international trade order is upheld. Simultaneously, it is vital to share with ASEAN nations the recognition that a rule-based international trade order is the most effective growth strategy for reducing uncertainty in the business environment surrounding enterprises and promoting economic growth. In doing so, it is vital to address ASEAN countries’ suspicions that the so-called “rules-based international order” or “rules-based international trade order”

India's economic scale

- Nominal GDP: 5th largest globally (projected to rank 3rd by 2027)
- GDP at purchasing power parity (PPP): Already 3rd largest globally

2024 Nominal GDP (IMF statistics)

Ranking	Country	Unit: million US\$
1	US	29,184,900
2	China	18,748,009
3	Germany	4,658,526
4	Japan	4,026,211
5	India	3,909,097
6	UK	3,644,636
7	France	3,162,023
8	Italy	2,372,059
9	Canada	2,241,253
10	Brazil	2,171,337

2024 GDP at Purchasing Power Parity (PPP) (IMF Statistics)

Ranking	Country	Unit: million US\$
1	China	38,154,219
2	US	29,184,900
3	India	16,187,183
4	Russia	6,905,073
5	Japan	6,530,591
6	Germany	6,004,553
7	Brazil	4,734,653
8	Indonesia	4,662,893
9	France	4,359,302
10	UK	4,286,574

Source: World Nominal GDP Country Rankings and Trends (IMF) - [GLOBAL NOTE](#) (left); World GDP Purchasing Power Parity Rankings and Trends by Country (IMF) - [GLOBAL NOTE](#) (right)

established by Western nations is often characterized by double standards and is unreliable. To dispel these concerns, Japan – which has earned the trust of ASEAN nations – must persuasively demonstrate how it has benefited by adhering to these principles without falling into double standards. It must also emphasize that the order-building initiatives Japan is spearheading will form the very foundation for future co-creation between ASEAN and Japan. Concrete measures include revitalizing regional initiatives such as restoring the functionality of the WTO, expanding participation in the MPIA, broadening the CPTPP and linking it with the EU, and establishing a CPTPP secretariat.

⑥ Other

To build collaborative relationships for jointly solving a wide range of economic issues, it is crucial to enhance the policy advocacy functions of various think tanks, including those in ASEAN countries that are exploring solutions to their unique challenges. Within this context, while striving to build a network among such think tanks, the policy recommendation function and the drive to promote policy implementation and leadership of the aforementioned ERIA – often referred to as the Asian version of the OECD – are crucial. ERIA engages in a wide range of activities, from “trade and investment” to “health”, and its further functional enhancement is anticipated.

Specifically, the following points can be considered.

- Regarding the financial system, as Russia has been excluded from SWIFT due to sanctions against it over the Ukraine crisis, and as countermeasures are being considered, a new financial system is emerging as a counterweight to the dollar-based currency system. It is important for Japan and ASEAN to cooperate and take the initiative in transforming financial governance at this time.

- As declining birthrates and aging populations become increasingly serious challenges for ASEAN countries, it is also important to build cooperative relationships among Japan, South Korea (which faces similar severe social security issues), and ASEAN.
- While Japan reportedly receives 40 million foreign tourists annually, the number visiting for medical tourism purposes remains extremely limited. One reason is the communication barrier with doctors. Harmonization of medical licenses is necessary to enable doctors from ASEAN to practice medicine in Japan in collaboration with Japanese doctors.

<2> India

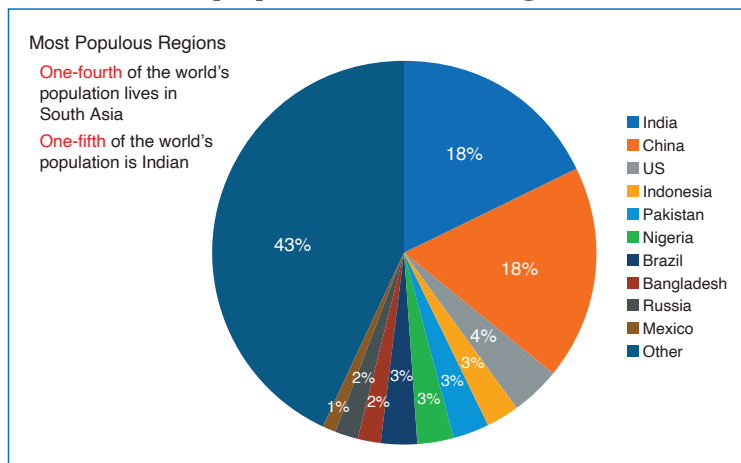
(1) Current Situation

According to the IMF, India’s nominal GDP is projected to reach approximately \$3.9 trillion in 2024, ranking fifth globally. However, it is expected to surpass Japan and Germany by 2027, becoming the world’s third-largest economy. In terms of GDP measured by purchasing power parity (PPP), India is already the third-largest economy, following China and the US ([Chart 4](#)). This economic scale is underpinned by population: one in five people globally is Indian. Other major South Asian nations outside India also have large populations – Pakistan has twice Japan’s population, and Bangladesh has 1.5 times. Combined, these two countries account for one in four people worldwide, concentrated in the South Asian region ([Chart 5](#)).

The size of the population indicates the region’s importance as a market, but looking further at the demographic composition, India’s population is young, with 120 million people in their early 20s. Other major South Asian nations like Pakistan and Bangladesh show similar trends. Considering that population aging and declining birth

CHART 5

2023 world population rankings



Source: Total Population (World Bank Statistics) - GLOBAL NOTE

rates are not expected to begin in this region for about 30 years, this means the region can anticipate growth driven by its demographic dividend in both the labor market and consumer market for the next 30 years or so.

Thus, the region possesses not only immense economic potential but also significant geopolitical importance. It is a pivotal point for maritime routes connecting Europe and the Middle East, holding the key to maritime security in the Indian Ocean. Furthermore, it serves as a junction between ASEAN and Africa, harboring the potential for supply chains centered on South Asia. Furthermore, China and India, which represent Japan's greatest economic security concerns, share a land border. While India, like Japan, tends to prioritize economic cooperation with China for growth, it shares Japan's security concerns. Currently, India's wariness toward China is growing, mirroring Japan's stance. This shared perspective underscores the importance of Japan-India cooperation for both economic security and supply chain resilience.

On the other hand, attention must also be paid to the geopolitical risks India itself faces in South Asia. The India-Pakistan border dispute has, over the past quarter-century since both countries declared themselves nuclear powers in 1998, reached a point where unpredictable terrorism and the possibility of escalation to nuclear use cannot be ruled out. Indian Prime Minister Narendra Modi asserts that a military response to terrorism is the "new normal". Japan must take this risk into account.

Another risk India faces is its approach toward China. While India has growing concerns over China's Belt and Road Initiative, posing economic security challenges, it also recognizes that imports of components from China and Chinese investment are indispensable for upgrading its economic structure toward higher value-added production. We must closely monitor which of these perceptions gains greater prominence depending on shifts in economic and security conditions.

Additionally, regarding India's domestic political situation, we

must consider the risks posed by the authoritarian tendencies of Modi's administration leading to democratic backsliding, stricter visa policies, and heightened friction with Islamic nations like Bangladesh and Pakistan due to strengthened Hindu nationalism.

Regarding India's stance on the "rule of law" and a "rules-based international economic order", considering its failure to condemn Russia's invasion of Ukraine and suspicions surrounding targeted killings allegedly carried out by Indian intelligence agencies in Canada and the US, it appears India currently seeks to modify these principles, if not outright challenge them. From this perspective, the Trump administration in the US is currently urging the EU and Japan to impose similar tariffs, threatening to impose a 50% tariff on them unless India stops importing oil and gas from Russia.

(2) Future Challenges & Cooperative, Co-Creative Relationship Between Japan & India

A strategy is needed to ensure India recognizes Japan as indispensable.

① Promoting Trade and Investment

- Japan has a Free Trade Agreement with India that entered into force in 2011.
- Furthermore, some view India's participation in the CPTPP as potentially easier than joining the RCEP, precisely because China is not a member. It is important to deepen India's understanding of the benefits of joining the CPTPP while encouraging its participation.
- Japan will promote investment in advanced technologies in India and expedite the international division of labor with India. It will also realize investments in high-quality infrastructure development needed by India, such as the construction of Japan's high-speed Shinkansen railway system.
- Recognizing the importance of medical tourism for India, Japan will promote tourism to India for Ayurveda (the method for longevity of life), a unique Indian treatment, and increase inbound tourism from India seeking Japan's high-level medical services. This will be achieved by improving the capacity of Japan's medical tourism-related sectors, such as hospitals, to accept foreign patients.

② Human Resource Development

Amid its declining population, Japan cannot avoid accepting foreign workers. It faces shortages of both highly skilled professionals and unskilled laborers. Meanwhile, India possesses an abundant supply of young labor, including many highly skilled IT software engineers. Japan must urgently initiate a national debate on its framework for accepting such foreign workers, encompassing integration policies into Japanese society such as Japanese language education. While human resource development in India is important, enhancing training programs for accepted workers in Japan will enable the building of closer ties. In doing so, it is crucial to clarify

the basic principles of immigration policy and establish a framework for accepting foreign workers.

③ Educational Cooperation

Promote student exchanges between Japanese and Indian universities in IT fields such as AI.

④ Energy and Global Environmental Cooperation

Promote the transfer of Japan’s energy-saving and environmental technologies.

⑤ Rebuilding a Rules-Based International Economic Order

Amid the decline of US international leadership, Japan’s relative national power is inevitably waning while facing challenges from China. This necessitates not only the Japan-US alliance but also multilateral cooperation, making India an indispensable key partner. For example, the Quad (Japan-US-Australia-India Strategic Dialogue), where leaders discuss Asia-Pacific security, exemplifies such multilateral collaboration. By 2050, India will come quite close to matching the hard power of the US and China, yet it is not a nation reliant on any single partner. To prevent India from retreating from liberal democracy and to avoid it becoming a “second China” that challenges Western values, it is crucial for Japan to exercise leadership now to reform the existing international order and rules in a manner satisfactory to India. For instance, one approach could be to establish a forum for frank discussions on the benefits of regional trade agreements – a pillar of the rules-based international economic order – to ensure India’s satisfaction.

<3> Middle East

(1) Current Situation

While some countries in the Middle East possess wealth surpassing that of developed nations, significant disparities in wealth exist within the region (Table 1).

TABLE 1
The Middle East as the Global South

•Some countries surpass developed nations in wealth / Income disparities exist within the region

Ranking	Country name	GDP per capita (US\$, 2024)	Population
1	Qatar	71,568	3,115,890
2	Israel	53,111	9,517,180
3	UAE	49,550	11,346,000
4	Saudi Arabia	32,881	34,566,300
5	Kuwait	32,290	5,026,080
6	Bahrain	29,573	1,643,330
7	Oman	20,631	5,494,690
8	Turkey	13,105	87,685,400
9	Iraq	5,947	47,020,800
10	Iran	5,013	92,417,700
11	Jordan	4,682	11,520,700
12	Egypt	3,542	118,366,000
13	Yemen	465	41,773,900
	Average	24,797	

*Lebanon, Sicily, Palestine: No data available
Source: UN, IMF

Among the top seven countries in the Middle East by GDP per capita, six are Gulf Cooperation Council (GCC) nations: Saudi Arabia, the UAE, Bahrain, Oman, Qatar, and Kuwait (the remaining country is Israel).

Since the 1955 Asian-African Conference (Bandung, Java Island), often called the starting point of the Global South, the Middle East has respected opposition to colonialism and solidarity among developing nations, resisted the imposition of Western values from above, and criticized the double standards in Western responses to the Ukraine war and the Gaza conflict. However, the Middle East does not solely prioritize solidarity with Southern nations. On the other hand, Saudi Arabia, a leading GCC member, has been a partner in maintaining the US-led international order through oil money since 1974. Amid talk of the liberal international order’s instability and the rise of the Global South, American hegemony remains firmly intact. Conversely, considering that the US must also address China’s rise in Asia, Middle Eastern countries are beginning to recognize that relying solely on the US for security cannot guarantee their own safety. Consequently, they are placing hopes in the advent of a multipolar world, strengthening ties with BRICS and the Asian Infrastructure Investment Bank (AIIB), and deepening connections with ASEAN. Regarding the second Trump administration, while strengthening ties with Global South nations – as evidenced by Middle Eastern countries pledging massive investments in the US – they also continue to value building good relations with America, recognizing its role in stabilizing the Middle East.

A concern in Japan-Middle East relations is the decline in Japan’s presence in the region, partly due to the rising influence of China and the recent weakening of Japanese companies’ price competitiveness against Chinese and South Korean firms.

However, Japan also sees emerging possibilities for new cooperation with the Middle East, driven by expectations for the arrival of a multipolar world. Accelerating FTA negotiations between the GCC and Japan is crucial for Japan to achieve its desired rules-based international trade system. However, these talks appear to be delayed due to apparent disagreements within the GCC over the benefits of an FTA. In recent years, negotiations have begun toward a Comprehensive Economic Partnership Agreement (CEPA) with the UAE and other countries, aiming to strengthen bilateral economic ties.

(2) Future Challenges & Cooperative Partnerships Between Japan & Middle Eastern Countries

While concerns exist about Japan’s declining presence in the Middle East, Japanese corporate technology continues to command high trust, indicating room for expanded collaboration between Japan and Middle Eastern nations.

“Regional stability” represents a shared interest for oil-producing Middle Eastern countries needing foreign investment and for Japan.

① Promoting Trade & Investment

While advancing FTA negotiations with the GCC is an area for cooperation and co-creation with Middle Eastern countries, various internal conflicts within the GCC have become apparent. Therefore, shifting focus to expanding bilateral cooperation, such as the CEPA negotiations between Japan and the UAE, is one option. In such individual bilateral cooperation, the key to developing bilateral free trade relations lies in promoting structural transformation within GCC countries – shifting from industries with comparative disadvantages to those with comparative advantages.

② Human Resource Development

While promoting DX and AI is crucial for Middle Eastern countries to achieve a high-value-added economy, it is equally important to cooperate in developing the necessary human resources.

③ Educational Cooperation

Cooperation with institutions such as the University of Tokyo and Tokai University is progressing, but as in other regions, efforts to increase the number of students from the Middle East studying in Japan are crucial.

④ Energy & Global Environmental Cooperation

The Middle East remains a vital resource supplier for Japan, providing the bulk of its crude oil supply. However, it is also a partner in building sustainable societies, supporting Gulf oil-producing nations in their efforts toward decarbonization. Japan is collaborating with Saudi Arabia to build supply chains for clean energy sources like hydrogen and ammonia, and has decided to provide financing to the UAE for projects contributing to renewable and next-generation energy supply in third countries.

Interest is also growing in artificial intelligence (AI) to streamline the societal implementation of decarbonization technologies. Strengthening efforts toward a decarbonized society in third countries in Asia and Africa is another option. As mentioned earlier, in cooperation with the UAE, Japan has already decided to provide financing for projects in third countries that contribute to the supply of renewable and next-generation energy. For Japan, it is also crucial to aim for increased presence in the Middle East, replacing China, amid the restructuring of supply chains driven by the US-China rivalry.

⑤ Rebuilding a Rules-Based International Economic Order

Regarding the future construction of a rules-based international order that Japan should pursue, a key area for cooperation and co-creation with Middle Eastern countries is advancing FTA negotiations with the GCC, which is also important as a means to promote trade and investment. As mentioned earlier, given the various conflicts

emerging within the GCC, shifting the focus to expanding bilateral cooperation, similar to Japan’s CEPA negotiations with the UAE, is one option.

<4> Africa

(1) Current Situation

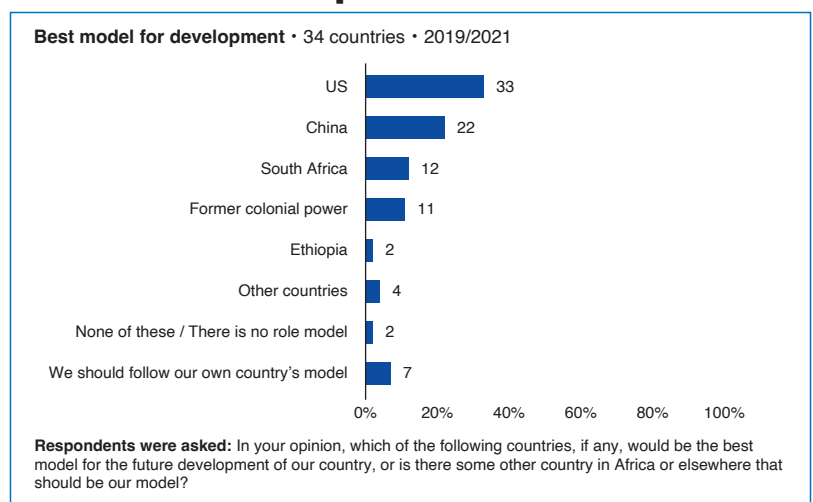
The African continent is 80 times the size of Japan and comprises 54 countries, making it extremely diverse. Within this context, the stance of African nations regarding Japan’s advocacy for the “rule of law” and the establishment of a “rules-based international economic order” can be somewhat inferred from their position on the UN General Assembly resolution calling for Russia’s withdrawal from Ukraine. Regarding this resolution, “abstentions” and “no-shows” accounted for roughly half of African nations. This reflects the diplomatic stance of many African countries: they align neither with the West nor with the “authoritarian bloc of China and Russia” but rather adopt a pragmatic approach, supporting whichever side offers assistance most beneficial to their own development and growth.

African nations have extremely high population growth rates and are projected to become the continent accounting for one in four of the world’s population within the next 25 years.

The nations considered by the people of Africa’s 54 countries as models for development are the US and China, each exceeding a majority (Chart 6). However, while China’s total investment in Africa (outstanding balance) is six times that of Japan, and its annual trade volume with Africa is about 16 times that of Japan, the US presence in Africa is expected to rapidly diminish. This is due to factors such as the de facto dismantling of USAID under the second Trump administration and the expiration of the preferential tariff system, the African Growth and Opportunity Act (AGOA), at the end of September

CHART 6

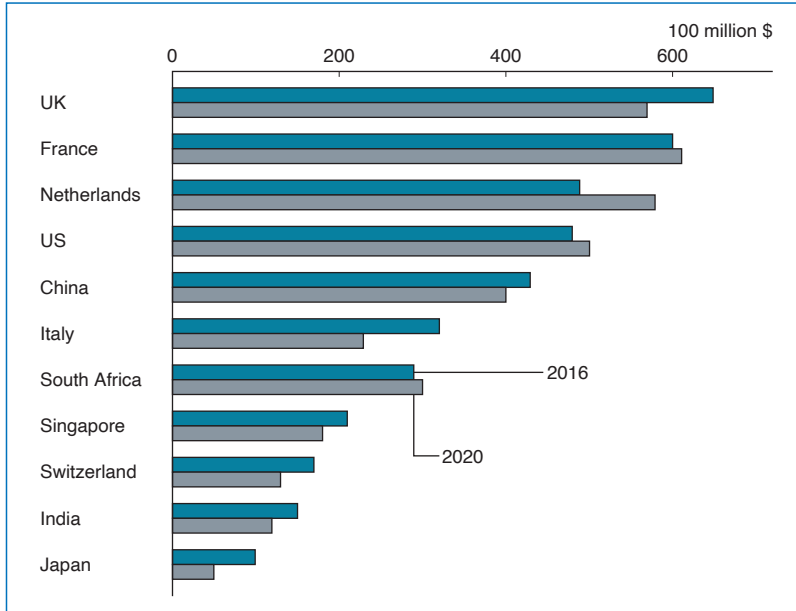
The nation that 34 African countries should model their development on



Source : Afro Barometer, Africans welcome China’s influence but maintain democratic aspirations, 15 November 2021
https://www.afrobarometer.org/wp-content/uploads/2022/02/ad489-pap3-africans_welcome_chinas_influence_maintain_democratic_aspirations-afrobarometer_dispatch-15nov21.pdf

CHART 7

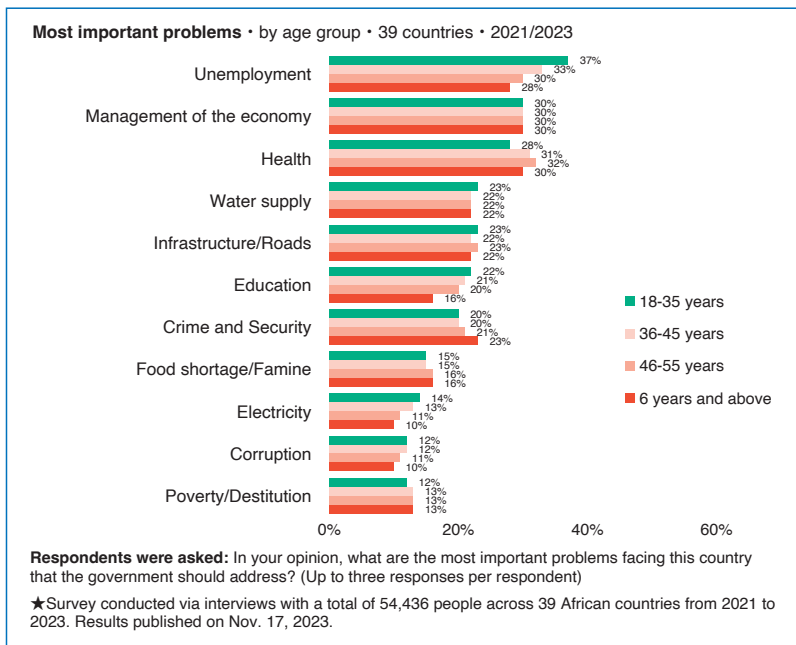
International comparison of investment stock in Africa



Source: UNCTAD, World Investment Report 2024 and JETRO data

CHART 8

Afrobarometer: needs of African people revealed by opinion poll results



Source: <https://www.afrobarometer.org/wp-content/uploads/2023/11/AD734-PAP3-Africas-youth-More-educated-less-employed-still-unheard-Afrobarometer-18nov23.pdf>

2025, with its extension now considered hopeless.

As shown in *Chart 7*, Japan’s investment balance in Africa remains at a very low level. This may be the result of Japanese companies’ business activities, which tend toward low-risk, low-return corporate

behavior compared to Western firms.

Meanwhile, the needs of African people are shifting from “aid to be received” (humanitarian assistance) toward investments that enable them to become workers and members of the productive workforce. The most significant need is reducing unemployment through “job creation” (*Chart 8*).

(2) Future Challenges & Collaborative Partnerships for Japan & Africa

① Promoting Trade & Investment

Concluding FTAs is crucial for building closer economic ties between Japan and African nations. Negotiations could initially focus on the East African Community (EAC), a regional economic community comprising eight East African countries, including Kenya, where Japanese companies show strong interest in expanding. Ultimately, Japan should aim to initiate FTA negotiations with Africa as a whole.

For Africa, shifting from economies reliant on traditional agriculture to developing manufacturing sectors that create jobs and boost productivity is essential. Strengthening trade ties in manufacturing, such as automobiles, through FTAs would act as a catalyst, encouraging Japanese manufacturing companies to establish local operations. For Japan, this would expand supply chains connecting ASEAN, India, and Africa, ultimately creating more resilient supply chains in the future.

② Human Resource Development

As emphasized at the Fifth Tokyo International Conference on African Development (TICAD V, Yokohama 2013), Japanese manufacturing investment brings capital and transfers Japanese companies’ technology, knowledge, and business practices to local African industries, leading to job creation and productivity gains. Crucially, this should not involve foreign companies expanding production without nurturing local parts suppliers. Instead, it should involve local production while developing local industrial talent and managers of domestic enterprises. The “ABE Initiative” (African Business Education Initiative for Youth), proposed at TICAD V to build industrial talent in Africa, plays an extremely important role in this regard. Through this initiative, over 1,900 African youths have been

invited to Japan to date, earning master’s degrees and gaining internship experience at Japanese companies. It has received high praise from many African countries and young Africans. Its continuation and expansion are anticipated. The University of Tokyo’s

focus on supporting start-ups in African countries is to be welcomed.

③ **Educational Cooperation**

The continuation and expansion of the “ABE Initiative” mentioned above is also an important part of educational cooperation.

④ **Energy & Global Environmental Cooperation**

Securing critical minerals.

⑤ **Rebuilding a Rules-Based International Economic Order**

The FTA with Africa will support the establishment of a new, self-sustaining international economic order that covers the broad ASEAN-India-Africa region and contributes to strengthening supply chains.

⑥ **Other**

ODA that contributes directly or indirectly to job creation is also anticipated. In such cases, it is effective for Japan to communicate to African governments and people that its support forms part of a strategy for job creation. Simultaneously, it is important to widely convey to the Japanese public the diplomatic significance of support for Africa.

<5> **Latin America & the Caribbean**

(1) **Current Situation**

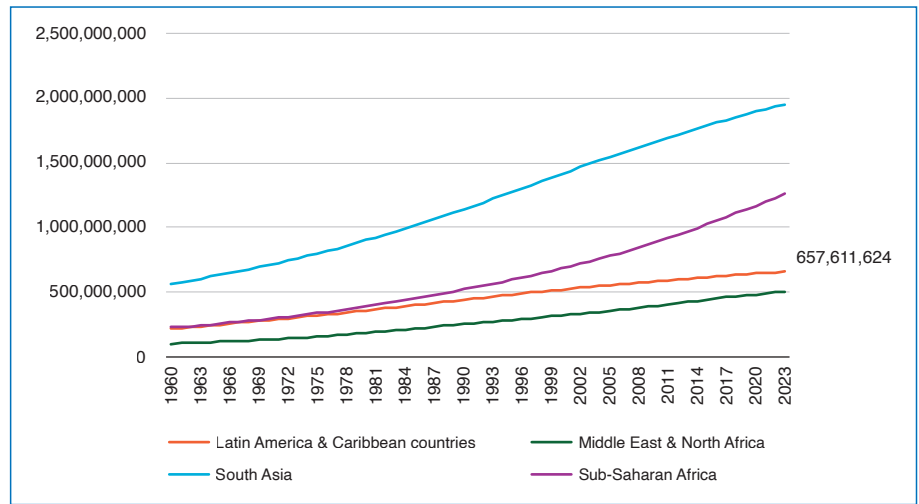
The Latin America and Caribbean region comprises 33 countries. Its population ranks third globally after South Asia and Sub-Saharan Africa, surpassing the Middle East and North Africa (Chart 9). Currently, the region’s population is approximately 657 million and continues to grow. Meanwhile,

among these four regions, it has the largest GDP, estimated at around \$7.1 trillion. This demonstrates the region’s significant scale as both a consumer market and a labor market (Chart 10).

Recently, relations between the US and China have been a major challenge in this region. Once referred to as America’s “backyard”, the region underwent changes in the 2000s, creating distance from the US. As the US-led Free Trade Area of the Americas (FTAA) initiative faltered, cooperation with the US in the war on drugs was established, and the US also gained Latin American support in the war on terror. Consequently, the region is increasingly becoming one where the US does not need to invest significant diplomatic effort.

CHART 9

Population trends by region (Unit: persons)

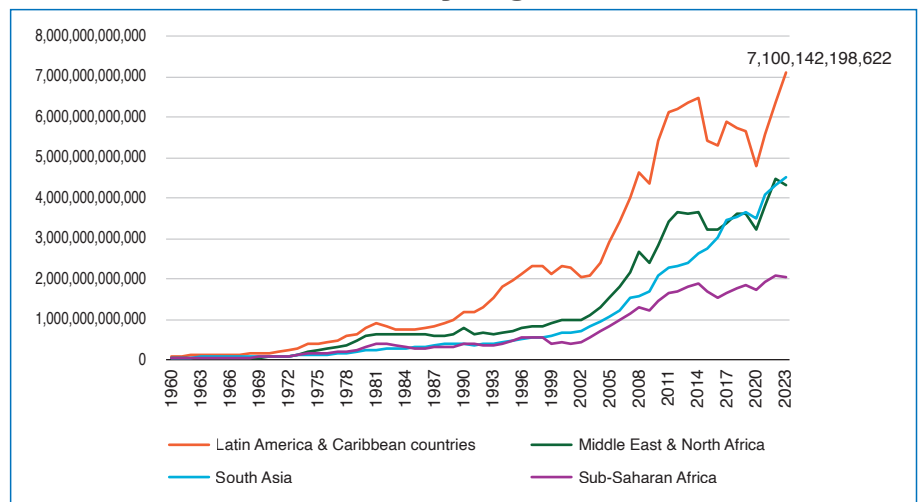


Note: Data from 1960 to 2023

Source: World Development Indicators dataset published on the World Bank website (<https://data.worldbank.org/indicator/SP.POP.TOTL>).

CHART 10

Trends in nominal GDP by region (Unit: current US\$)



Note: Data from 1960 to 2023

Source: World Development Indicators dataset published on the World Bank website (<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>).

Meanwhile, while it is true that left-wing governments have increased in Latin America, they have not necessarily undergone a major “shift to the left”. Crucially, none of these governments came to power through military coups but through democratic elections. Consequently, the US lacks a justifiable reason to intervene and has refrained from doing so.

Conversely, China, under President Xi Jinping, has strategically strengthened its diplomatic and economic ties by making a total of six official visits to Latin America – surpassing the visits of successive US presidents Barack Obama, Joe Biden, and Trump. China has enhanced cooperation with countries like Brazil on its Belt

and Road initiative and established the China-CELAC (Community of Latin American and Caribbean States) Forum. China has also pushed for the severance of diplomatic ties with Taiwan. The number of countries maintaining diplomatic relations with Taiwan has decreased from 18 in 2017 to just seven.

Relations with Japan are fundamentally good, but Japan's presence has declined since the 2000s. Japan's share of Ecuador's total ODA spending in 2018 was 3.4%, relatively low compared to other Global South regions. Furthermore, while Ecuador, Bolivia, Paraguay, El Salvador, and Panama all had Japan as their largest export destination in Asia from 2011 to 2014, by 2022 only Bolivia still counted Japan as its top export market in Asia.

(2) Future Challenges & Collaborative Partnerships for Japan & Latin America

① Promoting Trade & Investment

In economic relations, Japan lags significantly behind China as a trading partner in the region. Focusing on the larger economies of Argentina, Brazil, Chile, and Mexico:

- Imports from Argentina in 2023 included carbonates (lithium), corn, and crustaceans (shrimp, etc.)
 - Imports from Brazil included iron ore, corn, and chicken meat
 - Imports from Chile included copper ore, molybdenum ore, and frozen fish corn, crustaceans (shrimp, etc.), imports from Brazil included iron ore, corn, chicken, imports from Chile included copper ore, molybdenum ore, frozen fish (salmon, etc.), and imports from Mexico included automobiles, pork, and automotive parts.
- Conversely, exports to Argentina in the same year included automotive parts and engine components; exports to Brazil included automotive parts; exports to Chile included automobiles and petroleum refining products; and exports to Mexico included automobiles and automotive parts.

Considering these trade relationships with Latin American and Caribbean countries, it becomes clear that this region is important for Japan as a source of mineral resources and as a destination for exports of automobiles and automotive parts.

Regarding the former, as of 2022, Chile accounted for 30% of global lithium production, while Argentina contributed 4.8%. Increased production is also anticipated in Bolivia, Brazil, and Peru. For copper, Chile and Peru together account for nearly 40% of global production. Latin American countries have diverse lithium policies. Some nations, like Mexico and Bolivia, operate state monopolies on production, while others, such as Chile and Argentina, permit foreign corporate participation. While cases exist where Japanese firms hold stakes, like Toyota Tsusho's 25% rights and interests in Salar de Olaroz (Phase 2) in Argentina's Jujuy Province, China often leads the way in many projects. Therefore, the Japanese government must actively support Japanese companies' participation in local lithium projects. Furthermore, for countries like Chile that can produce lithium but lack the technology for lithium-ion battery manufacturing, the entry of technologically advanced Japanese companies is likely to yield significant mutual benefits. Additionally, the involvement of

Japanese companies in environmental technologies related to mining development is expected to benefit both Japan and Latin American and Caribbean nations.

Regarding the latter, there are two aspects: the automotive market in the export destination country itself is attractive to Japanese companies, and these countries are also attractive as production bases for exports to other markets, such as Mexico (for exports to the US) and Argentina (for exports to Brazil, etc.). In this sense, Japan also needs to support the Mexican government in its tariff negotiations with the US to help Mexico maintain its competitive edge. Furthermore, regarding the South American market, concluding an EPA with Mercosur is expected to be a significant help for Japanese companies. Regarding Mercosur, the EU and EFTA (European Free Trade Association) have agreed on an FTA, and there may be lessons to learn from their negotiation experience.

② Human Resource Development

In terms of cultivating individuals knowledgeable about Japan in Latin America, the Ministry of Foreign Affairs has implemented the "Juntos!! Latin America-Japan Understanding Promotion Exchange Program" since fiscal year 2015. This program aims to identify and nurture pro-Japan and Japan-knowledgeable individuals as part of the late Prime Minister Shinzo Abe's policy to strengthen cooperative relations with Latin America. While strengthening similar programs, fostering individuals knowledgeable about Latin America in Japan will require not only this program but also support for the comprehensive enhancement of Latin American studies within higher education institutions.

③ Educational Cooperation

As will be discussed later, support for Japanese descendants studying in Latin America is provided through programs such as the Nippon Foundation's "Nikkei Scholarship" administered via overseas Nikkei associations and the Japanese descendants quota within the Ministry of Education, Culture, Sports, Science and Technology's "Government-sponsored Foreign Student Program". Furthermore, while the University of Tsukuba's "Trans-Pacific Program" has been adopted as part of the Japan Society for the Promotion of Science's Global Expansion Capacity Enhancement Program, consideration should also be given to creating more comprehensive programs that transcend the boundaries between implementing entities.

④ Energy & Global Environmental Cooperation

Securing critical minerals is crucial, particularly supporting participation in the aforementioned lithium projects and cooperating on lithium application technology development (similar support will likely be needed for copper mine development as well).

⑤ Rebuilding a Rules-Based International Economic Order

Concluding an EPA with Mercosur will strengthen the rules-based international economic order. Furthermore, with Chile and Peru participating in the CPTPP, this could not only contribute to the expansion of the CPTPP but also enhance cooperation with the EU.

⑥ Other

Finally, the presence of Japanese descendants in the region is indispensable when considering Japan's relations with Latin

American and Caribbean countries. According to 2023 estimates, there are 2.7 million Japanese descendants in Brazil, 200,000 in Peru, 79,000 in Mexico, and 65,000 in Argentina (Ministry of Foreign Affairs 2025). Their presence provides a strong foundation for negotiations with these countries and market entry. By strengthening cooperation with Japanese communities in those nations in all aspects, it becomes possible to expect support for Japanese corporate expansion and negotiations with governments (particularly in Brazil, where there are always multiple Japanese-Brazilian members of the lower house).

4. Direction for Japan's Leadership in Future Collaboration with the Global South

Japan must advance cooperation with the above five Global Houses primarily across five key areas, supporting their sound development as middle powers. Given that the Trump administration's disregard for a rules-based international order is destabilizing the world, the fifth area, "Rebuilding a Rules-Based International Economic Order" is crucial both for Japan and for the Global South. To ensure its realization, urgent cooperation with other middle powers like the EU and Australia is essential.

Furthermore, strengthening cooperation with each region requires consistency in the content of rules across relevant sectors from a business perspective. Otherwise, there is a risk of a recurrence of the "spaghetti bowl" of rules, as seen in problems between mega FTAs.

Ultimately, it is essential to establish a "unifying axis" aimed at future multilateral rules (WTO rules) and to promote international cooperation. It is also important to simultaneously advance sector-specific, multi-lateral agreements on key issues.

Japan should demonstrate leadership in building such a "rules-based international trade system" alongside the Global South, while flexibly acknowledging the current realities.

The discussion above focused on how to build co-creation relationships between Japan and each region. However, beyond Japan's government and companies cooperating individually with each region, so-called "cooperation with third countries" – collaborating with governments and companies from other Global South nations, or governments and companies from other countries, to pursue co-creation with the relevant Global South country or company – has recently become an important option. By becoming a hub for cooperation among these countries, Japan could enhance its presence.

5. Overcoming Challenges in Realizing Collaboration & Co-creation with the Global South

Moving forward, a key consideration for co-creation with the Global South is that as such collaborative relationships progress, not only capital but also people will move. Furthermore, this movement of people includes both an increase in foreign visitors to Japan through tourism and a rise in the foreign resident population due to

the influx of foreign workers.

As mentioned at the outset, a major challenge for Japan in advancing cooperation and co-creation with the Global South is clarifying fundamental policies regarding the acceptance of such foreign workers, the significance and direction of immigration policy, and integration policies for these individuals into Japanese society.

Facing inevitable national power decline due to a shrinking population and aging society, Japan must address labor shortages to achieve a strong economy. It must also appropriately respond to crises in its supply chains – the lifeline of the Japanese economy – which are intensifying and deepening due to geopolitical risks arising from superpower rivalry. To prevent supply chain crises and achieve supply chain resilience and economic security, it is crucial to continuously explain to the public, in an easily understandable manner, how important it is to build many "friends of Japan" in the international community through international cooperation, particularly co-creation with the Global South. It is also important to clearly introduce successful cases, such as regions struggling with population decline being revitalized through the acceptance of foreign workers, and to highlight the benefits.

According to the proposal "Considering Solutions to Japan's Population Decline Problem", compiled through a study group on Japan's population issues hosted by the Japan Economic Foundation in 2024, securing foreign talent is a key measure to alleviate labor shortages. To promote the acceptance of highly skilled foreign talent, it proposes introducing a "points system" similar to those in the UK and other countries. The proposal also recommends enhancing education for the children of foreign workers and promoting "Easy Japanese language" to reduce cultural barriers, thereby facilitating the social integration of accepted foreign talent.

It is essential that as many citizens as possible understand the importance of such proposals. While accepting foreign talent carries disadvantages, such as the potential loss of social homogeneity, the significant benefits outweigh these drawbacks. **JS**

Policy Proposal: To Achieve Japan's Sustainable Growth Through Co-Creation with the Global South (Nov. 27, 2025)

By Global South Research Group

Region	Current Situation	Challenges & Approaches to Collaboration and Co-Creation
Overall	<ul style="list-style-type: none"> • The risk of supply chain disruption is rising due to the “power struggle” between superpowers. Rebuilding the international economic order based on the rule of law is essential. • Meanwhile, the weight of developed economies like the US and EU is declining, while growth rates (population and GDP) in the Global South – including ASEAN, India, and Latin America – are accelerating. • With declining US leadership and the Trump administration disregarding the rule of law, rebuilding the international economic order requires cooperation among middle powers. • Beyond Japan-EU collaboration, rebuilding a “rules-based international economic order” through cooperation and co-creation with the Global South is an urgent priority. • Rising anti-foreigner movements must not be ignored; clarifying fundamental immigration policy principles is necessary. <p>(Note) 2024 JEF-sponsored Research Group on Japan's Population Issues</p>	<p>Cooperation and co-creation with the Global South should primarily advance in the following five areas, supporting their path toward developed nation status while fostering collaboration:</p> <ol style="list-style-type: none"> (1) Promotion of trade and investment (2) Human resource development (3) Educational cooperation (4) Energy and global environmental cooperation (5) Rebuilding a rules-based international economic order
ASEAN	<ul style="list-style-type: none"> • Economic development will enable it to achieve a nominal GDP of \$4.383 trillion in 2025, surpassing Japan. • Maintaining a neutral strategy amid the Ukraine crisis is difficult ⇒ Achieving economic strength that offers significant benefits to major powers is what ultimately leads to security. • Expectations are high for it to serve as one of the standard-bearers for adhering to and rebuilding a “rules-based international economic order”. 	<ol style="list-style-type: none"> (1) Trade and Investment Promotion <ul style="list-style-type: none"> • Japan-ASEAN Economic Partnership Agreement in place. Four of the 10 ASEAN countries have already joined the CPTPP. Indonesia and Thailand express interest. (2) Human Resource Development <ul style="list-style-type: none"> • Cooperation in developing talent in DX and GX fields (3) Educational Cooperation <ul style="list-style-type: none"> • Cooperation in higher education, science and technology, policy research, and economic intelligence to foster innovation. Of the 330,000 international students in Japan (2024), approximately 60,000 are from ASEAN. (4) Energy and Global Environmental Cooperation <ul style="list-style-type: none"> • Promoting cooperation within AZEC (Asia Zero Emissions Community) (5) Rebuilding a Rules-Based International Economic Order <ul style="list-style-type: none"> • Restoring WTO functionality, expanding MPIA membership, linking the CPTPP and EU, establishing a CPTPP Secretariat (6) Other <ul style="list-style-type: none"> • Strengthening ERIA's functions is essential, alongside enhancing policy advocacy capabilities of national think tanks, etc. (Note) Cooperation on financial governance reform, cooperation on low birthrate and aging population issues, regional harmonization of medical qualifications
India	<ul style="list-style-type: none"> • Nominal GDP projected to rank third globally by 2027 • Growing youth population indicates significant economic potential • Key maritime transport hub linking Europe and the Middle East; pivotal node connecting ASEAN and Africa ⇒ Geopolitically significant • Not necessarily supportive of the “rule of law” or a “rules-based international economic order”. • Shares security concerns regarding China with Japan. However, Japan finds it difficult to take action regarding border disputes between India and Pakistan. 	<ol style="list-style-type: none"> (1) Promoting Trade and Investment <ul style="list-style-type: none"> • The Free Trade Agreement with India entered into force in 2011 • Regarding participation in the CPTPP, some voices suggest it may be easier to join than the RCEP, which includes China; it is important to encourage understanding on the Indian side • Investment in high-quality infrastructure development, such as high-speed bullet trains • Promotion of medical tourism (2) Human Resource Development <ul style="list-style-type: none"> • Promote the acceptance of highly skilled IT software engineers. In doing so, it is important to clarify the basic principles of immigration policy and establish a system for accepting foreign workers.

Region	Current Situation	Challenges & Approaches to Collaboration and Co-Creation
		<ul style="list-style-type: none"> (3) Educational Cooperation <ul style="list-style-type: none"> • Promote student exchanges between Japan and India (4) Energy and Global Environmental Cooperation <ul style="list-style-type: none"> • Promote the transfer of Japan's energy-saving and environmental technologies (5) Rebuilding a Rules-Based International Economic Order <ul style="list-style-type: none"> • Maintain and promote the Quad (Japan-US-Australia-India Strategic Dialogue)
Middle East	<ul style="list-style-type: none"> • Some nations possess wealth surpassing developed countries, yet significant income disparities exist within the region • Relying solely on the US for security cannot guarantee one's own safety <ul style="list-style-type: none"> ⇒ Strengthen cooperation with BRICS, AIIB, and ASEAN. Meanwhile, maintaining good relations with the US remains a priority • Japan's presence is declining compared to China's rising influence • From the perspective that "regional stability" is a shared interest for Middle Eastern oil-producing nations needing foreign investment and for Japan, cooperation and co-creation are crucial 	<ul style="list-style-type: none"> (1) Promoting Trade and Investment <ul style="list-style-type: none"> • Accelerate FTA negotiations with the GCC (Gulf Cooperation Council). At a minimum, advance negotiations toward a CEPA (Comprehensive Economic Partnership Agreement) between Japan and countries like the UAE. (2) Human Resource Development <ul style="list-style-type: none"> • Develop experts capable of utilizing AI to streamline the societal implementation of decarbonization technologies. (3) Educational Cooperation <ul style="list-style-type: none"> • Make efforts to increase the number of students from the Middle East studying in Japan. (4) Energy and Global Environmental Cooperation <ul style="list-style-type: none"> • Collaborate with Saudi Arabia to build supply chains for clean energy like hydrogen and ammonia. Provide financing with the UAE for projects contributing to renewable and next-generation energy supply in third countries. (5) Rebuilding a Rules-Based International Economic Order <ul style="list-style-type: none"> • While advancing FTA negotiations with the GCC and CEPA negotiations between Japan and the UAE, cooperation and co-creation toward rebuilding the free trade order is crucial.
Africa	<ul style="list-style-type: none"> • 80 times the size of Japan, 54 countries, extremely diverse. Population growth rate is very high. • Many countries adopt a diplomatic stance neither aligned with the "West" nor with "China and Russia", prioritizing support that benefits their own development. • US presence is rapidly declining (USAID dismantled), while China's presence is significant. Japan's investment in Africa remains low. • "Job creation" is the greatest need. 	<ul style="list-style-type: none"> (1) Promoting Trade and Investment <ul style="list-style-type: none"> • FTA negotiations with the East African Community • Promoting investment in manufacturing to create jobs (2) Human Resource Development <ul style="list-style-type: none"> • Developing local industrial experts and entrepreneurs for indigenous industries (TICAD's "ABE Initiative" – African Business Education Initiative for Youth) (3) Education Cooperation <ul style="list-style-type: none"> • Continuation and expansion of the "ABE Initiative" (4) Energy and Global Environmental Cooperation <ul style="list-style-type: none"> • Securing critical minerals (5) Rebuilding a Rules-Based International Economic Order <ul style="list-style-type: none"> • FTA with Africa <ul style="list-style-type: none"> ⇒ Strengthening ASEAN-India-Africa supply chains (6) Other <ul style="list-style-type: none"> • Promoting ODA for job creation in Africa to African nations, and promoting the diplomatic importance of aid to Africa to the Japanese public
Latin America	<ul style="list-style-type: none"> • Latin America and the Caribbean comprise 33 countries. Its population ranks third after South Asia and Sub-Saharan Africa. With a GDP of approximately \$7.1 trillion, it represents a massive consumer and labor market. • Declining US presence, rising Chinese presence, and declining Japanese presence. 	<ul style="list-style-type: none"> (1) Promotion of Trade and Investment <ul style="list-style-type: none"> • Conclusion of an EPA with Mercosur (2) Human Resource Development <ul style="list-style-type: none"> • Strengthening the "Juntos!! Program for Promoting Understanding of Japan in Latin America" (Ministry of Foreign Affairs), aimed at identifying and nurturing pro-Japan and Japan-knowledgeable individuals (3) Educational Cooperation <ul style="list-style-type: none"> • Support for Japanese descendants studying abroad through the "Japanese Descendants Scholarship" (The Nippon Foundation) and the Japanese descendants quota under the "Government-Sponsored Foreign Student Program" (Ministry of Education, Culture, Sports, Science and Technology)

Region	Current Situation	Challenges & Approaches to Collaboration and Co-Creation
		<p>(4) Energy and Global Environmental Cooperation</p> <ul style="list-style-type: none"> • Securing critical minerals. Specifically, participation in lithium and copper production projects, and cooperation in developing lithium application technologies <p>(5) Rebuilding a Rules-Based International Economic Order</p> <ul style="list-style-type: none"> • Promoting an EPA with Mercosur • Strengthening CPTPP-EU cooperation (with Chile and Peru participating) <p>(6) Other</p> <ul style="list-style-type: none"> • Collaboration with large-scale Japanese communities is important

Points to Note

- ① Direction of Japan's Leadership in Leading Collaboration with the Global South: Among the five cooperation areas, "rebuilding a rules-based international economic order" is the most urgent task. In doing so, establishing a "unifying axis" aimed at future WTO rules and international coordination are indispensable.
- ② "Collaboration with Third Countries" – pursuing co-creation with the Global South in partnership with other governments and companies – is also a crucial option.
- ③ A major challenge in promoting co-creation with the Global South is the need to clarify basic policies regarding the acceptance of foreign workers and their integration into Japanese society. It is necessary to clearly explain to the public the benefits of accepting foreign workers, such as alleviating Japan's population decline issue.

JEF initiated the Global South Research Group with prominent Japanese experts in April 2025.

R oundtable on “Aiming for a Service Industry that Leads Japan & the World” (Nov. 18, 2025)

By Japan SPOTLIGHT

Participants: Dr. Naoyuki Yoshino, emeritus professor, Keio University
 Seishi Kamiya, retired partner at Deloitte Tohmatu LLC.
 Prof. Chung Su-lin, Faculty of Business Administration, Toyo University
 Prof. Junichiro Tokue, Faculty of International Tourism Management, Toyo University
Moderator: Masakazu Toyoda, chairman & CEO, Japan Economic Foundation (JEF)

Participants



Dr. Naoyuki Yoshino



Seishi Kamiya



Prof. Chung Su-lin



Prof. Junichiro Tokue



Masakazu Toyoda

Abstracts of Discussion

- Japan’s service industries, including consulting, retail, and lodging, have demonstrated a strong domestic performance rooted in quality, customization, and customer-centric practices. However, their international presence remains limited due to over-adaptation to Japan-specific systems and insufficient scalability. Strengthening global competitiveness requires clearer visualization of service values and alignment with international standards.
- Digital transformation and AI adoption are essential to raise productivity, reduce costs, and better leverage customer data across service sectors. Given population decline, etc. at home, overseas expansion – often through partnerships or localized adaptation – is unavoidable for sustainable growth. M&A is viewed as a critical tool to acquire scale, talent, and local market access, especially where organizational expansion is difficult.
- Participants emphasized the need for stronger government involvement in global standard-setting and international market entry. Public-private collaboration can help overcome language barriers, regulatory hurdles, and disadvantages faced by non-English-speaking countries. Policies supporting talent mobility, fair competition, and digital infrastructure are key to elevating Japan’s service industries globally.

Introduction

Toyoda: It has long been said that Japan’s economy has endured a “lost 30 years”. However, thanks to the efforts of the late Prime Minister Shinzo Abe’s administration and its successors, it is now said that Japan has finally begun to emerge from deflation. The government of Sanae Takaichi, which took office at the end of October, has stated it would pursue a “proactive fiscal policy” with

responsibility.

Amid ongoing geopolitical uncertainties like the conflicts in Ukraine and Gaza, coupled with tariff hikes by the administration of US President Donald Trump, cautious optimism is emerging about how much brightness the Japanese economy can regain. Japan is often regarded as a nation of manufacturing, centered on automobiles. However, industries with the potential to lead the world also exist in significant numbers within Japan’s service sector. This year, the Japan Economic Foundation convened expert study groups on the

theme of “Challenges and Responses for Japan’s Leading Service Industries” across six sectors: finance, consulting, railways/shipping, general trading companies, retail, and lodging services. While these service industries demonstrate strong performances within Japan, the study concluded that significant challenges remain for them to achieve top-tier status internationally.

This roundtable discussion will feature the chairperson who has led our expert study group, along with experts in consulting, retail, and lodging services – selected from these promising service industries – to discuss future challenges and responses. First, we would like each expert to share their insights on the current state and international positioning of their respective Japanese service industries, highlighting their strengths and weaknesses.

Second, the study group has identified at least three key challenges for achieving internationally competitive performance: advancing DX (Digital Transformation), expanding overseas business, and pursuing M&A. How is each industry addressing these? Third, we seek input on expectations for the government. What actions are expected from the government to improve the respective business environments?

I would like to introduce the experts we have invited. First, Prof. Emeritus Naoyuki Yoshino of Keio University, who served as the chairperson of the expert study group. Next, from the consulting field, Mr. Seishi Kamiya, retired partner at Deloitte Tohmatsu LLC. From the retail sector, we have Prof. Chung Su-lin from Toyo University’s Faculty of Business Administration. Additionally, from the lodging services sector, that is the *ryokan* and hotel industry, we welcome Associate Prof. Junichiro Tokue from Toyo University’s Faculty of International Tourism Management.

Current State & International Positioning of Japan’s Service Industry

Toyoda: Let us now proceed to the discussion. First, “The Current State and International Positioning of Japan’s Service Industry”. Prof. Yoshino, we would like to request your overall assessment of the six service industries covered in our study group. This is a general evaluation of their positioning within the Japanese economy and their international standing.

Yoshino: As you mentioned, Japan’s structural issues require proactive fiscal measures. Within fiscal policy, the most crucial elements are policies that boost productivity and increase R&D investment. My research indicates that benefits and similar measures only yield short-term effects. Within fiscal policy, I strongly urge this administration to pursue measures aimed at productivity and technological advancement. I hope they will work towards lowering prices through productivity gains that offset the rise in import prices caused by yen depreciation.

The second structural issue is Japan’s aging population and

declining birthrate. Considering this, the service industry must inevitably expand overseas. Furthermore, Japan is at the forefront of daily service innovations addressing the needs of the elderly. The services developed from this experience to address aging populations have significant potential for export and deployment in other countries.

Third, I believe it is essential to strengthen the service industry to support regional economies. There is significant room for innovation, such as encouraging inbound tourists to enjoy local Japanese cuisine and hospitality, prompting repeat visits, or offering services like extended stays at regional hot springs with clean air for medical treatment. It is necessary to promote these regional services globally via the Internet.

The fourth major issue facing Japan is that start-ups and ventures have struggled to grow over the past two decades. To strengthen the service industry, financing is needed to fund new service businesses and expand service sectors where Japan has strengths. In addition to the crowdfunding that has been advancing for some time, innovative funds have recently emerged. These funds allocate around 30% or 40% to securities like stocks, while directing 70% or 60% toward funding regional start-ups.

Fifth, while this point wasn’t discussed much this time, recent conversations with private sector representatives led to the idea that Japan may struggle to cultivate “super humans”. While the United States has produced figures like Bill Gates, Japan unfortunately seems unable to nurture individuals who excel exceptionally in specific fields. How can we cultivate super talents in Japan? I believe we also need platforms where such individuals can thrive.

The competitiveness of manufacturing is visible. Anyone understands that making good products cheaply is key. There’s no language barrier like English to get in the way. If you make high-quality products affordably, anyone can use them conveniently. I believe this is why Japan succeeded in manufacturing.

However, it is often difficult for the service industry to visualize its competitiveness. Consulting services, retail, and lodging in particular involve many intangible aspects. Within retail, Japan’s approach focuses not on large supermarkets but on formats like convenience stores, which have also expanded overseas. In lodging services, major international brands have entered Japan. Yet traditional Japanese hospitality, as seen in *ryokan* inns, remains popular with foreigners. I believe Japan possesses strengths in retail and lodging services that can be successfully exported overseas. I would like to discuss whether Japanese approaches to consulting services can also expand into markets like Asia.

Consulting

Toyoda: Thank you. You’ve provided an excellent overview of the whole picture. Now, let’s move on to the specifics. I’d like to ask Mr.

Kamiya about this. While the leading Japanese consulting firm generates less than half of Accenture's revenue, its profit margin is around 12%, nearly on par with Accenture. For a Japanese company, this is by no means low. Having worked at Arthur Andersen and KPMG, you are now a partner at Deloitte Tohmatsu, serving as one of the leaders for the Asia-Pacific region. With nearly 30 years in foreign consulting firms, what are your thoughts on the strengths and weaknesses of Japanese consulting firms?

Kamiya: First, the consulting business doesn't require particularly heavy-duty assets or equipment to run the business. So, in terms of gross profit margin or profit margin being higher compared to other industries, I believe this holds true for both domestic firms and the foreign-affiliated firm where I work. Then why is there such a significant difference in scale between the two? I think this relates precisely to the strengths and weaknesses of Japanese consulting firms mentioned in your question, and I believe it's a double-edged sword kind of relationship.

First, Japanese consulting firms are characterized by their strong alignment with traditional Japanese management practices, which I believe is their greatest strength. The services and solutions they provide are highly tailored to Japan's industrial structure, corporate culture, business customs, and regulations – perhaps excessively so.

Consequently, however, their capacity to serve overseas companies outside Japan is limited. This slows their international expansion. Furthermore, their interest in international standards, norms, and regulations is not particularly high. This, in turn, may be contributing to the Galapagos syndrome within domestic industries and weakening their ability to introduce innovations originating overseas into the domestic market. These are the weaknesses I believe are emerging.

Secondly, Japan has a culture that fears failure and tends to overly criticize the failed when failures occur. Because of this Japanese cultural tendency, many consulting firms are favored by large corporate clients. They are protected by their past track records and provide services based on long-term, stable relationships. This is the strength of Japanese consulting firms.

Lastly, take IT systems as an example. Specific Japanese consulting firms have developed complex, tailor-made customizations for specific Japanese client companies. This strong barrier to entry becomes difficult for other companies, including foreign consulting companies, to newly enter the IT projects with those clients because they often lack a clear understanding of the current status, making it hard for them to offer different but better solutions. This background is one of the major causes of vendor lock-in, which is a significant drawback. I believe this is not only a weakness specific to Japan's consulting industry, but more a weakness at the industry level across Japan as a whole. This is particularly pronounced in platforms for the financial industry, government agencies, and local governments. These are locked into a small number of companies.

Given this situation, Japanese consulting firms often prioritize providing standardized solutions that have gained a certain level of trust domestically to as many domestic companies as possible. Once these solutions become widespread and the market reaches saturation, there is a tendency for Japanese consultants to focus more on maintenance and refinement rather than new development. I believe this is why the market size remains relatively small and growth rates appear lackluster compared to overseas consulting firms.

Retail Industry

Toyoda: Thank you. That was very interesting. I'd like to turn now to Prof. Chung Su-lin. You are originally from Taiwan, yet you research Japan's retail industry. After the era of department stores and supermarkets, we are now said to be in an era where convenience stores and shopping malls are performing strongly. While their scale is about one-seventh that of Walmart, their profit margins – particularly for convenience stores at 2-3% – are not exceptionally high in general terms. However, within the retail industry, they appear to hold their own not only against US but also against UK and French retail sectors. How do you assess the strengths and weaknesses of this Japanese retail sector?

Chung: The strength of Japanese convenience stores, as I see it, lies in their continuous evolution. Their convenience and service quality are highly regarded worldwide. I believe there are four key characteristics.

One is proprietary product development. Japanese convenience stores develop their own products across a wide range of categories, from prepared meals and fast food items to processed foods, daily necessities, and apparel. Furthermore, the high proportion of prepared meal items like rice balls, boxed lunches, and side dishes in total sales is another characteristic feature of convenience stores. The pioneer in this area was 7-Eleven, which initiated team merchandising with manufacturers in 1979. This remains a key strength for 7-Eleven today. Subsequently, FamilyMart and Lawson adopted similar team merchandising approaches, and all major convenience store chains now actively pursue new product development.

Furthermore, since the 2000s, convenience stores have begun developing private brand products. As you may know, 7-Eleven has "Seven Premium", FamilyMart has its "Famimaru" private brand, Lawson has "Lawson Select" and recently "Three-Star Lawson" has emerged as a key strength.

The second strength is individual item management through information systems. This too was first introduced by 7-Eleven from the US. Since the American 7-Eleven model couldn't be adapted to Japan, they developed their own system. The second key strength of Japanese convenience stores lies in methods for grasping detailed

sales data: streamlining ordering processes through EOS implementation and reducing inventory via POS systems, which are crucial for individual item management.

The third strength is the logistics system. The high-frequency, small-lot, scheduled delivery system is also an innovative Japanese convenience store logistics mechanism. When convenience stores first emerged, excessive store inventory was a major problem. The introduction of this joint logistics delivery system has now largely resolved that issue.

The final point is Service, Quality, and Cleanliness. I believe this is one characteristic shared not only by convenience stores but by the entire Japanese retail industry. Particularly in terms of service, convenience stores have introduced diverse services that fulfill an infrastructure role, such as 24-hour operation, utility bill payments, ATM installation, and package acceptance.

Since the 1990s, the introduction of multimedia terminals has enabled them to provide not just printing, but various administrative services and coupon issuance. This has alleviated labor shortages and allowed tasks previously impossible to handle in-store to be managed digitally. Recently, self-checkout systems and in-store product delivery services have also been launched.

Their strength lies in evolving from traditional retailers into comprehensive lifestyle hubs. Furthermore, the advancement of digitalization has enhanced purchasing convenience, making them an innovative business model. Now, Japanese-style convenience stores with these characteristics are expanding into various countries, primarily across Asia.

One weakness is that dependence on the domestic market remains quite high. The number of domestic stores has slowed in recent years. I believe this is due to Japan's accelerating population decline and aging society. Additionally, products sold at convenience stores tend to be priced higher compared to general supermarkets and drugstores, which is a slight disadvantage for price-conscious consumers.

Another issue is the franchise structure. Over 97% of Japanese convenience stores operate as franchises, and the burden on owners due to factors like 24-hour operations is a significant concern. Furthermore, digitalization efforts seem somewhat behind schedule.

Toyoda: Thank you. When you mentioned the owner's burden, were you referring to the person who owns the franchise, or the individual stores themselves?

Chung: Amidst labor shortages, I believe that having to uphold a 24-hour operation contract places a significant burden on the owner.

ranges from extremely small inns to ultra-luxury hotels and business hotels. Compared to global chains like Marriott, mid-tier Japanese hotels may have about a quarter of the sales volume, but their profit margins of 10-15% are quite competitive. How do you assess the strengths and weaknesses of Japan's lodging industry? Particularly, a significant number of Japanese companies that expanded overseas have withdrawn. It seems few companies possess networks in foreign countries. There are companies that have succeeded by marketing Japanese characteristics, like the "hotel-in-hotel" concept, and have carved out niche markets. While Japan is rich in tourism resources, I've also heard that the number of lodging establishments in regional areas has significantly decreased. I would appreciate your insights on the strengths and weaknesses of Japan's lodging industry.

Tokue: I think the services provided in Japan's lodging industry are exceptionally attentive. For example, overseas, even at three-star level hotels, you might encounter places without hot water. In Japan, however, even budget hotels reliably provide hot water and are so clean. While the rooms themselves might be compact, every other aspect is maintained to a standard that rivals the finest luxury hotels. This level of attention is rarely seen abroad, and I believe it truly reflects the meticulousness characteristic of the Japanese people.

Additionally, anticipating others' wants is a trait of Japanese people. Consequently, in interpersonal interactions, Japanese individuals tend to proactively consider others' perspectives and respond with a gentle approach. I often hear that this is frequently evaluated positively as being kind and considerate.

However, I believe it has become apparent over the past 20 to 30 years that we haven't fully leveraged this as a strength in business. One reason is the sheer scale of sales: comparing the largest overseas companies with the largest Japanese companies by revenue, the gap is currently about tenfold. Furthermore, there may be an underlying perception that scale itself isn't necessarily the most important factor.

In the past, Japanese companies also owned hotel chains: InterContinental and Westin, which now operate chains worldwide. However, they were forced to divest during the recession following the bubble economy's collapse. As a result, Japanese hotel companies are now positioned globally as merely local players in the Far East, making it difficult for them to establish a significant presence – which is truly unfortunate.

While size alone isn't necessarily the key factor, I believe that with a geographical focus primarily on Japan, supplemented by a few properties in East Asia like China, it becomes difficult to achieve scale merit. This inevitably hinders competitiveness as a business.

Lodging Industry

Toyoda: Now, let's hear from Prof. Tokue. Japan's lodging industry

Three Challenges & Responses

Toyoda: I'd like to move on to the second question. The service

industries we've discussed here are leading players within Japan's service sector. However, the research group indicates that further management efforts are needed internationally. The common measures desired are: ① advancing DX, ② overseas expansion, and ③ M&A. I'd like to hear your assessment of how each industry is addressing these areas and whether they are responding sufficiently. First, I'd like to ask Prof. Yoshino. Could you explain why you selected these three challenges and what are your thoughts?

Yoshino: I believe the utilization of digital technology (DX) and AI is most essential for improving administrative efficiency. Particularly in Japan, I feel the adoption of DX has been slow in government agencies and various businesses. This is leading to higher costs. If the government were to further digitalize the submission of documents and data collection from the private sector, it would reduce time costs and contribute to improving productivity across Japan.

Furthermore, increased use of AI enables the collection of diverse information and analysis using gathered data. By effectively utilizing DX and AI in areas like back-office operations, I believe it can lead to sales expansion, identification of consumer preference patterns, discovery of new services tailored to those preferences, and ultimately, the provision of competitive services.

Regarding overseas expansion, given that business growth is difficult domestically due to aging and population decline, I think Japan has a high chance of succeeding in international competition if it can adapt and reorganize the services it has uniquely developed for Japan to suit other countries while expanding abroad. Convenience stores, in particular, have become widespread in many countries because they offer high convenience in places that aren't car-centric societies like Japan.

I think it is also essential for Japanese service companies to collaborate with local firms in each country or, through M&A, effectively integrate regional companies while building partnerships to expand their business. Furthermore, I hope they pursue overseas expansion that enables continued growth through enhanced productivity, achieved by educating and training employees in each country and fostering motivated talent development.

So I think the three most critical points are: (i) AI-driven digital transformation (DX), (ii) overseas expansion, and (iii) collaboration with local companies through M&A.

Retail Industry

Toyoda: Moving on to the specific topics, we'll start with Prof. Chung. Regarding DX, I believe convenience stores will eventually move toward unmanned operations. How would you assess the current state? Specifically, is progress sufficient or insufficient?

Secondly, overseas expansion. It appears quite advanced,

particularly in Asia. Conversely, how about expansion into Europe and America? Is expansion into Europe and America, rather than Asia, feasible? Or does the business model differ, meaning different conditions are required to succeed in Europe and America?

Thirdly, M&A. While Japan has numerous convenience stores, including in regional areas, is there room for M&A? Overseas, M&A also seems like a good means to solidify positions quickly. What are your thoughts on this?

Chung: Regarding DX, I think there are slight differences among companies when it comes to convenience stores. FamilyMart has actually already opened about 50 unmanned convenience stores. The reason we don't see them much is because they are being built within communities. For example, they are converting company cafeterias into convenience stores, and there seem to be two or three stores in the Kanto region that are partially open to the general public. In this way, FamilyMart is expanding its unmanned convenience store outlets.

Lawson's joint operation with Mitsubishi Corporation and KDDI last year was an initiative to accelerate DX. Recently, they've introduced unmanned stores operated remotely – meaning no staff are physically present, and avatars converse via screens. While Japan seemed behind internationally in this DX trend not long ago, Japanese convenience stores now appear to be advancing rapidly.

At Takanawa Gateway Station on the Yamanote Line, there's an unmanned convenience store called TOUCH TO GO. It was developed by TOUCH TO GO Inc. Developing unmanned convenience stores is quite challenging. Processing purchases directly requires various devices, and I imagine it would take considerable time for a convenience store chain to develop this technology in-house. However, specialized companies exist to develop this technology. FamilyMart has partnered with TOUCH TO GO Inc. to roll out these unmanned stores. I think leveraging such external expertise is necessary.

Regarding overseas expansion, specifically into Europe and America, Germany has a law called the Shop Closing Act. It prohibits stores from opening after 8.00 p.m. on weekdays and prohibits opening on Sundays. Since Japanese convenience stores operate on a 24-hour business model, such a model obviously wouldn't work locally. Adapting by shortening operating hours becomes essential. Given that, I think it's still quite challenging for Japanese convenience stores to expand on their own. A local partner is necessary. For example, partnering with a local wholesaler or food manufacturer to expand would be one option. In fact, FamilyMart, which has been expanding in Asia, has followed this pattern. Starting from scratch is quite difficult, so a local partner remains a crucial element.

Also, while 7-Eleven is currently expanding in China, Hawaii, and North America, it's doing so alongside its Japanese partners Warabe and Nichiyo, who produce prepared foods like bento boxes and rice

balls. That's why they have local factories. Without a system that allows us to provide ready-to-eat meals – a Japanese strength – locally, even if the convenience stores themselves expand overseas, starting from the manufacturing plants would likely take considerable time to develop. Therefore, the most desirable model is one like 7-Eleven's, where we go overseas together with our Japanese partners. It means taking our strengths directly overseas. Of course, the products offered there need to be adapted to the local market. Offering products aligned with local food cultures, like hot soup and bread suited for Germans, becomes necessary.

However, considering this, I also think it's easier for Japanese convenience stores to enter countries familiar with rice. For example, I hear rice balls are trending overseas lately. By first selecting countries where rice ball culture is established, selling them as Japanese rice balls in convenience stores, and offering items exclusive to convenience stores rather than local supermarkets, I believe customers will come.

Europe cannot be viewed as a single entity. In countries where American culture is beginning to take root, or has already taken root, I think there is an opportunity to expand convenience stores. But the question is whether local partners can be found. That challenge must be overcome. Additionally, labor costs are rising, so it will be necessary to introduce advanced, unmanned DX-enabled convenience stores locally, creating a system that can operate 24 hours a day.

Regarding M&A, Japanese convenience stores have actually pursued acquisitions in various countries for some time. For example, in my home country of Taiwan, FamilyMart grew to its current size partly through M&A along the way. The same applies to China. They've increased their presence by acquiring local companies. Lawson has also expanded its store count through M&A in certain regions.

So when entering cities where convenience stores already exist locally, M&A is undoubtedly an option. But in areas where no convenience stores exist, M&A isn't feasible, so we must pioneer those markets ourselves.

Lodging Industry

Toyoda: Now, how about the lodging industry? First, how far along is DX? I imagine it varies by company, but generally speaking, is it sufficiently advanced? Secondly, overseas expansion. Japan's lodging industry seems the most lagging sector. Why the caution about going abroad? Is it a language issue? With the pandemic subsiding and tourist arrivals to Japan surging significantly, is it acceptable to remain passive regarding overseas expansion, even as domestic efforts are naturally prioritized? Thirdly, M&A. I suspect many Japanese inns and hotels lack successors. Overseas expansion also requires agile responses enabled by M&A, wouldn't you agree? I would like to hear Prof. Tokue's perspective.

Tokue: First, regarding DX, it's true we've made significant progress compared to before the pandemic. That said, I think there's still considerable room to advance DX further. Particularly in hotels, we offer not just lodging but also complex services like food and beverage facilities – restaurants, bars, lounges – and banquet functions. The reality is that DX has been slow to advance, especially for banquets and similar events. This is one issue we face. Furthermore, as I mentioned earlier, information sharing and utilization between these various departments is also not happening effectively. For example, information about guests staying in the hotel and information about guests in the restaurant are currently being used separately. I believe there is a need for more integrated use of this information in some form.

Incidentally, overseas hotel chains operate membership programs. Each hotel chain operates its own unique membership program. And the membership numbers reach staggering figures like 200 million members. The fact that these 200 million customers are spread across the globe is a key strength of these massive international chains. While Japanese hotel companies may not be able to achieve such membership numbers, conversely, to fully leverage the members they do have, I believe it will be necessary going forward to advance initiatives like DX across departments and information sharing.

Regarding the second point about overseas expansion, I think the reality is less that it was delayed, and more that the progress that had been reasonably steady was set back by the collapse of the bubble economy and the subsequent recession. One major reason for this is that within Japan's lodging industry, many companies are subsidiaries of firms in other sectors. Major hotel companies exist as subsidiaries of entities like railway companies and real estate firms. This inevitably means they are subject to the various intentions of their parent companies. This factor has had a significant impact. For example, even if a hotel itself was generating reasonable profits, there have been cases in the past where it was sold off due to circumstances on the parent company's side.

Then, what I've actually been finding quite serious lately is the disparity in compensation. Because we are not permitted to exceed the parent company's standards in terms of compensation, including salary, we are increasingly falling behind overseas hotel chains in terms of benefits.

Another important point is that Japanese hotel companies have traditionally viewed their business as steadily executing operations like lodging, food and beverage, and banquets themselves. Meanwhile, many overseas hotel companies have shifted significantly toward a business model of providing the know-how to do this. This is a unique concept within the hotel world. Through management contracts, a company different from the one owning the brand actually manages the property. The overseas chain company providing the brand generates revenue not only by licensing the brand

but also by supplying operational and marketing know-how.

For example, in Tokyo, there are Hyatt-affiliated hotels like the Park Hyatt and Grand Hyatt, and Marriott operates the Tokyo Marriott Hotel in Shinagawa. While these all carry overseas brands, they are actually managed by Japanese companies. Viewed from the opposite perspective, Hyatt and Marriott are developing a business centered on providing operational and marketing know-how. This is an area where Japanese companies have not been particularly successful.

Regarding your third question about M&A, this is currently a significant issue, particularly for traditional inns (*ryokan*), though hotels face it too. While hotels have seen some degree of chain consolidation, *ryokan* are mostly independently owned. The reality is that many facilities facing succession issues are disappearing. Various countermeasures are being considered, but they haven't been very successful.

At one point, roughly three ryokans were disappearing every day. Considering that from the peak number of establishments around the 1980s, three *ryokan* closed daily, meaning over 1,000 annually, while other factors besides the successor shortage exist, it seems many *ryokan* simply vanished out of necessity due to the lack of successors.

During Japan's bubble era, overseas hotel businesses were acquired through M&A and brought under corporate umbrellas. I think similar actions are now necessary. In October 2025, Prince Hotels announced its acquisition of Seattle-founded Ace Hotel. I think an increase in such moves could make a difference.

Toyoda: For example, Marriott owns a very large number of hotels under the Marriott umbrella, but fundamentally, it doesn't own them itself. Is it essentially a franchise chain?

Tokue: It's a concept similar to franchising. The major difference from franchising is that Marriott also dispatches personnel to the management level. In a franchise, it typically involves only the provision of operational know-how and brand usage rights. However, in the case of hotels, it also includes the dispatch of personnel such as the general manager. Conversely, it might be easier to understand if you think that in many of the so-called foreign-affiliated hotels in Tokyo, whether they bear the Marriott or Hyatt name, only a handful of staff are actually dispatched from the foreign hotel company itself.

Toyoda: Is that something Japanese companies aren't very good at?

Tokue: They are not particularly skilled at it. While Hoshino Resorts and Okura Nikko have been advancing such initiatives to some extent, I think the tendency up until now has been more toward expanding independently – acquiring land and buildings, or even without acquiring them, leasing them and directly managing operations there.

Toyoda: In that sense, Hoshino Resorts seems to operate with a slightly different approach from traditional inns and hotels, doesn't it?

Tokue: Yes, that's right. It feels like they're trying to follow the textbook approach for overseas operations to the letter.

Consulting

Toyoda: Now I'd like to ask Mr. Kamiya about the consulting aspect. While DX seems to be advancing in Japanese consulting, isn't the overly strong relationship with vendors, the so-called vendor lock-in, holding things back? Regarding overseas expansion, frankly I feel we're lagging behind. As you pointed out, is this because Japan's business model isn't strategy-centric? Strategy is decided by the country or government agencies, and the focus is on technology transfer and manufacturing processes. But in terms of industrial policy, I feel governments in Europe and the US are increasingly setting strategies themselves. Does this mean Western consultancies are pushing forward their own strategies without being overly constrained by government directives?

Regarding language barriers, foreign languages are not easy for Japanese people. How should we approach this issue? Finally, what about M&A as a third option? Couldn't it also serve as a means for overseas expansion?

Kamiya: Regarding the relationship of Japanese consulting firms with vendors, as you mentioned, many of Japan's largest consulting firms are managed by vendors. Within this context, concerning current DX efforts, while the cutting-edge technologies of DX often originate overseas, that is something difficult to handle for Japanese consulting firms. Japanese vendors possess excellent foundational technologies in areas like IoT, high-speed wireless communications, and more recently, quantum computing. However, it remains unclear whether these technologies can secure international standards. In this sense, I think Japanese vendors are already lagging behind in comprehensive DX technologies, including Robotic Process Automation (RPA), cloud computing, and AI.

On the other hand, overseas consulting firms like the one I work for do not focus on proprietary technology. Instead, they specialize in proposing and implementing how to combine various solutions provided by vendors, such as cloud vendors and SaaS providers, to help client companies achieve their business objectives. An article on Nov. 18, 2025 in the *Nikkei* newspaper featured Robin Vince of the Bank of New York Mellon stating, "BNY (Bank of New York Mellon Corp.) has 100 digital employees. We've lost people due to the pandemic, but we're not struggling." Achieving this requires a considerable number of technologies to be woven together. This is what really needs to be done also in Japan, but Japanese providers are not good at flexibly integrating with technologies outside their

own, and I think Japanese consulting firms are the same.

Furthermore, Japanese companies themselves tend to be uncomfortable using foreign consulting firms or overseas vendors that require English proficiency, making them prone to vendor lock-in domestically. This likely contributes to the difficulty of introducing the latest technologies into Japan.

Another hidden issue in Japan is an internal conflict of interest: if the latest DX technologies are introduced, it could eliminate the maintenance contracts that other divisions within Japanese consulting firms have received for years under traditional technologies. This is likely why there is caution about promoting such initiatives internally.

Regarding overseas expansion, focusing solely on the delayed internationalization of Japanese consulting firms, I imagine it stems from the fact that the solutions they offer are optimized for Japan's specific circumstances and environment. Consequently, unless a company needs to conduct business in the Japanese market, overseas firms likely have little incentive to approach them.

Regarding the positioning of strategy, as you mentioned, overseas companies use consulting firms to formulate strategies for winning in competition and to explore ways to implement them. However, many Japanese consulting firms place greater emphasis on efficiently installing and maintaining solutions from their own vendor departments. This mismatch between the needs and capabilities demanded of consulting firms overseas and those in Japan makes it difficult for them to expand overseas on their own. Consequently, language barriers and the lack of adaptation to diverse cultures are also significant factors. I believe this is why they are hindered from expanding overseas.

Regarding your final question about M&A, many overseas consulting firms adopt the partnership system I mentioned earlier. If they require specific technologies or talent for their future growth, they simply bring those entities into their partnership structure. Since partnerships are not publicly traded companies, this system makes such acquisitions very straightforward as long as the other partners agree.

On the other hand, most Japanese consulting firms are publicly traded corporations. To achieve similar goals, they must resort to M&A activities like acquisitions. This involves significant legal procedures, disclosure requirements, and costs, making it a challenging approach for Japanese consulting firms, especially large ones.

Nevertheless, looking at Japanese industry as a whole, companies in manufacturing, pharmaceuticals, finance, entertainment, and other sectors have acquired major overseas firms. These acquisitions have served as crucial stepping stones for achieving internationalization. Therefore, if organic (non-M&A) overseas expansion isn't feasible, Japanese consulting firms should pursue inorganic M&A by leveraging external resources, such as capital and business provision.

Looking back over the past 10 to 15 years, several large Japanese consulting firms have been actively pursuing this strategy.

Requests to the Government

Toyoda: Now, I'd like to move on to the third point: requests for the government. First, Prof. Yoshino, what do you think the Japanese government should do to help Japan's service industry develop into a globally competitive pillar of the Japanese economy?

Yoshino: I think it is crucial whether Japan's approach can successfully adapt to international standards and align with them. For example, even with various electric vehicle technologies (such as hybrid vehicles), Europe sometimes refuses to recognize them, meaning Japan's valuable technologies may not become international standards. To avoid this, cooperation between the private and public sectors is essential. It is vital for the government to effectively globalize Japanese standards during the creation of international standards.

Secondly, I believe countries like France and Germany on the European continent are making concerted efforts to strengthen their international competitiveness by having government and private sectors work together to promote the global adoption of their domestic companies' technologies. France is well-known for its strong bureaucracy, and Germany also has various government agencies. Without cooperation between government and private sectors, I think it's quite difficult for countries where English isn't the native language to compete against companies from English-speaking countries, which tend to have an advantage in establishing international standards favorable to themselves.

Even in the service industry, I believe there are administrative and legal systems, along with various practices, in the target country. It is necessary for the public and private sectors to unite, and further utilize local agencies like JETRO, to successfully enter these markets.

Finally, it's about employment. We need a system to attract top talent in the countries we expand into. To achieve this, alongside Japan's brand name, we must aim to further enhance Japan's overall image, including through our embassies, to effectively promote it. This will enable us to attract talented individuals from abroad and foster the growth of each company. Furthermore, we should establish a system that provides commensurate compensation and benefits to these outstanding overseas talents. It is also desirable to build a framework that allows even Japanese companies that do not use English to attract top talent from abroad.

Lodging Industry

Toyoda: Thank you. I think that is a very important point. Now, let us move on to each industry. The hotel and inn industries seem to face

strict regulations. Prof. Tokue, from your perspective, do you have any thoughts on what the government should do?

Tokue: The biggest problem right now is that, from the user's perspective, so-called private lodgings and the lodging industry are seen as similar entities with high substitutability. Yet, various legal regulations, starting with the Fire Service Act, inevitably impose stricter requirements on the lodging industry. This naturally leads to higher costs, resulting in significant differences in price competitiveness.

Indeed, if we consider the point of ensuring guests can stay safely and securely, it is crucial to proceed firmly based on the established standards for the lodging industry. However, on the other hand, private sector standards are already in effect. Given this situation, unless regulations governing lodging businesses, such as the Hotel Business Act, along with other laws like the Fire Service Act and Building Standards Act, are applied to private lodging, there is a risk that guests staying in private lodgings could suffer harm in the future.

Toyoda: In that context, it seems Airbnb hasn't really taken off in Japan. While that likely has both positive and negative aspects, is it a matter of regulation?

Tokue: Airbnb is essentially a private lodging platform, and it has actually gained quite a bit of traction. However, it's primarily used by foreigners visiting Japan, and not many Japanese people use it for their own travels. There aren't many specialized private lodging platforms targeting Japanese travelers right now, which is why it feels like it hasn't really taken off here.

Toyoda: But since it's expanding reasonably well, can we consider it just a matter of time?

Tokue: Yes. It seems that inbound tourists from overseas actually check those sites as well. When Japanese people travel somewhere, most of them tend to look at Japanese-oriented Online Travel Agents (OTA) like "Jalan" or "Rakuten Travel". While some do use overseas sites like "Booking.com" or "Agoda", the uniqueness of Japanese-oriented sites, or rather, the Japanese-oriented OTAs, might be one reason.

Toyoda: From the perspective of regulations, Japan isn't particularly strict. Compared to Europe and the US, for example, it's not stricter regarding the inn industry; it's generally about the same.

Tokue: Of course, there are differences depending on the country, but I don't feel that lodging businesses operating under the Hotel Business Act in Japan are particularly strict.

Yoshino: When Japanese hotels expanded overseas, I recall that in the past, for example, JAL Hotels and others catered to the large number of Japanese tourists traveling abroad, and there were a fair number of Japanese-affiliated hotels. Later, as fewer Japanese tourists went abroad, did that contribute to their decline? If they had managed things well, I feel they could have developed more successfully locally. What do you think?

Tokue: What you just mentioned is actually a very important point. During the era when Japan Airlines and All Nippon Airways were expanding their chains globally, as you rightly pointed out, their primary customers were Japanese. Back then, there were indeed hotels operated by Japan Airlines in both New York and Paris, and the majority of guests were Japanese.

However, compared to that era, more Japanese actually travel overseas now. Although the yen is weakening again now, compared to that era, the yen is stronger, and Japanese people are actually traveling overseas more frequently. So why did those hotels withdraw? Precisely because they primarily targeted Japanese customers, their target market became too narrow, and they couldn't keep up. For example, if we look at overseas hotels now entering Japan, such as The Peninsula, are they only targeting Chinese customers? No, that's not the case.

In short, the crucial point is that they have been successfully integrated into the local community and are perceived as one of the local hotels. Hotels in Japan that cater to international guests generally succeed in attracting visitors from around the world. Unfortunately, if you can only expect guests from a specific country, it becomes difficult to sustain the business. This is precisely what happened to hotel chains that expanded overseas at the time, and I think similar issues arose for department stores attempting overseas expansion.

Even within the retail sector, while Aeon has achieved considerable success with localization and thrives, when department stores expanded overseas, they primarily focused on Japanese tourists. Consequently, I believe many ended up withdrawing from those markets.

Yoshino: So does that mean that even back then, if they had blended in with the locals rather than just being Japanese, they might have succeeded?

Tokue: As you say, it's truly regrettable that we didn't properly adapt to the way business is conducted in each region.

Consulting Again

Toyoda: Next, I'd like to ask Mr. Kamiya about consulting again. You've stated that a supervising authority should be designated for

consulting. What specifically concerns you about this matter?

Kamiya: This is my personal view. Regulatory agencies have two roles: supervision and fostering. In that sense, I think it would be beneficial to designate specific ministries and agencies to be responsible for consulting businesses. Currently, with the exception of audit firm-affiliated consulting companies, Japanese consulting firms are not regulated. This makes them prone to oligopoly issues. I think it's too much to rely solely on the Fair Trade Commission to ensure fair competition, so I believe supervision by a specific government ministry and agency, or at least a certain level of self-regulation, is necessary.

On the development side, it is crucial that Japanese-originated solutions are not isolated. When competing internationally to establish standards, it is vital for businesses to receive guidance and backing from government ministries and agencies, ensuring their operations align with national strategy. I think it also would be beneficial to designate a specific government agency that Japanese consulting firms can rely on. Considering both these aspects, I believe a designated supervisory agency is necessary.

Toyoda: For example, in countries like the US, the UK, and Germany, which government agency is responsible for this?

Kamiya: I don't think they are being supervised.

Toyoda: Isn't anyone supervising anywhere?

Kamiya: Both sides are like that, but Japan, precisely because it isn't being supervised, should be able to operate more freely. Yet both sides strongly prefer vendor lock-in and want to stick with established partners, leading to this rigidity. This is a problem unique to Japan, so I think some degree of coercion is necessary to break it down or make things more flexible.

Retail Industry

Toyoda: I see. Thank you very much. Prof. Chung, what are your thoughts? It seems there are various regulations on retail. For example, do you have any requests for the government, such as harmonizing regulations or addressing excessive unnecessary regulations?

Chung: Regarding regulations on Japan's retail industry and convenience stores, they certainly exist, but I believe they are necessary to protect consumers and workers. Therefore, while there are no issues within Japan, some other countries impose restrictions on foreign investment, creating barriers to entry. When expanding internationally, unless these foreign investment regulations are eased

in each country, it can be quite difficult to succeed.

Regarding digitalization and proposals to the government, there is the example of Taiwan's digitalization progressing further than Japan's. In fact, FamilyMart's Famipay was actually developed first in Taiwan. So why did Taiwan get there first? Taiwan has been developing digital technologies suitable for use in convenience stores through joint development between the government's third-party agency, the Industrial Technology Research Institute (ITRI), and companies.

The background is that the Taiwanese government has been pursuing a digital policy as a key national strategy for several years, actively supporting businesses. To respond to this national strategy, the retail sector has also worked diligently. Without such national support, progress can be difficult relying solely on the private sector. I think if the Japanese government provided a bit more support in this area, the retail industry would also move forward more actively.

Regarding overseas expansion, I also firmly believe public-private cooperation is absolutely essential. Progress can be difficult without national support. Cooperation between the public and private sectors is crucial for negotiations with target countries and for advancing digitalization domestically.

Toyoda: Regarding the overseas expansion of service industries, or even the improvement of the domestic environment, I feel there was a slight lack of awareness that the Japanese government itself needs to be more involved. Based on everyone's comments today, I hope this will open the eyes of the Japanese government as well. Thank you.

(Disclaimer: The opinions expressed by Mr. Kamiya are solely his own and do not represent the views of Deloitte Tohmatsu as an organization.)

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Written and translated by Naoyuki Haraoka, editor-in-chief of *Japan SPOTLIGHT*, with the cooperation of Tape Rewrite Co.

R oundtable: Building a Healthier World Through Medical Tourism

By *Japan SPOTLIGHT*

Medical tourism in Japan has great potential, given the country's advanced medical technology and rich tourism resources, and the Japanese government, hospitals and businesses are ready to promote it. Experts from these three areas discuss ways to develop and achieve this potential, and how to overcome possible challenges along the way.

Participants: Dr. Kenji Shibuya, CEO of Medical Excellence Japan (MEJ)
 Yusuke Aoi, General Manager of the 1st Department, Provider Division, Wellness Business Unit, Mitsui & Co. Ltd.
 Mitsunori Fukuda, Director, Healthcare Industries Division, Commerce and Service Industry Policy Group at the Ministry of Economy, Trade and Industry (METI)

Moderator: Masakazu Toyoda, chairman & CEO, Japan Economic Foundation (JEF)
 (Roundtable on Oct. 10, 2025)

Participants



Dr. Kenji Shibuya



Yusuke Aoi



Mitsunori Fukuda



Masakazu Toyoda

Introduction

Toyoda: Medical tourism refers to the phenomenon of traveling across borders to receive medical services while also enjoying tourism. Recently, it has attracted the attention of many people worldwide. Various reasons are cited, such as “desiring better treatment”, “seeking more affordable treatment”, “wanting to enjoy sightseeing during recovery or while awaiting diagnosis results”, and “hoping to experience lower living costs and interact with locals who are welcoming to foreigners”. According to mediPhone, a Japanese company providing support services for foreign patients, estimates suggest the global market size will nearly triple from 14 trillion yen to 48 trillion yen over the six-year period from 2022 to 2028.

Several countries in Asia are developing medical tourism and attracting attention, including Thailand, Singapore, Malaysia, and South Korea. According to a report by the Ministry of Economy,

Trade and Industry's “Study Group on Ideal Approaches to the Appropriate Promotion of Medical Tourism” published in June 2025, Thailand is reported to have received approximately 3 million medical travelers in fiscal year 2023. Singapore, while said to have remained flat in recent years, is estimated at around 500,000. Malaysia reached approximately 850,000 in 2022 (including foreign residents), and South Korea is reported to have had about 600,000 travelers in 2023.

In contrast, the number of medical travelers to Japan is extremely limited, estimated at only 20,000 to 30,000. Given that the number of foreign visitors to Japan this year is projected to exceed 40 million, this figure is remarkably small. Recently, both the Ministry of Health, Labour and Welfare and METI appear to be considering various policies for medical tourism, recognizing its importance for Japan as well.

Today, we have invited three experts to discuss how Japan, like other Asian countries, can develop medical tourism. First is Dr. Kenji

Shibuya, CEO of Medical Excellence Japan (MEJ), which supports the international development of Japanese medical care. Dr. Shibuya also has experience as a professor in the medical research departments at King's College London and the University of Tokyo.

Second, Mr. Yusuke Aoi, general manager of the 1st Department, Provider Division, Wellness Business Unit, Mitsui & Co. Ltd. As the largest shareholder of Malaysia-based IHH Healthcare, the company is driving innovation in health care across Asia. IHH Healthcare is a hospital operator with approximately 80 hospitals across 10 Asian countries.

Third, Mr. Mitsunori Fukuda, director of the Healthcare Industries Division, Commerce and Service Industry Policy Group at METI. This division held the study group mentioned at the outset.

Why Medical Tourism Is Important for Japan

Toyoda: So let's proceed with the first of our four questions. This is a general question: why is medical tourism fundamentally important for Japan? I'd like to hear from Dr. Shibuya from the perspective of the medical professionals, Mr. Aoi from the industrial perspective, and Mr. Fukuda from the government perspective on what you consider the most important points.

First, Dr. Shibuya, please speak from the perspective of medical professionals.

Shibuya: The significance of medical tourism lies not only in its benefits for foreign patients, but also ultimately in serving Japan's national interests, which in turn contributes to promoting the health of the Japanese people. Fundamentally, we must first strengthen the operational foundations of Japan's medical institutions. I think this is of utmost importance.

With bed occupancy rates currently low, even university hospitals have quite a few vacant beds available, so I think opposition to utilizing them has actually been decreasing. Amid growing fiscal deficits, I think public healthcare spending should fundamentally increase, given our aging population. However, political circumstances and public opinion make this difficult. Therefore, we must also develop medical services covered outside public insurance as a new market. Given these factors, strengthening the operational foundations is crucial.

Moreover, even at university hospitals, there is a growing crisis: amid persistent deficits and understaffing, the drive to pursue advanced medical care is gradually fading. Medical care ultimately requires innovation and proactive experimentation to advance. Furthermore, from an economic security perspective, economic security cannot be achieved without such cutting-edge industries. So we must promote the development of advanced medical care from a medium- to long-term viewpoint. To that end, we should also capture overseas markets.

For example, as you all know, Japan is advanced in regenerative medicine. However, if commercializing regenerative medicine

immediately proves difficult in terms of both quality and technology, one approach could be to initially apply such cutting-edge technology to overseas patients, who wish to embrace new medical technologies, visiting Japan, and ultimately expand it overseas.

Another point is that when we talk about foreigners, it's not just people from overseas; there are actually quite a few residents here now. These resident foreigners are generally covered by Japan's health insurance system. Establishing this system also holds significance in addressing challenges related to language and culture for these individuals.

Toyoda: Thank you. Now, I'd like to ask Mr. Aoi to share his perspective from the industry standpoint.

Aoi: Our company operates hospital businesses in Asia, primarily in countries such as Singapore, Malaysia, India, and Turkey, where medical tourism is actively pursued in each region. While our company does not have any particular position for or against the importance of medical tourism within Japan's non-profit healthcare system, we recognize that Japan possesses highly advanced medical equipment and diagnostic technologies. With inbound demand reaching unprecedented levels, we believe the potential is enormous if the government and industry stakeholders adopt a proactive stance to promote it. Furthermore, as other countries have already pioneered this field, there is much we can learn from their examples as we move forward.

Toyoda: And from the government's perspective, I'd like to ask Mr. Fukuda to comment.

Fukuda: As you pointed out, our Healthcare Industries Division held an inbound study group and compiled its findings into an interim report this past June. The discussions in this study group began by redefining what exactly medical inbound tourism entails and where we should focus. Our focus is treatments and advanced medical examinations provided by medical institutions to foreign patients under private medical care.

Regarding its significance, providing advanced medical services to foreign patients will contribute to the development of Japanese health care through the enhancement of cutting-edge medical technologies, which also benefits Japanese citizens. Additionally, it may help compensate for the decrease in domestic patient numbers. Ultimately, this could serve as one of the "prescriptions" to improve Japanese medical institution's management and to ensure the sustainability of the healthcare delivery system.

By further expanding medical tourism, we can help medical institutions that provide advanced medical care to secure new revenue sources. This, in turn, will allow them to acquire funds for investments in cutting-edge medical technologies, leading to improvements in hospital management. I believe that such initiatives will contribute to enhancing the sustainability of Japan's medical service system. This is our perspective on the significance of medical

inbound.

Factors Hindering the Development of Medical Tourism in Japan

Toyoda: Now, for the second question. I'd like to ask why medical tourism hasn't developed in Japan to the same extent as in other Asian countries. This time, I'd like to hear from Mr. Aoi. I would also appreciate it if you could mention the current state of medical tourism in other Asian countries.

Aoi: In Singapore, it's around 500,000 people, and in Malaysia, 850,000. Either way, overseas countries see a significant number of medical tourists visiting. In contrast, Japan only has tens of thousands, making it very small by comparison.

Our company manages IHH, and in Malaysia and Singapore tourists come relatively more from within Southeast Asia – countries like Indonesia, the Philippines, and Vietnam. India, meanwhile, sees medical tourists primarily from the Middle East, with which it shares deep historical ties. Turkey also has the characteristic of attracting tourists from Europe due to its currency depreciation. Furthermore, within each region, the purposes vary: some countries send people seeking more advanced medical care than available domestically, while others come seeking a certain level of medical care at a lower cost. In any case, this activity is thriving.

Why is medical tourism thriving overseas? While each country and region has its own characteristics, one key factor for IHH is the reassurance provided by its high-quality medical care options. In addition to local certifications, we have multiple hospitals holding international accreditations, such as the Joint Commission International (JCI).

Secondly, there is the convenience of location. Singapore is a prime example, offering the accessibility of being just a single flight away from anywhere in Southeast Asia, reachable within a few hours. Furthermore, once you arrive at the airport, you can reach the city center in about 20 minutes, so it's convenient for domestic travel as well.

Additionally, there is the aspect of countries actively addressing multiculturalism and language needs. For instance, hospitals in Singapore and Malaysia provide language support for English, Indonesian, Chinese, and even Hindi. Within this framework, I think progress is being made in making it easier for patients to seek care across national borders.

Toyoda: Mr. Fukuda, the study group you mentioned earlier also describes examples from other countries. It seems the government's level of commitment differs as well. I would appreciate it if you could speak from the government's perspective.

Fukuda: While countries like Thailand, Singapore, Malaysia, and South Korea are quite advanced as leaders in medical tourism, Japan's estimated number of medical travelers is only 20,000 to

30,000. In that sense, it's said that Japan's medical tourism policy has been somewhat restrictive, which may be one contributing factor.

However, discussions within the study group suggest that the background to this was likely the difficulty in reaching consensus on medical inbound tourism among governments and industry stakeholders, necessitating a cautious approach to the discussions.

As I mentioned earlier, I believe clarifying the definition of medical inbound tourism was also a key point in our study group's report. We defined medical inbound tourism as strictly pertaining to the private medical services offered by healthcare institutions. Without establishing such definitions one by one, there was a risk that stakeholders would lack a shared understanding, leading to discussions that failed to align.

For instance, I suspect one underlying factor is that discussions have been muddled and failed to align because they didn't properly distinguish between public insurance-covered medical care for foreign residents, emergency care covered by private medical care for foreign tourists visiting Japan, and medical inbound care covered by private medical care for foreigners coming to Japan for treatment. Therefore, we have defined it within this study group and have been working to advance the discussion a bit.

However, the primary purpose of medical inbound initiatives has always been to provide foreign patients with Japan's advanced medical services while simultaneously ensuring the sustainability of medical institutions' operations and healthcare delivery systems. It goes without saying that in promoting these measures, there must be no adverse impact on the provision of medical care to domestic residents.

Given these points to consider, I think the current situation necessitates that relevant ministries and agencies collaborate, fully listen to the opinions of medical professionals, and advance necessary measures to enable foreign patients and Japanese healthcare providers to build a mutually beneficial relationship.

Toyoda: Dr. Shibuya, medical doctors in Japan have a natural inclination to prioritize treating Japanese patients first. Is it correct to say that this mindset has contributed to medical tourism not becoming very widespread in Japan? Could you please explain this point?

Shibuya: About a year and a half ago, when I became MEJ's CEO, it was said that medical inbound tourism wasn't progressing at all. So we conducted in-depth interviews with foreign patients about their patient journey from leaving their home country until returning there, and also with medical professionals themselves.

Ultimately, what I believe is that in Japanese hospitals, the well-established public insurance system means hospitals can attract many patients without needing to focus much on service quality. Compounded by structural factors like healthcare cost containment, physician shortages, and progress in work-style reforms, the medical field is currently exhausted. Meanwhile, many hospitals are operating

at a loss. Even if hospital directors consider accepting foreign patients to increase revenue – since they can charge triple the medical fees under the free medical treatment – the medical field simply cannot bear any more burden.

In short, the current situation is that while patient complaints and demands are increasing, payments are being restrained, and all the burden is falling on the medical staff. Under such circumstances, it is difficult to rapidly expand medical tourism.

From an international perspective, health care also has a strong industrial aspect. As healthcare needs are expected to diversify and increase going forward, the scope for public spending is limited amid significant fiscal deficits. In this context, private-sector-led investment and an entrepreneurial mindset focused on investing where demand exists are common internationally. Japan should similarly engage in discussions about viewing health care as an industry.

Given this situation, I believe foreign patients won't come unless we first address the hospital's current inefficient structure and lack of patient-centered service perspective. There are two major aspects to this: the journey from the patient's home country to the hospital, and the hospital experience itself. The hospital experience involves the hospital's infrastructure – things like patient services, concierge-like functions for high-end patients, and integrating insurance companies so that everything from travel to hospitalization and treatment is settled in one transaction. These are hospital functions, which fall under the jurisdiction of the Ministry of Health, Labour and Welfare. Discussions during former minister Keizo Takemi's tenure brought significant change here. The Medical Affairs Bureau at the ministry also became very proactive. That was in 2024.

Another issue is the journey from overseas to the hospital. When leaving their home country to come to a hospital, no one knows which Japanese hospitals offer what treatments or at what cost. So they end up going wherever an agent happens to refer them. Essentially, Japan lacks a system that prioritizes the user's perspective. For example, when you go on a regular trip, you can search on travel portal sites and immediately find information about services and their costs.

Then there's the visa process. A visa that takes one week to obtain in Singapore now takes a month in Japan. So, for example, Vietnamese patients might decide to go to Singapore instead.

Furthermore, there are cases where travel support companies get involved afterward, and various fees are collected without the user's knowledge. From the perspective of such companies, it's understandable that they set prices higher due to low profit margins and high volume, plus the risk of cancellations. But the bottom line is that the system isn't designed to be convenient for the user.

Japan's medical standards themselves are very high, so I think foreign customers will be satisfied if we improve these areas. Streamlining the process for patients coming to Japanese hospitals requires collaboration with METI to build a platform incorporating digital solutions. Regarding hospital system development, we need the Medical Policy Bureau at the Ministry of Health, Labour and

Welfare to take a proactive stance. Currently, the ministry is working with several hospitals on such system development.

The key point is that even hospitals cannot reinvest or hire staff without a certain level of profit, and it is crucial to recognize that this model is not sustainable.

Developing Medical Tourism in Japan

Toyoda: Moving on to the third question. In Japan, what should be done to promote the development of medical tourism? There may be issues of inefficiency, but the question is what should be done. I'd like to ask Mr. Fukuda first. I believe the Japanese government is seeking to promote medical tourism, but what do you think it can do?

Fukuda: I don't believe all medical institutions are capable of accepting medical inbound patients. I think one crucial step is to establish model institutions that are willing to accept these patients and remain competitive. This is something we must pursue in collaboration with the Ministry of Health, Labour and Welfare. In addition, I believe marketing activities will be necessary.

To facilitate the dispatch of overseas patients, collaboration with local medical institutions is essential. Furthermore, we believe it is necessary to establish a platform that will comprehensively support efforts such as streamlining operational workflows through collaboration between local and Japanese medical institutions, and promoting Japanese medical institutions. MEJ possesses a framework called the "MExx Concept" for collaborating with countries of origin, and we aim to build this platform in a manner that integrates with that framework. We, too, intend to work with the Ministry of Health, Labour and Welfare to advance the development of such platforms and engage in medical inbound initiatives.

Toyoda: Next, I'd like to ask Dr. Shibuya what we should consider to be the highest priority among improvement measures. Looking at the government, the medical industry, related industries, and the whole picture, where do you think changes are necessary? Additionally, Japan boasts hot springs with significant tourism value. Could hot spring therapy be integrated with medical care? What are your thoughts on this matter?

Shibuya: I think the most crucial improvement would be for the government to clearly state that it's acceptable for the medical field to industrialize and generate profits. Health care is a major industrial sector, and it must be protected. To achieve this, it is crucial for the government to demonstrate its commitment to supporting it as an industry. In fact, since last year, the winds have shifted significantly.

In this situation, there are two key actions to take. First is the establishment of domestic and international systems, as I mentioned earlier. This involves enabling hospitals to partner with global insurance services for seamless payment processing, or implementing truly global concierge-like systems. The other key

point is to aim for user-centric services for our patients. The reason Japan has attracted so many tourists is that we did the obvious: data-driven marketing to reach out to users. If Japan doesn't start doing something similar in medical tourism, even if healthcare providers tout Japan's hospitality and advanced medical technology, people simply won't come. Even if you ask hospital doctors, medical tourism is now welcomed, so we should definitely support it in that way.

Above all, it's crucial to reduce the burden on the medical staff and doctors in hospitals and to think thoroughly from the user's perspective. The biggest flaw in Japanese systems is that when we build systems based solely on our own convenience, we end up with situations that aren't convenient for the most important users. That's something I always keep in mind.

As for hot springs, when you look at people from Southeast Asia, such as in Thailand, the wealthy – the *chaebol* types – love hot springs. Thai *chaebol* come to hot springs about once every two months. Thailand is now fully promoting wellness as its next major industry, and I think Japan has a lot to learn from that.

When we talk about wellness, it's not just about spas and massages. Combining it with things only possible in Japan, like regenerative medicine, and supporting it as the next-generation wellness industry would be ideal. These kinds of preventative and health-promoting services fall under private medical care. I believe there's an opportunity for such services to establish themselves as a new market.

With so many repeat visitors to Japan now, and since local cuisine can only be enjoyed in its place of origin, I think inbound tourism is hugely popular. Personally, I think combining this with health care or wellness could become a model for regional economic development.

India is similar. Beyond medical tourism through hospitals, Prime Minister Narendra Modi is promoting a campaign called "Heal in India" based on Ayurveda (traditional Indian medicine). There is a ministry dedicated to Ayurveda called the Ayush Ministry, and we are in discussions with them. The question is how to create a wellness industry that combines India's traditional medicine with modern science. If we can do that, it could potentially create a market encompassing not just the travel industry, but also various related industries like food.

There's a lot of talk these days about overtourism. The fundamental problem is that narrow streets and residential areas become overrun with tourists because too many visitors arrive before the infrastructure can handle them. But I recently spoke with an American expert who mentioned that Orlando, home to Disneyland, has a combined population of only about 3 million in the surrounding area but welcomes around 75 million tourists annually. Yet, despite being a city slightly larger than Kyoto (population 1.4 million), it doesn't suffer from overtourism. In fact, residents' quality of life has improved. Why? Because they've separated the tourism segment from actual residential areas, facilities are well-developed, and ride-sharing is standard. Then there's the 6% lodging tax, which is reinvested, and a locally sourced food ecosystem. To achieve this, both domestic and international marketing, along with domestic

infrastructure development, are crucial.

If we accept patients before establishing such systems, it can turn negative in the long term. To avoid this, medical tourism should first prioritize developing the necessary infrastructure, including hospitals. Right now, the government is taking action and the medical community is eager to get involved, so I think we must not let this momentum fade. We think there is a great change developing in our health care, in the sense that the term "industry" is now being used.

Toyoda: Mr. Aoi, what can private companies do to promote the development of medical tourism? Since trading companies can handle various matters, I was wondering if what Dr. Shibuya mentioned could also be achieved by a trading company. What are your thoughts?

Aoi: Looking at overseas examples, I considered what aspects could be useful for us. For instance, IHH places great emphasis on coordinating the entire patient journey through a one-stop service for medical tourism.

For example, they've consciously built a one-stop service starting with a call center-like hotline where patients can consult in their native language before traveling. Upon arrival at the airport, they prepare an IHH patient lounge functioning as a hospital. They offer airport pickup service, and the hospital itself has a tourist lounge. For the return trip, they provide drop-off service, and they also conduct follow-up care. While many of those services are handled in-house in the hospital, they partly utilize partners or agents.

Looking at Japan, while the use of medical coordinators is expanding, it remains in its developmental stages. As a result, issues like visa applications, claim procedures, and collecting unpaid bills still pose significant challenges. Language support is another key concern. Since medical institutions often lack the capacity to handle these internally, creating a one-stop service to reduce their burden is crucial.

Organizations like IHH have dedicated international marketing teams, and I believe overseas marketing is a crucial factor. It's not just about waiting for patients in Japan; it's about how to attract patients from abroad. For example, in Singapore, the marketing team routinely organizes activities like bringing Singaporean doctors to Indonesia to host seminars and events. Through such efforts, collaboration between referring and receiving hospitals is promoted, and systems are developed to include the exchange of medical information before and after treatment.

To reach the level where you can maintain such a specialized overseas marketing team, a corresponding volume of medical tourism is also necessary. While I believe this is a future prospect, such practices are already being implemented overseas.

Toyoda: Thank you. I have an additional question for Mr. Aoi. Regarding the airport lounges mentioned earlier, are these operated by the airlines? Or does the hospital itself secure such facilities? Could you clarify whether the hospital is the primary operator, or if

surrounding airlines or travel agencies play a central role?

Aoi: The meeting area inside the airport is a space leased by the hospital under its brand name. It's not a very large space, but it's designed to be a comfortable waiting area for patients until their pickup arrives.

Toyoda: Dr. Shibuya's point is that without adopting the mindset of industrializing health care, Japan ends up in a situation where doctors feel compelled to provide amenities like lounges.

Shibuya: In my view, doctors don't need to become business managers. We should create an environment where doctors can focus on what they should be doing in the first place. The key is to provide them with an environment, including the medical staff's working conditions, where they can deliver the best possible care to the patients right in front of them. Business management, service operations, and marketing should be handled by professionals.

One of the problems today is that it has become like "healthcare providers should handle everything." I think we need to free them from that burden. It's crucial to properly create an environment where doctors can focus on what they should be doing.

Points to Consider in Promoting Medical Tourism

Toyoda: This is my final question. I would like to ask about the points to be mindful of when promoting medical tourism. What factors are at play? I'd like to ask Dr. Shibuya. Japan's population is declining, and particularly in regional medical institutions there seems to be a surplus of hospital beds. What are your thoughts on this?

Shibuya: As you say, large hospitals in rural areas especially are fundamentally operating at a loss, and their bed occupancy rates are declining. There's no factor that will increase this. So, we must consider how to utilize them, and I think it's a reasonable and rational decision to have foreign nationals use them to improve their management.

At the same time, however, we must be careful to communicate domestically that promoting medical tourism from an industrial perspective ultimately benefits Japanese citizens as well. Inbound tourism is growing, the number of foreigners who love Japan is increasing, and the outpouring of affection for Japan is tremendous. Furthermore, the government and relevant ministries are also discussing the idea of promoting medical tourism. It is also necessary to raise awareness among the general public in Japan.

Toyoda: Thank you. Mr. Aoi, based on your experience in Asia, are there any particular points Japan should be mindful of?

Aoi: Looking at Singapore and Malaysia, we see that as medical costs rise, there are noticeable shifts – for instance, patients who used to

come from Indonesia to Singapore are now going to Malaysia instead. Meanwhile, Singapore is pursuing its own developmental path. IHH has established Singapore's first proton therapy facility, positioning advanced medical technologies such as proton therapy, robotic surgery, and CAR-T therapy as its signature offerings. Furthermore, Malaysia offers high-quality medical care options at relatively low costs, and I get the impression that it is leveraging this strength to target the volume segment of medical tourism.

In other words, it appears that each country is promoting its own unique characteristics and engaging in targeted marketing. Observing this situation, if Japan is to actively embrace medical tourism, given that Japan is a large country with diverse regional characteristics and varying hospital circumstances, it will be crucial for each hospital to develop distinctive marketing strategies. For instance, should they focus primarily on accepting patients seeking advanced medical care? Or should they target the volume segment for health checkups and specialized medical services? Alternatively, could they combine these with resources like the hot springs mentioned earlier or tourism attractions to create unique offerings? I believe highlighting each hospital's unique characteristics through marketing will be key.

Toyoda: I think the term "marketing" is extremely important. It seems that aspect is still lacking in Japan's current medical tourism efforts. I also think METI is becoming more enthusiastic about it. Finally, Mr. Fukuda, what are your thoughts?

Fukuda: For the government, it is important that these efforts contribute to strengthening industrial competitiveness. Furthermore, as I mentioned earlier, it is crucial that it substantially contributes to the sustainability of the healthcare delivery system. Naturally, it must not undermine the domestic healthcare delivery system. I believe the situation requires the government to carefully listen to the opinions of healthcare professionals and others, and to strategically address this issue.

Furthermore, we believe the role of ERIA, the Asian version of the OECD, is also crucial for our expansion in Asia. By building networks with local stakeholders and fostering collaboration between medical institutions and governments, we believe this can contribute to promoting medical tourism. To that end, we have high expectations for the contributions of both MEJ and ERIA.

Toyoda: I also think this is a very important field. Japan possesses outstanding medical technology and remarkable tourism resources. I look forward to your continued contributions, as I think the sound development of medical tourism can create a healthier world, not just in Asia. Thank you very much. **JS**

Written and translated by Naoyuki Haraoka, editor-in-chief of *Japan SPOTLIGHT*, with the cooperation of Tape Rewrite Co.

Exclusive Interview

LEADERS IN JAPAN

No. 8

Former minister of Health, Labour and Welfare
Chairperson of the LDP Members' General Assembly in the House of Councilors

Prof. Keizo Takemi



The Future of Healthcare Reform in Japan

By Kazumasa Oguro

Japan's medical care has been the subject of much admiration in the international community, thanks to its universal health insurance system, which provides all citizens with equal access to a high standard of medical care. However, despite the explosive increase in inbound tourism, especially since the end of the pandemic, and the fact that Japan has become one of the most popular countries for foreign tourists, very few foreign patients stay in Japan for extended periods of time to receive treatment and recuperation for their illnesses through medical tourism. While other Asian countries receive between 500,000 and 1 million medical tourists annually, Japan receives only 20,000 to 30,000.

Why is this? What reforms are needed to make Japanese medical care more useful for people around the world, and could they lead to the enhancement and development of Japanese healthcare?

Our *Japan SPOTLIGHT* editorial board member Kazumasa Oguro, a professor at Hosei University and an economist who has specialized in healthcare issues, spoke with Prof. Keizo Takemi, a Japanese opinion leader in healthcare reform who also served as minister of Health, Labour and Welfare (MHLW) and is currently chairperson of the LDP Members' General Assembly in the House of Councilors.

(Interviewed on March 18, 2025)

Overview of Japanese Healthcare Issues

Oguro: As you are well aware, Japan's medical services are based on Universal Health Coverage, which means that everyone can enjoy its benefits equally. Until recently, the sustainability of healthcare finances had been a major concern as healthcare costs were rising faster than the nominal GDP growth rate due to the aging of the population. However, as Japan has turned into an inflationary economy, with the consumer price inflation rate exceeding 2% and a significant labor shortage, conventional "common sense" seems to have changed.

In fact, while the initial budgets for FY 2024 and FY 2025 show growth in healthcare costs of around 1%, the projected and actual nominal GDP growth rate has shifted upward to just under 3%, partly due to inflation, making it increasingly likely that healthcare

costs, as a percentage of GDP, will decline. Rather, the most recent problem is that although costs for medical institutions are under increasing pressure from inflation and rising wages, reimbursements are not keeping pace with prices, leading medical institutions into a critical situation and even talented young doctors are leaving the profession due to low salaries. What are your thoughts on this situation of medical care in Japan?

Takemi: The basic concept of Universal Health Coverage is defined by the World Health Organization as leaving no one behind and ensuring that all people have access to appropriate health care, including prevention, at a cost they can bear. In Japan's case, according to this definition, Japan has achieved a universal health insurance system.

In this context, there are always issues such as new demographic changes, advances in medicine and medical care, and how these

advances will lead to higher costs in medical care. Our universal health insurance system, as far as the postwar period is concerned, has always worked effectively, in that it has been able to continue to provide a clinical level of service as a developed country. In the big picture, I see it as having done well in that it has sustainably managed the healthcare system, adapting to demographic changes and advances in medicine and medical care from era to era.

However, what has become very difficult is that, in terms of demographics, as far as the working population is defined as those between the ages of 15 and 64, the country as a whole is expected to lose 4.33 million people in the decade of the 2020s. The aging of the population will accelerate in the so-called metropolitan areas centering on Tokyo, with the loss of over 8.6 million people in the decade of the 2030s. Moreover, there is a dynamic analysis that shows that the increase of the percentage of the very elderly population over 80 years old is notable and that we are moving into a “super-aging” society.

In addition, looking at the analysis from the perspective of social characteristics, the core of the problem of the elderly in the past was in the rural areas. Nowadays, even the elderly population is decreasing in rural areas, and the overall population itself is declining. However, whereas the problems of the elderly in rural areas were problems in an era when family members and local communities still had the ability to support each other, the problems of the elderly in metropolitan areas in the near future will involve the nuclear family, which is much more advanced than in the past, and family support functions for the very elderly will be significantly reduced. The super-aging problem is occurring in the context of an even more diluted local community support system.

The problems of the elderly in the near future that will occur under such circumstances, especially in large urban areas, will create more serious problems for the elderly that are completely different in dimension from those in the past. At the same time, the elderly population will continue to decline in rural areas, so the demand for medical care in those areas will decline, while the demand for medical care in urban areas will continue to increase, as well as the demand for long-term care. However, in both cases, there will be fewer workers to support them, and fewer people to earn money. Over the 20-year period from 2020 to 2040, Japan will lose a working population equivalent to the current population of Tokyo (approximately 14.18 million people as of 2025), or approximately 12.95 million people, and not only will the number of people who

consume be reduced, but the number of people who pay medical insurance premiums and pension contributions will also decline sharply.

As such, our country’s health insurance system and levy-based pension system will be in an extremely difficult phase in 10 years, especially in large urban areas. This is precisely the challenge of health, medical care, and long-term care that we must seize today. Currently, for example, there is a shortage of medical doctors in rural areas due to the aging of medical staff, and in Tokyo there is a situation where medical malls are proliferating, and the number of doctors is rapidly increasing without sufficient regulation.

In addition, a significant number of the growing super-aged population will actually be elderly people living alone. At the same time, 80% of them will be women. Even if we design a system in urban areas that does not isolate these people socially and provides them with home medical care and home nursing care until the end of their lives through comprehensive community-based care, we have to wonder whether we will be able to secure the human resources to actually carry out this system. We need to think more seriously about these issues.

At the same time, as symbolized by the shortage of medicines, this can only be addressed in a temporary sporadic policy by simply increasing stockpiles with government money. When I was minister of Health, Labour and Welfare, I proposed that the hundreds of pharmaceutical companies be reorganized into five companies in order to create an industry that can produce medicines more efficiently and stably. In fact, under current circumstances, short-term and mid- to long-term reforms have effectively become indistinguishable, and we are entering an era of seriousness in which immediate problems cannot be solved simply by implementing immediate reforms.

Therefore, if we do not make constant efforts to resolve all immediate issues in combination with medium- and long-term issues, when we discuss them we will not only be unable to resolve the country’s immediate problems, but we will also be unable to create a foundation for properly resolving the serious issues that will arise in our healthcare system in the near future, as well as 10 years from now. We are now in such a very difficult situation.

Oguro: You mentioned the decline in the working-age population, and the Ministry of Economy, Trade and Industry (METI) has reported that the working-age

population will decline by more than 20 million people by 2050. I think you are right that the situation is very severe, not only in terms of healthcare finances, but also in urban and rural areas, as well as in terms of the people who are responsible for the healthcare system. Do you think that conventional ideas and policies will be sufficient to cope with the situation?

Takemi: What I am trying to say is that we are entering an era in which the way regional medical care is designed in urban areas and the way it is designed in rural areas, where the population is shrinking, are significantly different. The question is whether or not it is really acceptable to formulate prefecture-by-prefecture policies on a simple-minded uniform thought based on a regional medical care concept centered on regional comprehensive care.

Impact of the Transition from Deflation to Inflation

Oguro: I agree with you. As I mentioned at the beginning, under such circumstances the economy has changed from a deflationary economy to an inflationary economy, and the nominal GDP growth rate is now hovering around a high rate of just under 3%, partly due to the inflation rate of over 2%. Nevertheless, according to the “Basic Policies for Economic and Fiscal Management and Reform”, the Cabinet has decided to limit the real increase in social security-related expenses to the equivalent of the increase due to the aging of the population during the period of fiscal base consolidation, and the growth of medical expenses has been suppressed to around 1%.

As a result, medical expenses are being reduced in relation to GDP and prices, and this is beginning to have a certain impact on the income and expenditures of medical institutions.

The revision of medical fees (in FY 2024) was 0.88%, but the revision is made every other year, and in effect it is negative. Under such circumstances, it is becoming difficult to develop new technologies

such as expensive medical technology, pharmaceuticals, and nursing care robots in Japan. I do not want to see medical expenses (as a percentage of GDP) expand as they have in the past, but they are currently decreasing, and it would be fine with increasing medical expenses if they were to grow in line with the medium- to long-term GDP growth rate. Do you have any concerns about this situation?

Takemi: I am extremely concerned. First of all, the increase in medical expenses due to the aging of the population has been taken into consideration to some extent and reflected in reimbursements, but there has been no mention of advancements in medicine and medical treatment or the soaring cost of living.

In fact, the Ministry of Finance and others have been very cautious about the ever-increasing medical costs, and medical costs have always been suppressed even during deflationary periods. On the other hand, in the current situation where we are finally trying to get out of deflation, the same approach has been used to keep medical costs down even as prices rise, and this has made hospital management more serious.

Until now, psychiatry has been relatively profitable. However, even hospitals with general beds now have a deficit of about -1%, and psychiatry is also falling into the red. In particular, children’s hospitals, which are not profitable to begin with, and major children’s hospitals in each prefecture, are running deficits of about 30%, and the situation has worsened to the point where sustainability has completely disappeared.

When I was health minister, the key issue was how to raise the wages of medical care workers so that they would be comparable to those in other industries, and how to raise them in a focused manner so that financial resources could be secured for this purpose.

Oguro: I think there is a hint for securing financial resources. In footnote 27 of the “Strategy for the Future of Children” approved by the Cabinet, which is related to measures to deal with the declining birthrate in another dimension, there is a statement that “the increase in insurance premium rates will be controlled to the maximum extent possible.” Although this Cabinet decision may seem harsh, the

denominator of the macro insurance premium rate for medical care and long-term care is employer compensation, and the numerator is the social insurance burden for medical care and long-term care. Of these, the denominator, employer compensation, is almost half of GDP, and of the social insurance contributions for medical care and long-term care, the social insurance contributions for medical care cover about 56% or 57% of benefit costs, which are very stabilized.

In a sense, not increasing the insurance premium rate is equivalent to keeping the social insurance burden of medical care within the GDP range, but this also leads to the argument that medical benefit costs can grow at the same rate as the nominal GDP growth rate. Despite this, healthcare spending (as a percentage of GDP) is currently contracting, and the growth of healthcare spending is not keeping pace with the nominal GDP growth rate. What do you think about this?

Takemi: Although you have established guidelines for a certain level of medical expenditure linked to the basic macroeconomic situation, it is becoming increasingly clear that this is no longer sufficient to sustain operations, and that the pressure of high prices will only exacerbate the deficit structure, which is becoming more serious.

When considering what to do in the future, I believe that one of the first major guidelines is the rise in prices, and since tax revenues will surely increase as prices rise, we need to reestablish a mechanism to utilize this as a source of social security funds. I believe the current situation calls for the re-creation of a mechanism to utilize tax revenues as a source of funding for social security.

Oguro: If nominal GDP grows by 3% or 4% in the medium to long term, then naturally tax revenues and insurance premium revenues will also grow by 3% or 4%. Ultimately, this is a political decision, but I think it would be fiscally neutral to allocate that amount toward medical expenses.

Takemi: The consumption tax and other taxes have been discussed from the viewpoint of using them for social security, and the

allocation of the increase in the consumption tax was actually decided upon. The easiest way to do this would be to use the increase in consumption tax revenues to finance social security.

The easiest thing to do is to allow the growth of medical expenses to match the rise in prices. I believe that both NHI drug prices and medical fee revisions can be tolerated in such a way. I think it is negligence on the part of the fiscal authorities that the tax revenues have not been connected at all to the discussion of what services need to be provided to the taxpaying public in the current climate.

How to Increase Medical Tourism?

Oguro: When considering Japan's future growth strategy, I think the tourism industry is still one of the most important sectors, as the number of foreign tourists is expected to reach a record high of 34 million in 2024. I think it is important to expand medical inbound a little more to wealthy people overseas. For example, Malaysia has 1.2 million and Japan has 20,000 to 30,000, so I think there is room to expand by a factor of 10 or 20.

Takemi: In terms of Japan's clinical level, not only is it comparable to these countries, but it stands out in particular for its high clinical level in oncology. Such comparative advantage can be said for a considerable number of medical departments. However, one limitation is that until now all medical care in Japan has been considered with a very domestic orientation, with medical schools and the medical community primarily focused on domestic demand.

In order to create new dynamism in our country's economy, we should consider how we can use this comparative advantage not only for domestic demand, but also for overseas demand, targeting inbound, outbound, and wealthy people in the private sector, and how we can create a new system for the private sector to provide medical care. In the case of the private sector, it is necessary to further enhance private medical insurance while, for example, considering how private medical services should be provided to supplement the universal health insurance system for inbound medical care, and to establish a more proactive framework for accepting inbound medical patients.

In particular, looking at the regulation of hospital beds, in the regional medical care concept, hospital beds have been regulated

and managed based on the supply and demand of medical care in each secondary medical care area, and this was actually also a tool to manage medical care costs. However, the number of inbound patients from abroad, as you mentioned, is small now, but it began to increase in about 2023, and the number of visas issued for medical stays is increasing rapidly, from about 1,900 to 2,500 in 2024.

So what happens is that we have a situation where beds are used to meet domestic demand, and we are increasingly admitting overseas patients who can afford high-cost treatments. The Cancer Institute Ariake Hospital, for example, has a reputation as a very high clinical level hospital in Asia, and many famous doctors are there, thus attracting a significant number of international patients. But I heard that the Cancer Institute has stopped accepting foreign patients temporarily. This is because it was no longer seeing domestic patients.

There are also a number of other places that accept visitors, and the number of people who come to Japan on a tourist visa to receive medical examinations or short-term treatment in Japan ranges from 30,000 to 50,000 people.

I am now asking the MHLW to find how many patients come from overseas for inpatient care, how many come for medical checkups, and how many people who come to Japan for tourism actually receive medical care for injuries and the like. I would also like them to let me know what is the amount of medical care provided to foreign workers who have been in Japan for a longer period of time, and for what types of illnesses. So we have asked them to conduct a survey to ascertain the actual status of medical care for foreign nationals.

Looking at these realities, clearly the number of foreign patients is beginning to increase. They are gradually getting used to the atmosphere of Japanese hospitals, and acceptance of foreign patients is becoming easier. Also, when you raise the price of medical care, the very wealthy people come and the behavior of the patients gets better.

In reality, some large local hospitals that used to accept foreign patients are now saying that they have stopped accepting them because they will not be able to provide adequate treatment for Japanese patients. In this situation, the National Center for Global Medical Research (NCGM) is trying to accept inbound patients. This is the only place where international interpreters in about five languages are actually available, and if you make an inquiry, we have

a system in place to tie up with translators in 13 countries to respond to your needs.

Oguro: If medical inbound expands, the medical industry will naturally see a slight increase in revenue due in the context of private medical services.

Takemi: Nowadays, even if a hospital wants to establish beds for unrestricted treatment, it cannot do so on its own. In Tokyo, permission from the governor of the Tokyo Metropolitan Government is required in order to open a bed for unrestricted treatment. The governor of Tokyo then consults with the chairman of the Tokyo Metropolitan Medical Association and decides whether or not to grant permission.

If we are going to provide private medical services, we should be able to secure the number of beds a little more freely on our own initiative, separate from the current regulations on hospital beds. The price is currently about three times the official price, but considering the high level of clinical care in Japan, including proton beam therapy, heavy particle therapy, and anticancer drugs, there are enough patients coming from overseas even if the price is set higher. Therefore, we should increase the number of staff to a certain extent and ensure that about 20% of the total staffing can be allocated to private medical services, while providing a completely separate number of beds so that overseas patients can receive advanced medical care that is approved by the pharmaceutical affairs bodies but not covered by insurance at their own expense. If this is repeated, prices will steadily decline from a relatively high level. If a two-step approach is adopted, whereby drugs are covered by insurance when prices decline, problems such as the current drug loss will be solved in stages.

It is basically impossible for the current insurance system to cope with the progress and high cost of medical treatment. Therefore, I believe we must design a system in which each citizen can have access to all advanced medical care by combining it with a new system of private medical services in stages, first underwriting the private medical services portion of highly advanced medical care and then absorbing it into the universal health insurance system by controlling prices. I have come to believe that we need to design a system in which every citizen has access to advanced medical care.

On the other hand, we do not want to see doctors who are primarily motivated by profit through offering private medical

services. Therefore, I think it would be a good idea to apply certain restrictions, such as allowing hospitals with a high clinical level, including a certain number of staff, to provide private medical services.

Oguro: One more thing. In order to increase medical inbound, I think it is important to issue visas and to have doctors, nurses and staff who speak English and other foreign languages.

Takemi: It is absolutely necessary. When I was minister of Health, Labour and Welfare, I established a scholarship program for foreign students coming from abroad to study at medical schools. METI and the MHLW worked together to establish this program, and an ASEAN think tank called ERIA established a fund for this purpose. We have established a full scholarship program for outstanding students who wish to study medicine in Japan, mainly in the ASEAN region. The pilot program will start next year. It has already started at the International University of Health and Welfare. They have established a really good system for accepting students from abroad and have concluded MOUs with each sending country, so that if a student qualifies as a doctor in Japan, he or she will be recognized as a doctor in his or her home country, so that high-quality foreign students can be attracted. Last year, the first batch of students took the national examination, and all 15 of them passed.

Oguro: Is the national medical examination taken in English?

Takemi: Japanese. One of them, a Vietnamese boy, was a really good student. This boy also passed the US national certification. He passed in English in the US and in Japanese in Japan, and he took both at the same time last year and passed.

We should definitely have such excellent people work in Japan, whether as clinicians or researchers. We should encourage talented people from overseas to work in Japan. Furthermore, I believe that inbound hospitals will be established in the future, and if they are able to work in such inbound hospitals, foreign patients will be able to receive diagnosis and treatment in Japan from doctors with qualifications for medical treatment in Japan who speak the patients' native language.

After all, the same thing is done in Bangkok hospitals. There is one



Prof. Oguro (left) & Prof. Takemi (right)

female doctor who is qualified as a doctor in Bangkok, and about five more are qualified as Japanese doctors, and they are working in outpatient clinics under the guidance of the Bangkok doctors. There are also 14 to 15 Japanese nurses and staff. This makes it easier for the Japanese patients in Bangkok to express their symptoms and other sensitive feelings in Japanese, which in turn makes it easier for the doctors and patients to build a relationship of trust.

Similarly in Japan, when trying to welcome inbound patients from overseas, it is necessary to train medical staff who can speak the language of the country as much as possible. And to be able to handle inbound patients more meticulously, it would be necessary to make it easy for doctors and patients to form trusting relationships. I think this is an important element when inviting patients from overseas.

In view of these ideas, we should no longer discuss the field of health, medical care, and long-term care in particular from the narrow perspective of domestic medical business, but rather reposition this field as an industrial policy, even as an economic measure for our country in the future. In particular, the demographic structure of Asia is now aging more rapidly than in other regions of the world. As societies age, disease structures naturally change dramatically, with cancer, ischemic heart disease, and stroke becoming the leading causes of death among chronic diseases. Cancer is also becoming more and more complicated.

At such times, Japan has been quick to respond to such situations

by developing high clinical-level medical care and medical technologies such as proton beam therapy and heavy particle therapy. Therefore, it is important for Japan to provide medical services to wealthy people from overseas whose elderly population has increased while their own countries have not yet reached such a clinical level. We will have them come to Japan and help them. And we will fill the healthcare gap.

At the same time, we will also make it possible to develop such a group of hospitals in Japan while maintaining a structure that allows overseas medical systems and medical communities to coexist properly. The Raffles Group in Singapore, for example, is now 30% owned by Mitsui Fudosan. Tokushukai is building a hospital in Indonesia, and SECOM has succeeded in India and is planning to build a second hospital there. However, all of them said that unless they can coexist and collaborate with the local medical community, they will only incur costs and will not be able to make a profit.

Global Health Outlook

Oguro: What are your thoughts on President Donald Trump's withdrawal from the WHO with regard to the global health outlook?

Takemi: The United States has been paying 22% of its Assessed Contribution to the WHO. With the withdrawal, no funds are coming in from the US, and now Germany, France, and the United Kingdom are all reducing their foreign aid budgets. Japan, too, is now seeking to optimize its spending on health care, and foreign aid is reaching a critical juncture across the board, pressured by the weak yen. Around the world, few countries are now offering new aid in the form that they have in the past.

Oguro: As the US is turning inward and the world becomes more multipolar, not only the issue of foreign aid but also various other issues may arise in the medical field, including global health issues. I believe Japan has more to contribute to the world because of this situation in the US. What are your thoughts in this area?

Takemi: I think you are right. There are two ways of thinking about it: one is a government-centered policy area, and the other is to

contribute through the market mechanism in cooperation with the private sector in the form of inbound and outbound activities, as I mentioned earlier. This is precisely the area where the WHO is concerned. The current WHO system, which is beginning to suffer a revenue shortfall of about 40% due to the withdrawal of the US, in addition to profligate spending, has become a vital issue in global health, and how to strategically downsize it so that it can remain sustainable and meaningful in the future.

France and Germany were still going strong during the first Trump administration, with Chancellor Angela Merkel teaming up with WHO Director-General Tedros to create a hub at the Robert Koch Institute in Berlin to facilitate an early monitoring network for infectious diseases. Also, French President Emmanuel Macron created the WHO Academy in Lyon, also in partnership with Tedros. While the US was out of the picture, a sort of vacuum in global health was created in these countries, so they expanded their role significantly.

When Tedros was in his first term, I said to him, "Now that you are working with Macron and Merkel to create and deploy a strategic base, the WHO should essentially have a global strategy. Therefore, we should have such a strategic base in Asia as well." Furthermore, I told him to create a hub in Japan that is different in dimension from those created in France and the UK, and that focuses on Universal Health Coverage, especially in areas related to finance, as discussed at the G7 health ministers' meeting.

I also told him, "Since the World Bank has the largest capacity in finance, World Bank President Ajay Banga and you and your team should join hands to ensure that insurance financiers from low- and middle-income countries around the world receive training in Japan, as Japan is the host country and will pay for the training. The goal is to also expand insurance financing in your own countries, so that you can establish a foundation for achieving more sustainable Universal Health Coverage." Finally, I said, "Why don't we create such a strategic center in Japan?"

Tedros replied that this is a good idea and said "Let's do it." He talked with Ajay Banga about this idea and I was just in the position of minister of Health, Labour and Welfare when Ajay Banga came to Japan in January 2024. I talked with him and we decided that the World Bank should work on this as well.

As for the World Bank, we used to have a training program called the Flagship Course, which is related to the insurance system, but all of this was actually one of the many pockets of the Japan Trust Fund, which is owned by the Japanese Ministry of Finance, so we are

going to use this fund here and make it bigger, and the MHLW will also provide financial resources to the fund. The MHLW, the Ministry of Finance, the WHO, and the World Bank have formed a preparatory committee for the program, which will start in November 2025.

I am not thinking of Trump's inward-looking policies, but as a result, as you say, the diplomatic vacuum in the politics of global health created by him can be filled by Japan this time, as it was by Germany and France the last time. Japan will play a major role in leading the world by taking the lead in the area of comparative advantage in health, medical care, and long-term care under the leadership of the Japanese government, especially in the area of human resource development in health finance.

With such a picture, for example, when providing health, medical, and long-term care services inbound and outbound as an industry, the government can contribute through market mechanisms to address health disparities among the elderly in many countries that are still unable to cope with the changing disease structures resulting from the aging of Asia. While the national government contributes through government funds and multilateral organizations, the private sector can contribute through market mechanisms by creating networks of health, medical, and long-term care services in these regions.

If we look at it merely from an industrial policy perspective, it can only be viewed negatively, as if we are conducting human experimentation in our own country, as was once seen with pharmaceutical companies in the US and Europe. However, when paired with the larger goal of Universal Health Coverage, I believe it is necessary to promote an overall strategy that shows Japan as a country that, while pursuing its own interests as an industrial policy, is also thinking carefully about the state of human health in the international community as a whole. I believe that it is necessary to promote the strategy as a whole.

Oguro: Excellent opinion. Japan is the world's top runner in aging population, so data on rare diseases can be collected and many other things can be done.

Takemi: The MHLW had the Pharmaceuticals and Medical Devices Agency (PMDA) and the National Cancer Center establish a branch office in Bangkok. We are now working on harmonization of regulatory approval and networking of clinical trials throughout Asia.

In addition, since a domestic drug production infrastructure

cannot be established within a single country at this time, we are working to establish an international investor network in key hubs such as Boston, California, and London, so that Japan can become one of the leading countries that provide the infrastructure for drug production within the international drug production ecosystem. I am suggesting that Japan should consider its future as one of the leading countries that provide the foundation for drug production.

I proposed a system that would directly connect the world's key players in drug production with those who can develop seeds in Japan's R&D, fund them for at least 10 years, and if they reach a certain level, connect them to venture companies, and then build a first-in-human clinical trial facility. I proposed a system in which facilities for first-in-human clinical trials would be built, which would then bring in more major pharmaceutical companies.

Research and development of today's seeds is proceeding through an international network, leading to mass production technology, clinical trials, and then final regulatory approval, with the majors becoming the final distributors. It is not completed within a single country.

There is already a limit to the idea of growing drug production from within a single country. Unless we can create a new ecosystem that precisely links overseas needs from the start, Japan's domestic R&D capacity will not grow. With more active drug production starting from Japan when the healthcare networks initiated by the PMDA and the National Cancer Center are neatly built up, if Japan's frameworks for physician-led clinical trials and regulatory approval are firmly established in Asia, and if a new major center for drug production is established in Asia, it will be one of the new leaders of Japanese industry. I believe there is a large customer base in Asia to achieve it, because the aging of the Asian population will make the Asian population richer and richer.

By integrating healthcare with industrial policy in this way, perhaps Japan will be able to continue to maintain the level of developed countries.

Article translated from original Japanese by Naoyuki Haraoka. JS

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